GRUBB PROPERTIES

Perspective drives performance.

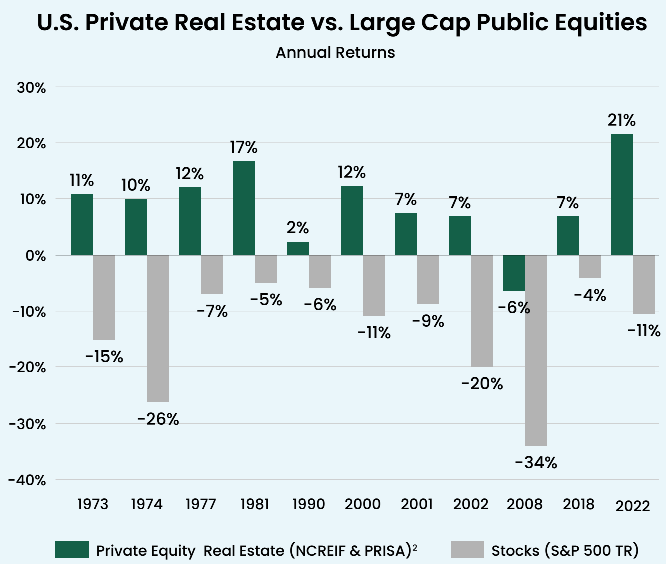
Multifamily & Private Real Estate in Economic Downturns

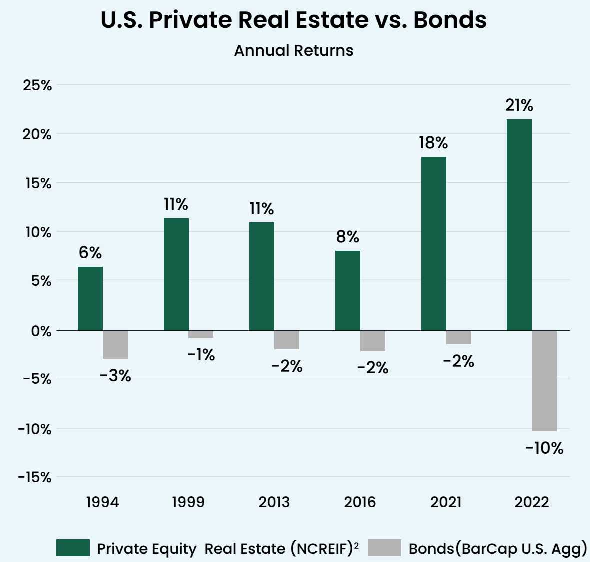
On July 28, 2022, the National Bureau of Economic Research announced that the United States has experienced back-to-back quarters of negative Gross Domestic Product (GDP) growth. While there is controversy around the ruling of a recession, a survey done by Bank of America in early June 2022 showed that public fund manager investor confidence is at a 30-year low. While it's hard not to notice the negative news and controversy around this topic, the majority of this news is correlated to public equity markets and the performance of the S&P 500 index, leading many investors to look at alternate options for placing their capital.

At Grubb Properties we believe private equity real estate and the multifamily asset class remain a strong option for investors regardless of market environment. In our nearly 60-year history, Grubb Properties has never had a property-level foreclosure, deed in lieu, or bankruptcy. We have achieved this track record by remaining resilient in our investment philosophies, taking a conservative approach towards debt, and ultimately, delivering a product that is desperately needed by our residents and the markets they live, work, and play in.

History has shown us that private equity real estate has been a strong performer in down markets and has a low correlation to traditional investments such as large cap equities & bonds.

Historically, US private equity real estate has low correlation compared to traditional investments and has performed well in down markets[1]





Source(s): National Council of Real Estate Investment Fiduciaries, Prudential Real Estate Investors, FTSE EPRE/NAREIT, C&P Dow Jones Indices, and Barclays Capital. As of June 2022

Part of the reason behind this low correlation is because real estate prices do not fluctuate every second of the day. Instead, real estate developers and investment companies that hold large pieces of real estate may re-appraise or re-value these holdings on a quarterly, semi-annual, or annual basis. The chart above shows that private equity real estate can be a great diversification tool in an investor's portfolio that can help weather the storm in times of market volatility, while also providing strong returns over time.

The multifamily asset class is a strong contributor to private equity real estate's performance in downward trending markets. At Grubb Properties, we are focused on developing Link Apartments℠, a moderately priced, class A, brand of multifamily housing that targets residents earning between 60-140% of an area's median income. This is the market segment where the U.S. has a critical shortage in available housing. We term this the 'missing middle', as most all rental development focuses on either affordable, government-subsidized housing or higher-end, luxury apartments.

Traditionally speaking, as an economy slows, demand for apartments increases because consumers have limited amounts of disposable income and are often facing the risk of job layoffs and inflationary pressures. This lack of disposable income forces people who may be looking to purchase their first home to continue to rent. Our company saw this very scenario in 2020-2021, when our two newly launched communities set lease-up velocity records, even in the midst of the COVID-19 crisis. At the same time, we saw 2021 home price growth that was at a 34-year high of 18.8%, according to the S&P CoreLogic Case-Shiller U.S. National Home Price Index. During this two-year period, our entire portfolio of Link Apartments℠ had rent collections of 98% and had year-end occupancy rates of at least 97%.

Economic downturn or not, we continue to see a rising demand for multifamily housing amongst the Millennial and Gen-Z demographics, as home buying seems to edge further out of reach for first-time buyers.

The quickly changing development challenge

According to data collected by HUD (Department of Housing and Urban Development), in January of 2021, the 30-year mortgage rate was 2.65% and the average new home price in the U.S. was $408,800. As of July 26, 2022, just one and a half years later, the average 30-year mortgage rate is 5.81% and the average sale price of a home was $456,800. Assuming a first-time home buyer is aiming for a 20% down payment, they have now seen a 62.8% increase in their projected monthly mortgage payment from $1,318/month to $2,147/month. This example does not take into account any of the external inflationary financial pressures placed on everyday consumer goods, services and other climbing costs, or the fact that the country has a shortage of 5.24 million homes needed to meet current consumer demand.

Our Link Apartments℠ brand and vision remains unchanged and has been working hard to close this housing gap for the missing middle who increasingly need to rent and rent for longer periods of time. By utilizing our creative development techniques, working with local municipalities, and taking advantage of tax incentives, Grubb Properties has been able to deliver essential housing at a moderate price point in some of the most lacking markets across the U.S. With a commitment to establishing amenity rich, sustainable, communities, it is a desirable alternative investment to any portfolio.

Please don't hesitate to contact us if you would like to learn more about how you can diversify your portfolio. Visit us at grubbproperties.com to see more about how we do business.

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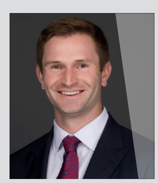

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