

## AVANATH PORTFOLIO REMAINS ROBUST DESPITE CURRENT ENVIRONMENT

COVID-19 has definitely thrown some curveballs into the economy and changed the way that many of us across the world live and work.

The question is – how is it impacting the affordable housing sector and what is in store for affordable housing for the remainder of the year?

Affordable housing is a resilient asset class that is often positioned for downside protection, and we are seeing that now within our portfolio.

To date, we have received less than 50 rent relief requests. Our residents typically pay 33% of their income or less towards rent whereas market-rate renters are often paying a much higher percentage of their income. This is why affordable and workforce housing, in particular within our own portfolio, are seeing limited rent default exposure.

Many of our residents also utilize Section 8 housing vouchers. Section 8 authorizes payment of government funded rental housing assistance to private landlords of low-income households. Therefore, our Section 8 residents are less likely to default on their rental payments, despite the current environment.

In addition, approximately 17% of our rent regulated assets are also age restricted (generally 55+ in age). These residents' income consists primarily from social security and pensions. This means that they are not as reliant on a paycheck and less likely to be impacted by the recent influx in unemployment.

*Acclaim at Lake Largo*



Overall, our portfolio and the affordable housing industry is well positioned to continue to perform despite the current environment.

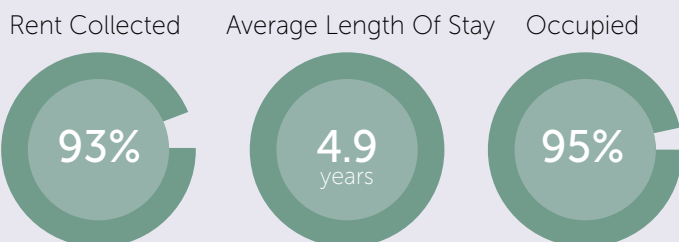
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*As of May 2020:*



a message from the chairman

# WE CAN DO MORE IN UNDERSERVED COMMUNITIES. WE MUST DO MORE.

*by Daryl J. Carter, Founder, Chairman & CEO*

I grew up in the inner city of Detroit where I saw a lot of injustice. My dad Nolan Carter would always say to me, "It's okay to be angry about injustice," and he's absolutely right. We are all a bit angry right now, America is angry right now. But my mom Flossie Carter with her softer side would always say, "Daryl, we need to channel that negative energy into positive energy and what we can do about it."

So that is where we are today. What can we do about it?

We entered 2020 with one of the largest pandemics we may see in our lifetimes followed by senseless killings, police brutality and decades of systemic inequality, all of which are disproportionately impacting minority communities.

In fact, African Americans comprise 13% of the U.S. population, but comprise 23% of COVID-19 deaths and 26% of all police killings.

The root cause for both of these issues is a lack of investment in these communities, resulting in limited access to quality health care, poor quality schools, lack of housing opportunities in locations that offer greater upward mobility, poor access to healthy foods and limited political empowerment.

Naturally, our strategy has always been to invest in these communities through affordable housing. African Americans and Hispanics comprise 40% of the apartment communities in the U.S. and Avanath's communities have a larger percentage of renters of color.

This is why at Avanath, we make it a focus to go beyond investing in underserved communities, but also investing in our residents. The health and prosperity of our residents is a main priority and has been pre-pandemic and protests. We are calling on the broader apartment industry to collectively come together to do the same and evoke real change in underserved communities across the U.S.

Here are a few suggested ways as to how the apartment industry can accomplish this, many of which are items Avanath has been doing for several years.

- 1. Focus more investment capital on communities of color.** This is a true game changer and has been Avanath's core focus since launching in 2008.
- 2. Create community forums at properties with law enforcement and elected officials.** Creating dialogue between residents and local police officials creates goodwill. We often organize local community officials and

politicians to come speak at our properties, encouraging our residents to become more politically engaged. For example, USC did a study on two of our properties in Long Beach that make up 90% of a voting district. We increased voting from 9% to 51% in that voting district.

- 3. Implement wellness programs at communities.** There are many healthcare providers that have community health initiatives that are seeking community engagement opportunities and will come to a property and do health screenings and wellness checks. This is what we did with our Activate program, which launched last year. We also recently launched a partnership with Wellbeats to offer residents free virtual gym memberships to promote healthy lifestyles while gyms and community spaces are closed at our properties as a result of COVID-19. This partnership resembles an extension of our Activate program and continued focus on the long-term health of residents

- 4. Enrich locations that are "food deserts" with farmers markets and other strategies to bring fresh food to residents.** A community with healthier residents is a more economically viable community.

At many of our communities, we incorporate Amazon lockers or cold storage lockers so that residents can have access to healthier food options and have a safe place for those to be delivered as many underserved communities lack access to quality grocery stores. We also organize food drives, local farmers markets and are supportive of residents who want to create community gardens at our properties.

- 5. Adopt a low performing public school in your market area.** Provide financial support and provide time off for staff to volunteer at schools or implement after-school programs at properties for kids. Quality education is a key factor in the upward mobility of these communities. Our after-school and mentorship programs are another way that we invest in residents and work to bridge the gap in opportunity.

Ultimately, the current environment has shed light on the continued need for capital investment in minority communities. Avanath and our investors are at the forefront of this evolution and are setting the example of what can be accomplished in these communities.

We believe we will likely see a shift in the industry where more institutional investors place a focus on underserved minority communities and work together to create positive change so that there is equal access to the American Dream for all.

[Click here](#) to read my complete eight point action plan to the apartment industry.



# FOREIGN INVESTORS ARE STILL BULLISH ON U.S. REAL ESTATE

Guest column by Maria Leitzbach,  
Head of Portfolio Management  
SOKA-BAU



US markets continue to attract overseas capital. In fact, foreign investors are even planning to increase capital flows to US real estate in 2020 despite the impact of coronavirus (COVID-19) on the country's economy.

Even amidst unprecedented unemployment that is affecting businesses throughout the United States, we intend to continue deploying capital into American commercial real estate investments. While coronavirus will cut deeply into US businesses for the next several months, we believe in US commercial real estate's viability in the long term.

As a German company that manages the occupational pension fund for the German construction sector, SOKA-BAU has historically aimed to guarantee a fixed pension rate for the construction workers who depend on this fund for their retirement. We started with a small allocation to US assets, and we plan to increase this allocation going forward due to our strategy of international diversification but also due to the multitude of opportunities in the US multifamily and industrial sectors — both of which are likely to remain strong throughout the pandemic and its aftermath.

We are comfortable investing in the US real estate market on a long-term basis because real estate is a very stable asset class even in a low-yield, highly competitive environment, and US real estate consistently outperforms other markets in most property types. A short-term drop caused by the coronavirus won't change this fact.

Affordable housing is one of those property types where real estate is consistently strong. While income from German affordable housing tends to be static for 20 years

or longer, which dampens investment performance, US affordable housing offers both stability and income growth, which is very appealing to German investors.

SOKA-BAU has been very impressed with Avanath Capital Partners as an affordable housing fund manager. Avanath was one of our first US partners, and we've been investing with the company since September 2018.

Avanath's transparency is outstanding. The company spends time with investors answering their questions and discussing its portfolio of properties and holistic approach to affordable housing ownership and management, even during the coronavirus crisis. This high level of transparency and commitment to investors is rarely seen from other fund managers in the sector.

Avanath also has deep expertise in the markets in which it invests and understands the importance of implementing onsite social programs at its communities to better residents' lives. Programs such as Activate for health and wellness are so far unmatched by other players in the market.

In addition, the company is the right size – not too big or small – with a very diverse and inclusive culture and a sharing, collaborative environment. There is a flat hierarchy, and the top executives treat everyone like an important member of the team.

Even with some of the challenges we are facing globally, we are confident in the ongoing performance of the US market, the affordable housing sector, and the ability of Avanath to navigate what lies ahead.

## IN THE NEWS: AFFORDABLE HOUSING IS A HEALTHY SOLUTION.

The current environment has shone a brighter light on the need for quality affordable housing and that need is only going to grow after the pandemic.

See why in [this Bisnow exclusive](#).



# COMMUNITY SPOTLIGHT: NAVIGATING THE “NEW NORMAL:” MANAGING COMMUNITIES IN A POST-COVID-19 ENVIRONMENT

The novel coronavirus has presented multifamily property managers with some unique challenges. Management teams have been tasked with keeping residents and staff safe from viral transmission while also keeping apartment communities running smoothly and efficiently. With many residents observing stay-at-home orders and social distancing mandates in effect, accomplishing these tasks has required innovation and flexibility on an unprecedented level.

As we move through the ever-changing COVID-19 environment, property management methods will need to continually adapt. We spoke with Avanath's Toni R. Harris, CPM, regional vice president-eastern to discuss how Avanath is navigating its properties in the “new normal” and how this will continue to evolve over the next several months.

## 1. What will the management of communities look like as we emerge from COVID-19 lockdowns?

One of the most important factors we will need to account for in our communities moving forward is effectively addressing any fear or concerns from residents, prospects and our team members – how comfortable will residents be using common area spaces or how willing will prospects be to using touchscreens and keypads in the leasing office, etc.

Our teams are actively placing the safety and comfort of our residents, team and prospects as a top priority and implementing processes that build trust. Peg Steep wrote in Psychology Today, “Trust is the foundation of all human connections, from chance encounters to friendships and intimate relationships.”

Our management approach has been and always will be to establish that trust throughout our communities so that anyone who works for us, lives in our communities, or is interested in living in one of our communities feel comfortable and safe.

## 2. Will you implement more virtual leasing options?

While reopening is taking place during what traditionally

has been the most active leasing season of the year, there is no guarantee that prospects will automatically return. People may not be as comfortable in public for a period of time.

Consider this: A Morning Consult study in early April 2020 found that 24% of consumers would not feel comfortable shopping in a mall for at least six months, and only 16% said they would feel comfortable going to a mall three months from now.

As a result, we are integrating more virtual leasing options and resident portals throughout our communities where possible. These virtual options will allow us to lease properties more efficiently, as well as keep residents feeling safe.

## 3. How are property management operations evolving?

Management teams are certainly having to account for new social-distancing requirements and may need to establish guidelines for the number of individuals that may enter their offices at any time. This includes controlling traffic flow with measures that may include floor markings and signage that encourage people to remain six feet apart. Increased sanitation and disinfecting measures are also another way that operations will continue to evolve. We are implementing higher disinfecting protocols for high-touch surfaces such as pulls, handles on doors, equipment, fitness centers, and other areas. Managers may also consider using infrared thermometers, provide hand-sanitizing stations at entrances and exits, and create safe spaces between residents, prospects, and team members.

Overall, the “new normal” will change the way we lease and manage moving forward. As stay-at-home orders are lifted, managers will face new challenges, but also new opportunities. Now is the time to reset, find focus, and adapt to a “new normal” while creating an environment that's even better than before.



# AVANATH JOINS COMMUNITY CALL TO ACTION MARCH

Our Avanath team recently participated in a Call to Action March alongside our long time partner, Christ our Redeemer Church, in Irvine, CA.

