ASPEN FUNDS®

LEAGACY
WEALTH SUMMIT
2024

Multifamily Meltdown

And How to Profit Through Private Credit

AGENDA

- About Aspen
- Macroeconomic Trends
- The State of Multifamily
- What is Private Credit?
- Case Studies

ABOUT YOUR PRESENTERS

BEN FRASER

MANAGING DIRECTOR & CHIEF INVESTMENT OFFICER

Mr. Fraser is responsible for capital markets. Mr. Fraser has experience as a commercial banker and underwriter, as well as working in boutique asset management. Ben is a contributor on the Forbes Finance Council. He is also a co-host of the Invest Like a Billionaire™ podcast. He completed his MBA from Azusa Pacific University, and his B.S. in Finance from the University of Kansas, graduating magna cum laude.

OUR PROCESS FOR IDENTIFYING DEALS

1. Identify key macro trends in play and likely to continue.
2. Identify best asset classes and investment strategies that will benefits from those trends
3. Form best-in-class teams and Investor-friendly structures

Our team co-invests in every deal.

TRACK RECORD

Aspen Funds has an excellent 11-year track record as an operator in multiple asset classes.

AMERICA'S FASTEST-GROWING PRIVATE COMPANIES Inc. 5000

2023 OFFICIAL MEMBER Forbes Finance Council

Verivest VERIFIED

$200M Investor Capital Managed

$500M Assets Under Management

11+ Years Track Record

$50M Investor Distributions Since Inception

WHY INVEST WITH ASPEN?

100+ Years Experience Across Investment Categories

- DEVELOP-MENT
- DISTRESSED DEBT
- OIL & GAS
- REAL ESTATE
- HEDGE FUNDS
- PRIVATE EQUITY
- VENTURE CAPITAL

INVEST LIKE A BILLIONAIRE™

TOP 1.5% OF PODCASTS

WITH BOB FRASER, JIM MAFFUCCIO AND BEN FRASER

Most investors don't know that the ultra-wealthy (billionaires, institutions and family offices) have large portions of their investment portfolios allocated to investments outside the stock market and in alternatives like real estate, private equity and hedge funds. Meanwhile, the average high net worth investor is mostly invested in stocks and bonds.

Join Bob Fraser, Jim Maffuccio, and Ben Fraser as they dive into the world of alternative investments, uncover strategies of the ultra-wealthy, discuss economics and interview successful investors and alternative investment experts.

TheBillionairePodcast.com

FUTURE BILLIONAIRE

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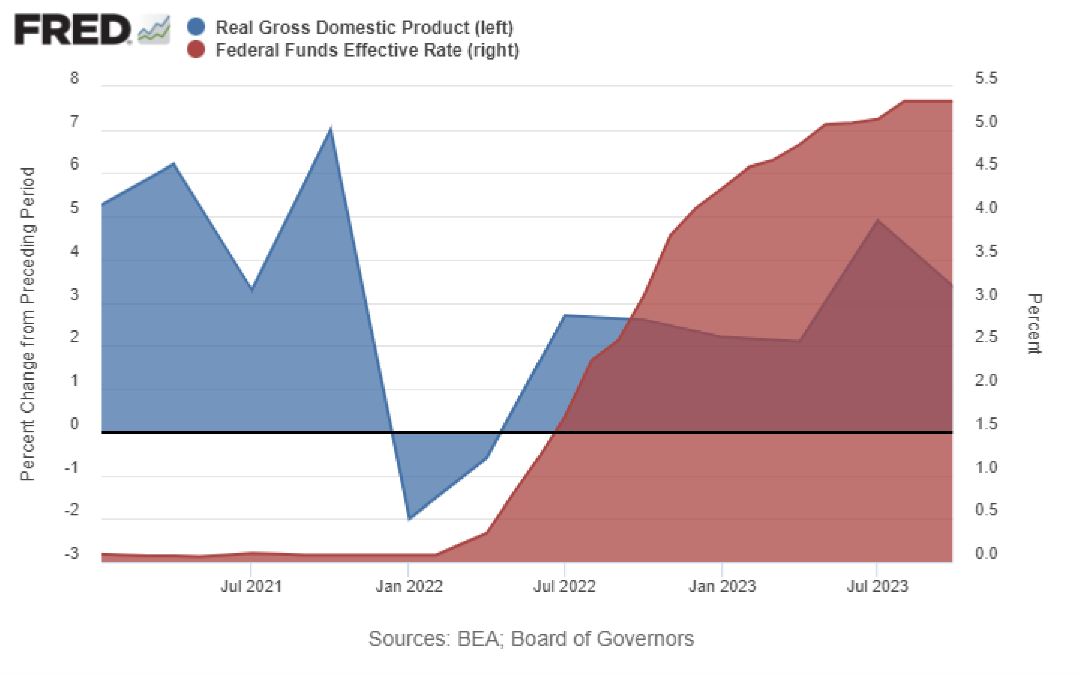
★★★★★ **125+ FIVE-STAR REVIEWS**

Where Are We in 2024

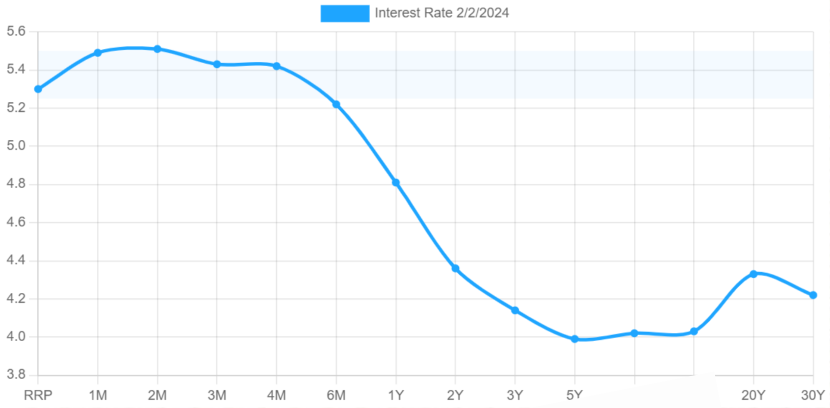
And The Big Surprise

No Recession



The Yield Curve LIED

- Yield curve inverted since Oct 2022
- Deepest inversion since 1981
- Longest inversion ever
- Yield curve accurate in predicting recession since 1955
- **What Happened??**




Forbes
https://www.forbes.com › miltonezrati › 2023/07/28
The Yield Curve Says Anticipate A Recession
Jul 28, 2023 — The yield curve today is **inverted** as it has been since last October. It offers a remarkably reliable indicator of a coming recession.

The Consumer Keeps Spending

THE WALL STREET JOURNAL.

ECONOMY

What Recession? Growth Ended Up Accelerating in 2023

Economy expanded 3.1% from a year earlier due to strong consumer spending and hiring

By Gabriel T. Rubin Follow

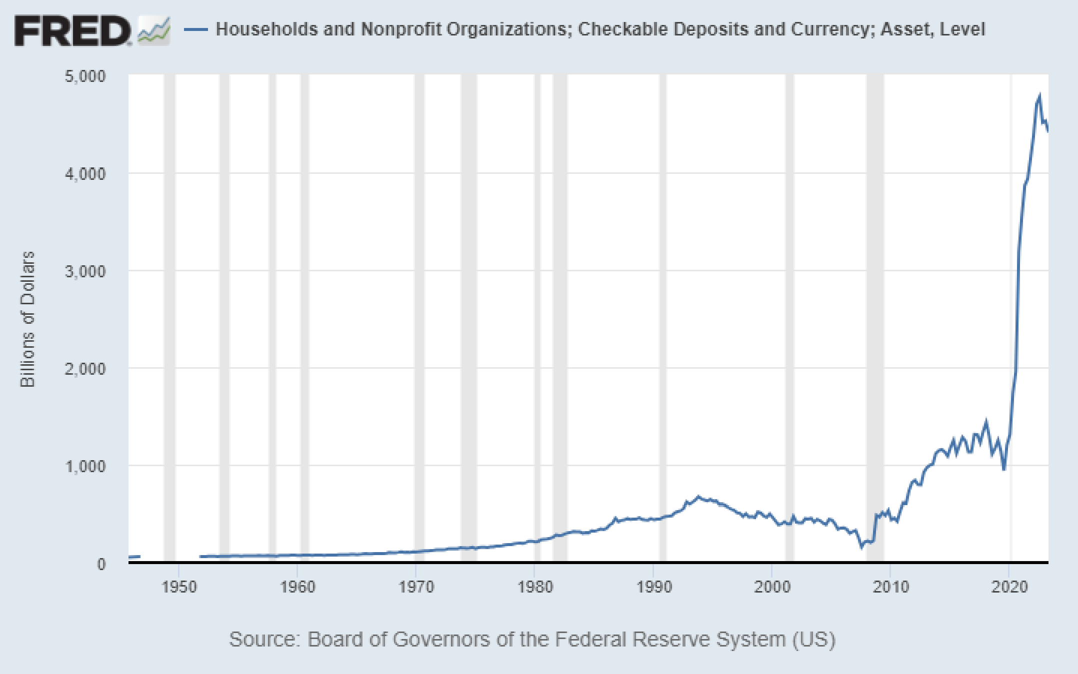
Updated Jan. 25, 2024 2:33 pm ET

BACKDROP:

The Consumer

Spending Like No Tomorrow

Individuals Sitting on Record Cash



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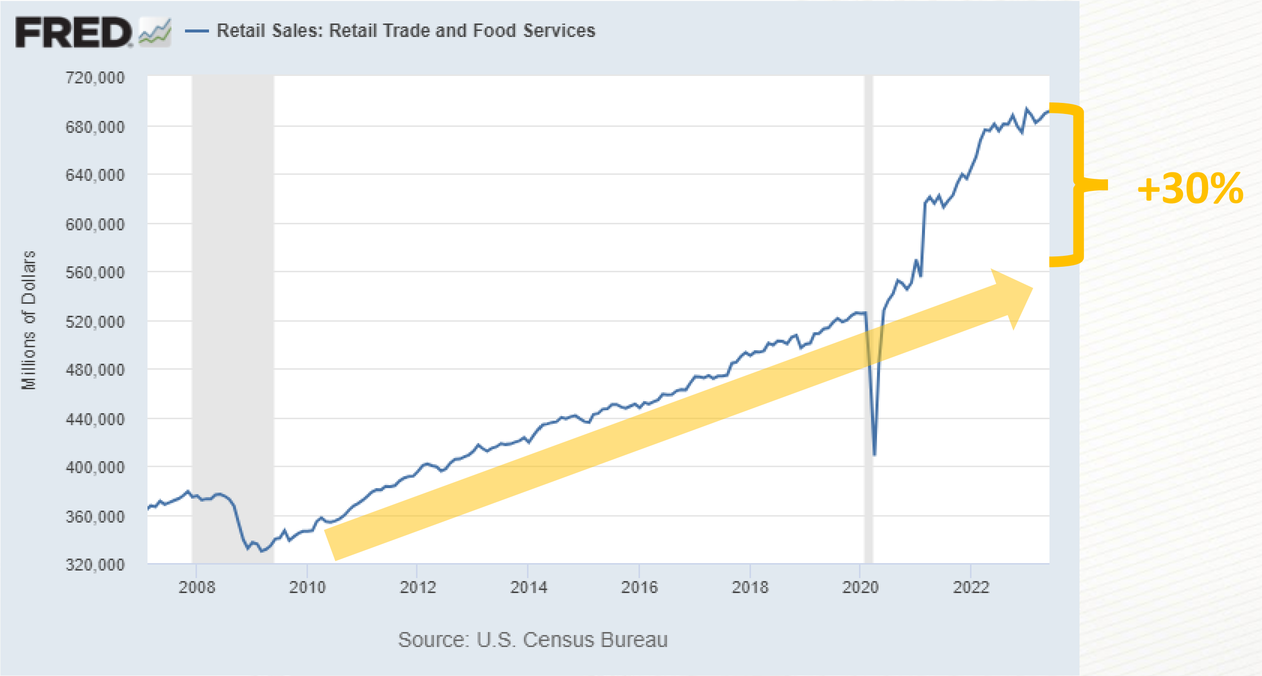
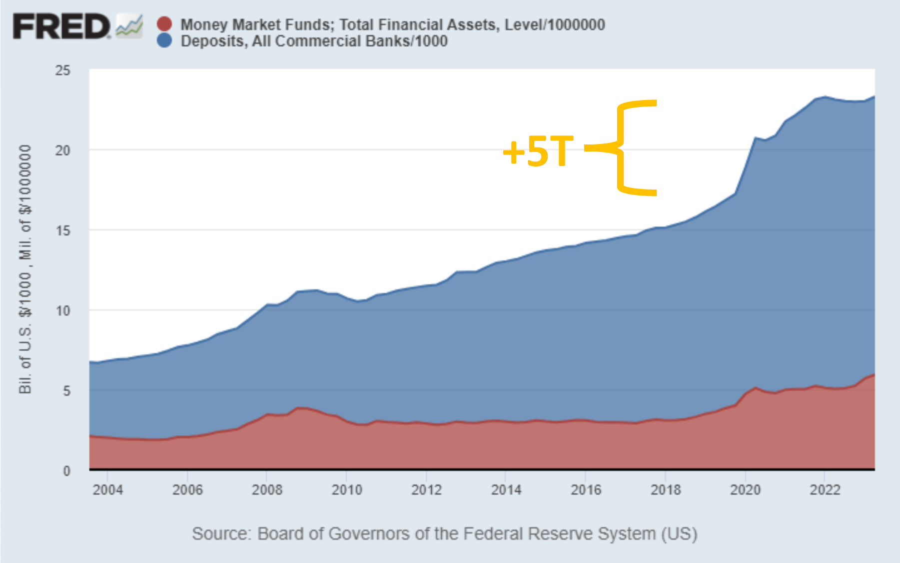
Consumer Spending



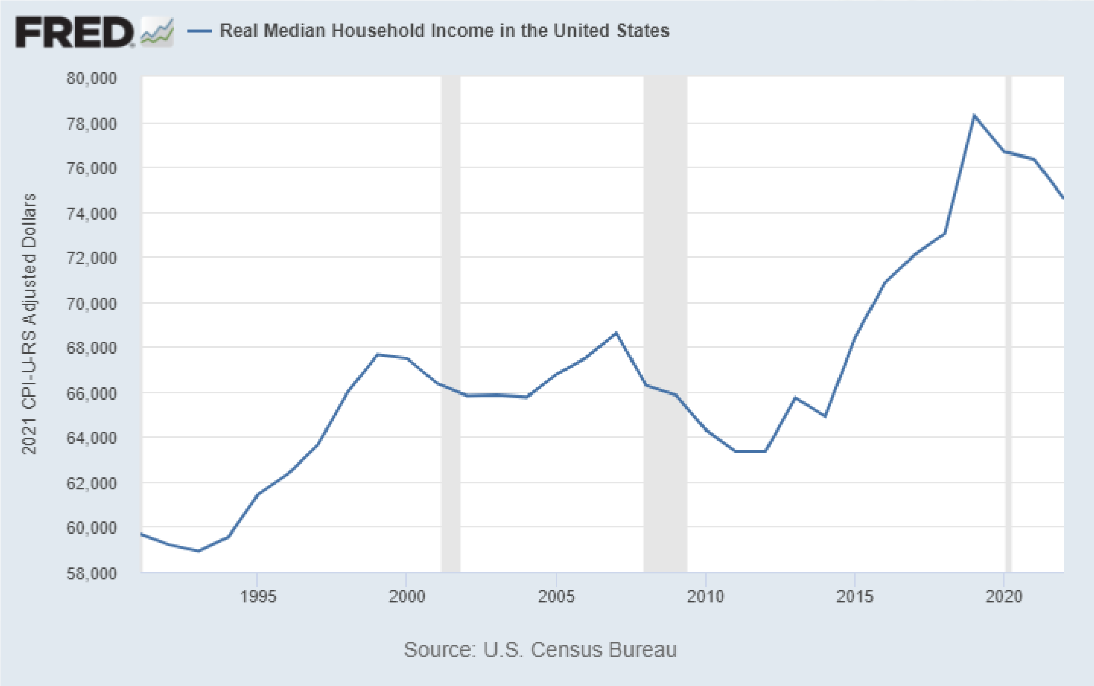
Consumer Savings

Savings Boomed During COVID But Inflation Weighing

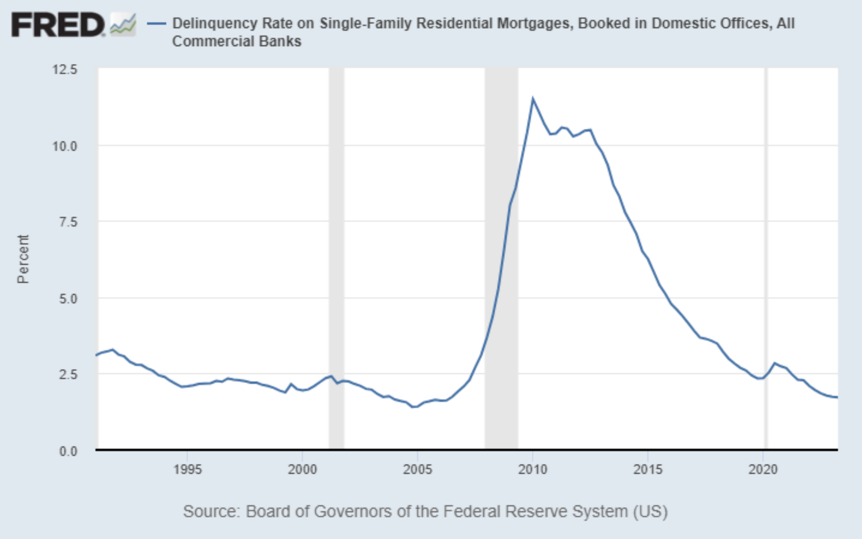


$5T in Excess Savings

Real Income Strong

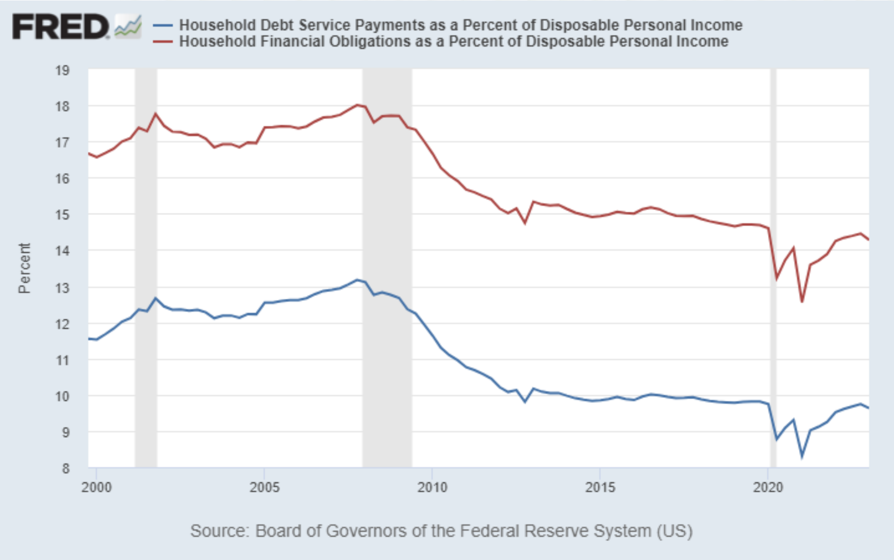


Consumer Debt

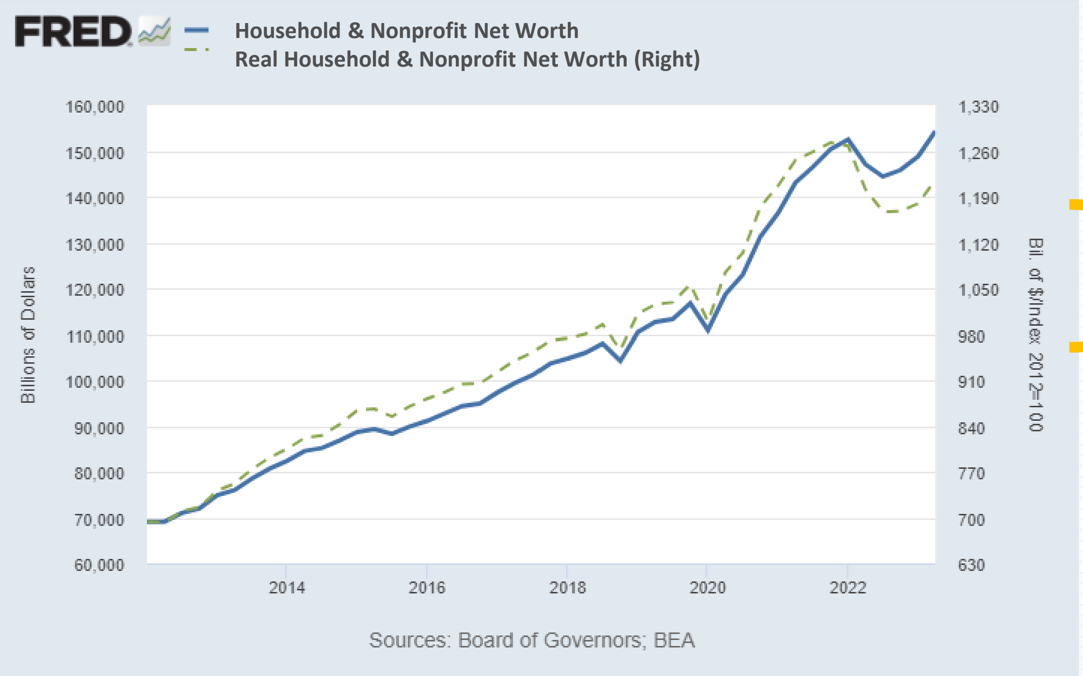


Low Delinquency Rate

Household Debt Service Low



Wealth Effect Still in Force

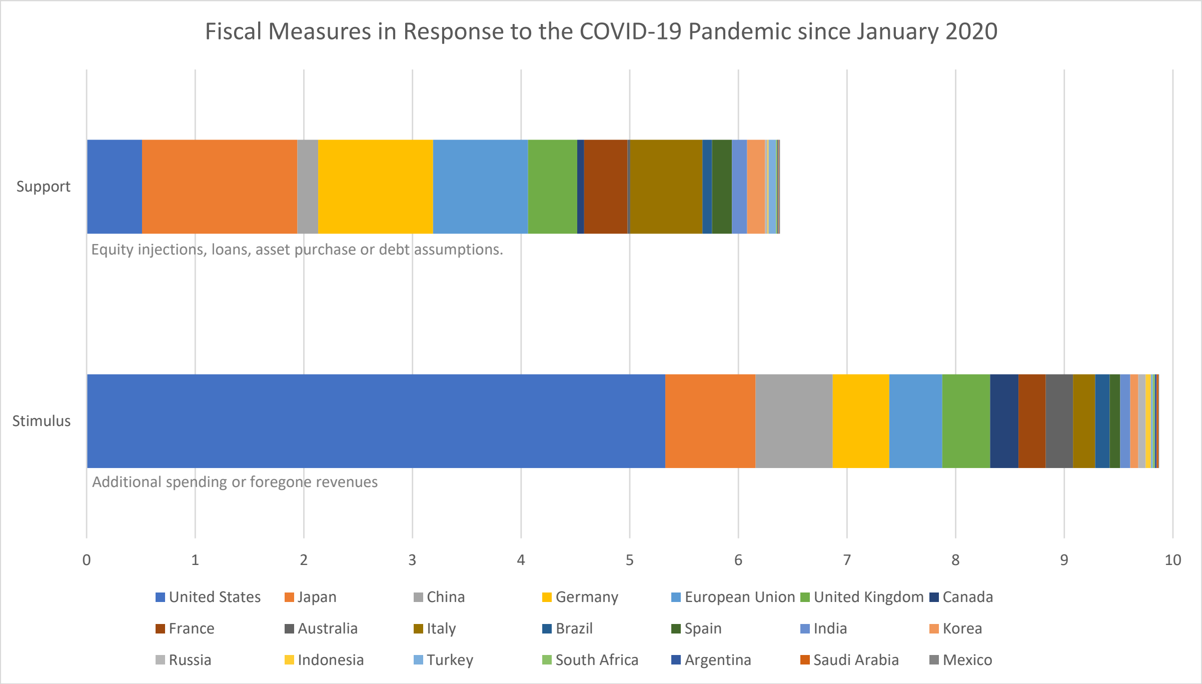


Real Net Worth
+10% Since 2019

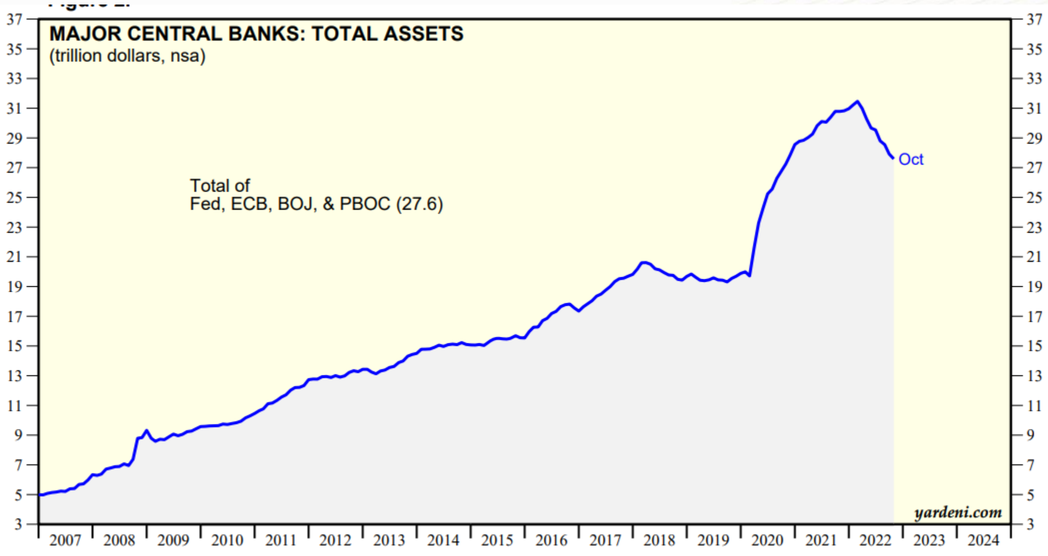
Persistent Inflation

And Why Interest Rates Will Be Higher

Living in the Shadow of $10 – 16T Global Stimulus

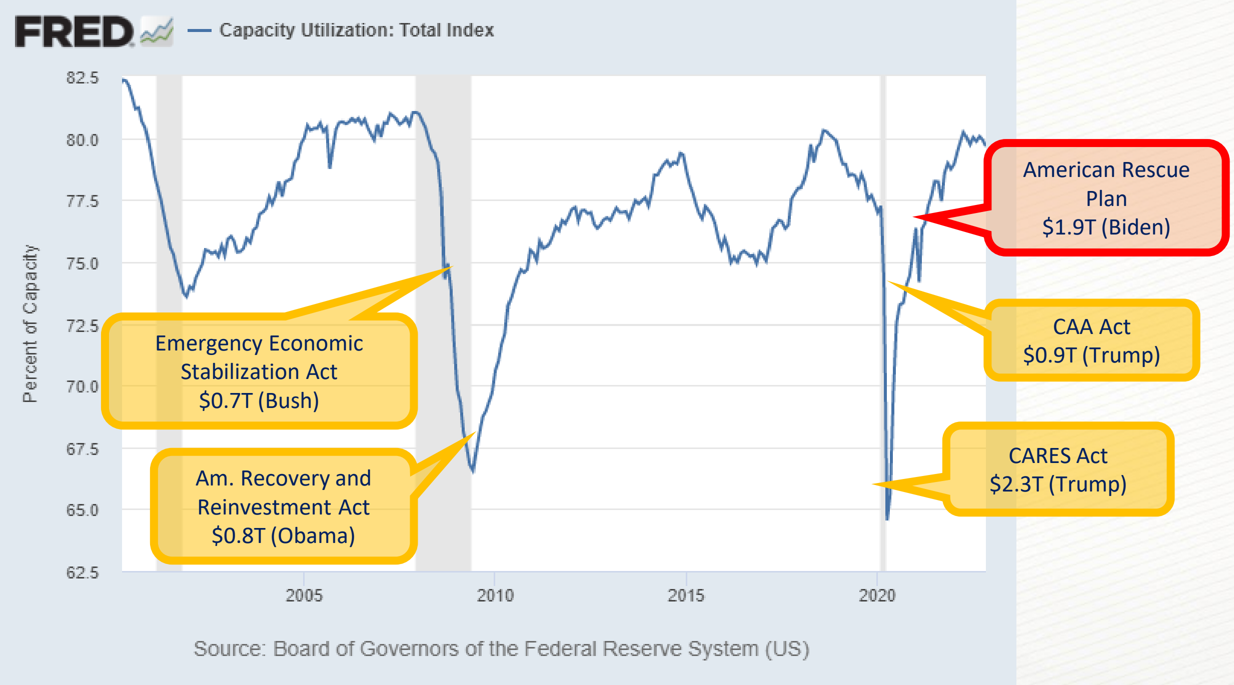


Central Banks Monetized $11T



Source: Haver Analytics.

Stimulus Spending When the Economy is at Capacity: Inflationary



#1 Fed Priority: Inflation Under 2 Percent

Jerome Powell, Dec. 14, 2022

- “'Changing our inflation goal is just something we’re not—**we’re not thinking about** and **it’s not something we're going to think about**. It’s—it—we have a **two percent** inflation goal, and we'll use our tools to get inflation back to **two percent**. I think this isn’t the time to be thinking about that. I mean there may be a longer-run project at some point **but that is not where we are at all**. The committee—we’re not considering that, **we’re not going to consider that under any circumstances**. We’re going to—we’re going to keep our inflation target at **two percent** and we're going to use our tools to get inflation back to **two percent**.’”

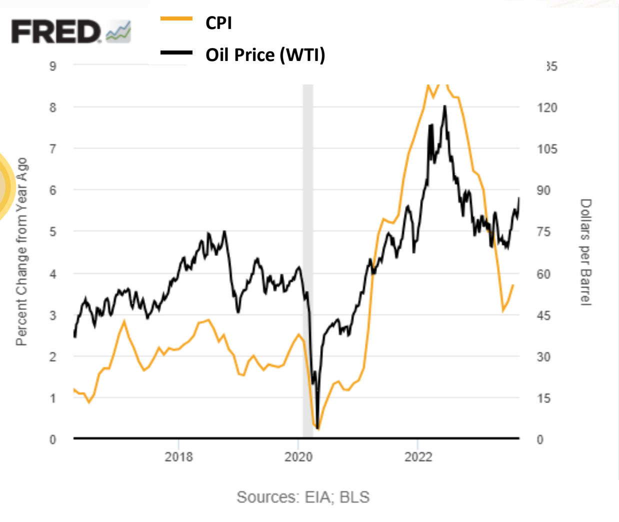
Fed is likely to overshoot in effort to reach 2% goal, which is not easily attained in our new energy & worker shortage regime

Persistent Inflation

Inflation Hidden Ingredients

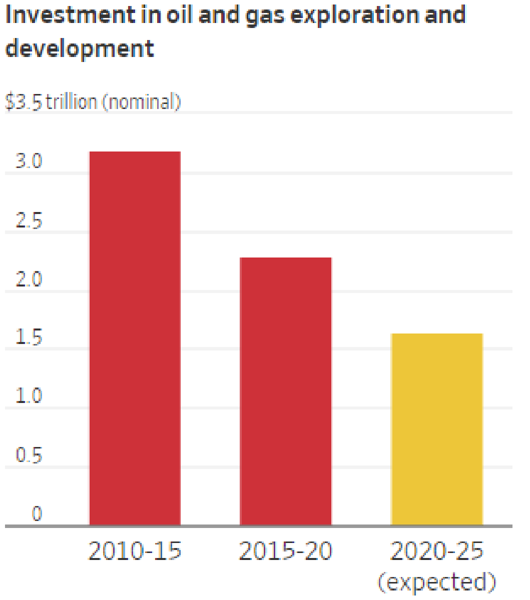
1. Energy Costs
2. Worker Shortages

<u>Inflation will be difficult to contain with moderate GDP growth</u>



Energy Market Dynamics 2022-2024

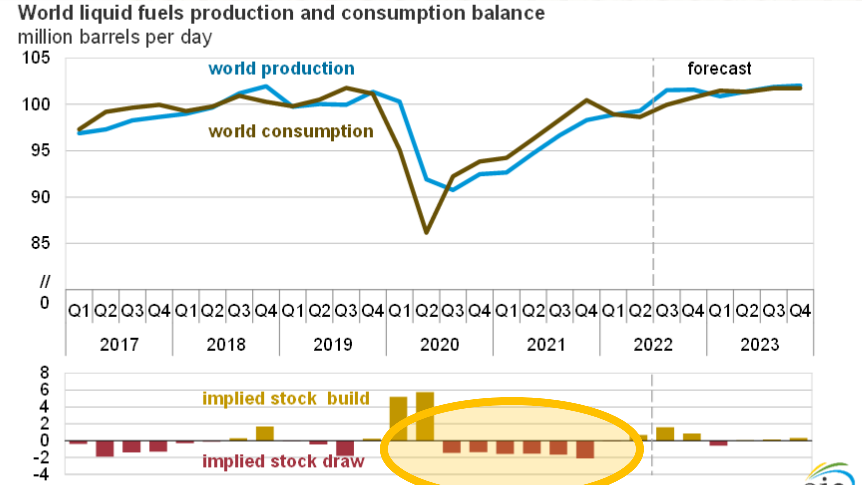
- In 2014, a new energy narrative became dominant: that fossil fuels had reached peak demand.
- Simultaneously, global environmental initiatives and ESG have focused on not only reducing fossil fuel consumption, but also on reducing fossil fuel supply and investment
- …so long-term investments in fossil fuel projects declined – down 55% from 2014
- … as a result, global energy production today is severely supply constrained, with no prospect of rapid increases



Source: BlackRock Investment Institute, Wood Mackenzie, June 2022

Energy Market Dynamics 2022-2024

- For the last two years, oil production has not kept pace with post-COVID demand
- The result: global oil inventories are at record lows
- … and now the Russian war on Ukraine and subsequent embargo has created a global energy supply shock, unlikely to revert, even in post-war scenarios



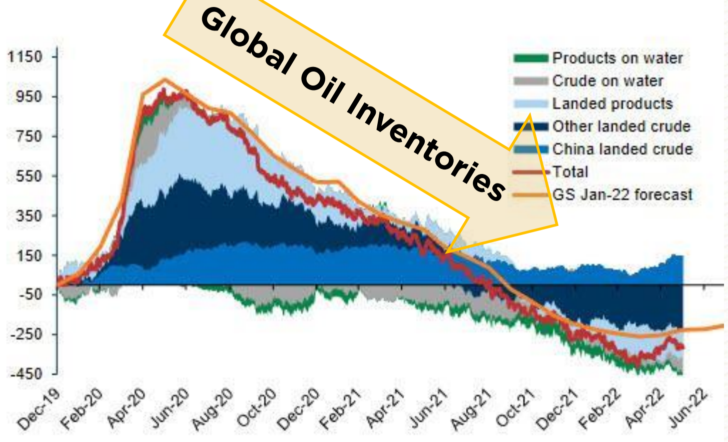
Source: U.S. Energy Information Administration, Short-Term Energy Outlook, July 2022

Energy Market Dynamics 2022-2024

From Goldman Sachs Global Research:

- "Oil Inventories are at record lows and will take oil price above $140 to rebuild"
- "Supply remains inelastic to higher prices" – *i.e., higher prices will not result in increased supply*
- "The negative global growth impulse remains insufficient to rebalance inventories at current prices." – *i.e., economic slowdown will not end shortage*
- "The market will not build sufficient spare capacity by the end of 2023, extending the bull market into 2024+"

Exhibit 7: Despite China's lockdowns, global oil inventories continue to surprise to the downside YTD
Global high-frequency inventory tracking vs. Dec-19 compared to our Jan-22 GS supply-demand expectations (mb)

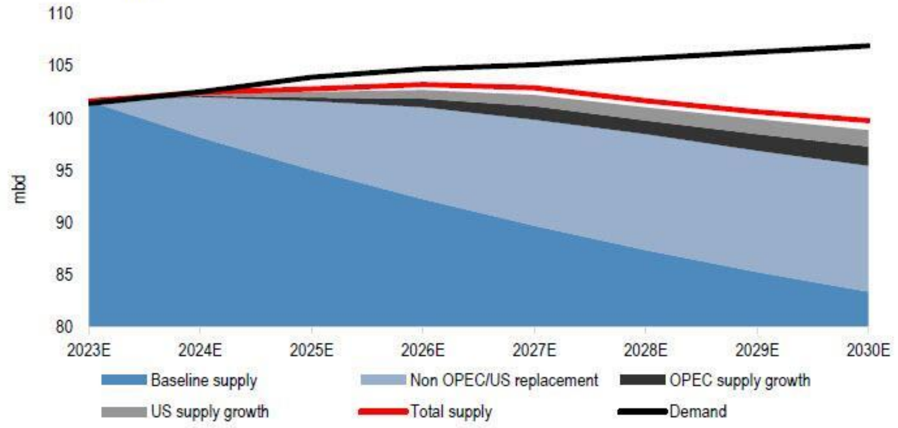


Source: Kpler, IEA, JODI, EIA, PJK ARA, PAJ, IE Singapore, Fujairah, Oilchem, Goldman Sachs Global Investment Research

J.P. Morgan: 7.1 mbd Shortfall by 2030

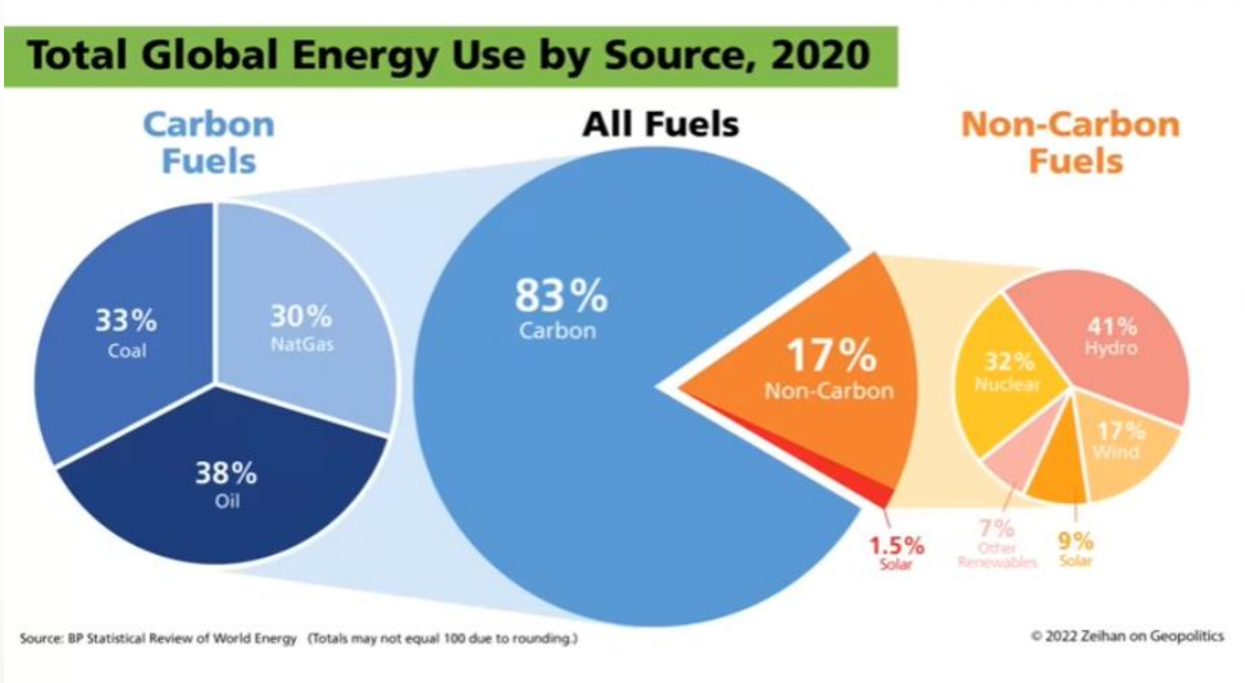
Figure 1: We see 1.1mbd supply deficit emerging in 2025E widening to 7.1mbd in 2030E, driving upside risks to oil prices

Global oil supply & demand balances forecast



Source: J.P. Morgan Commodities (Oil 2030) and Global Energy Strategy estimates.

Green Energy – A long Way from Replacing Carbon



Energy Market Dynamics 2022-2024

- We expect energy prices to remain elevated into 2030+
- Energy prices will not "revert to normal" even if the war ends due to the de-Russification of global energy demand
- Energy disinvestment combined with ESG and the global environmental movement's focus on supply reduction (instead of just demand reduction) ensures high prices will endure
- Energy is the "mother of all commodities" – all other commodities require it – and this ensures inflation will remain stubbornly high

Wage Pressure Will Continue

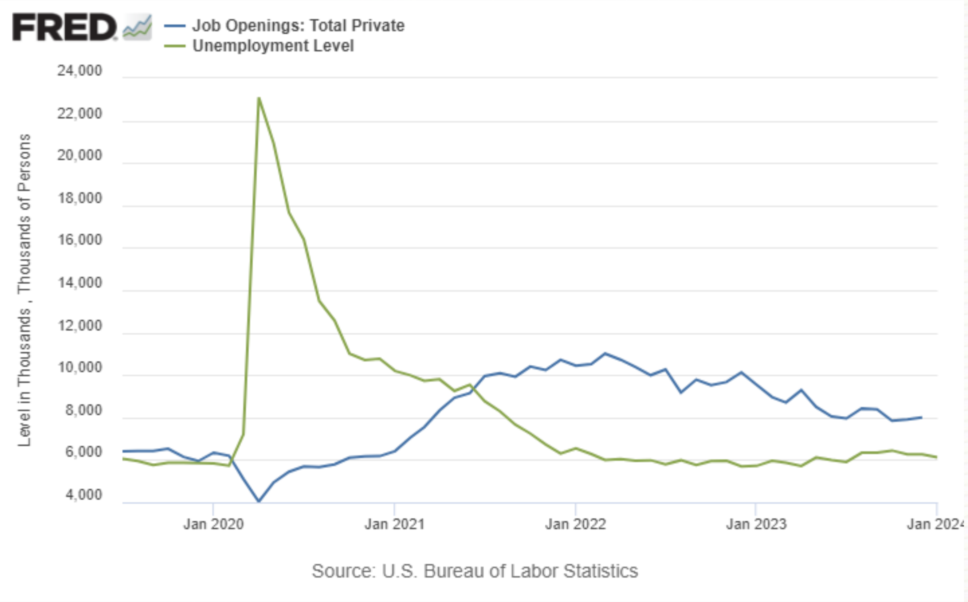
- High Demand (Consumer Spending)
- People Exiting Workforce
- Jobs Gap


THE WALL STREET JOURNAL.

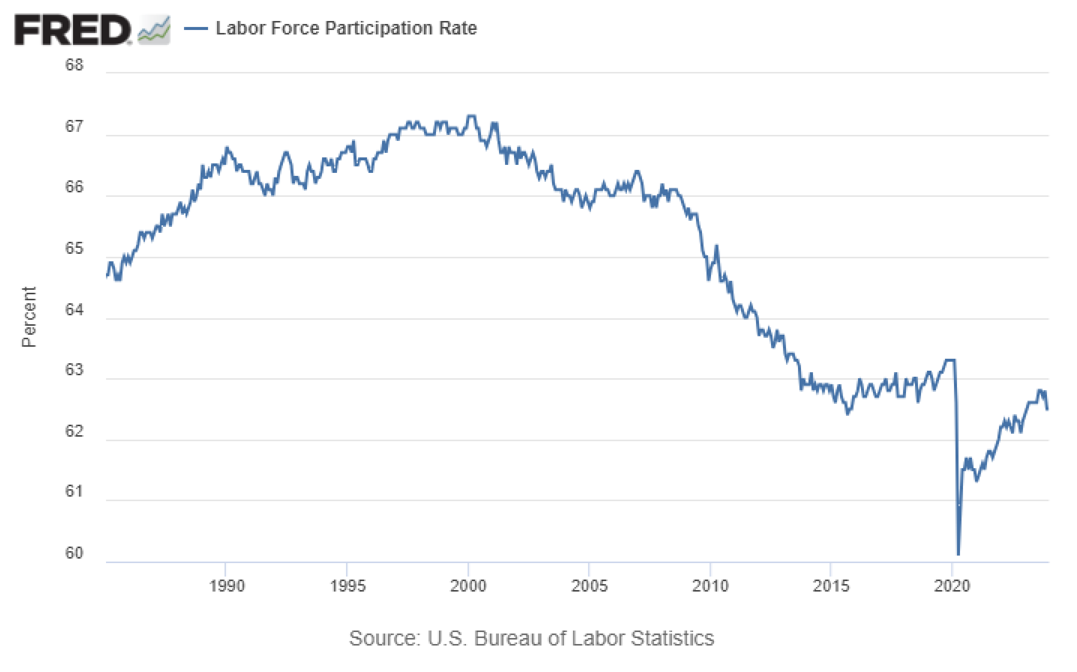
ECONOMY | JOBS

Jobs Growth of 353,000 Blasts Past Expectations as Labor Market Stays Hot

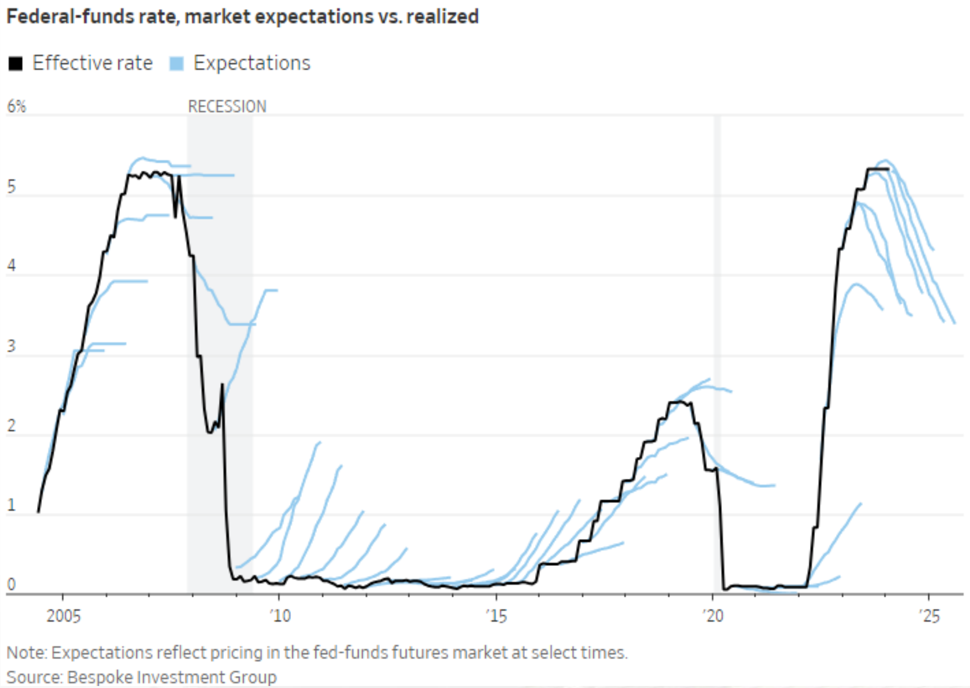
Unemployment was 3.7% as labor market defies predictions of significant slowdown



People Exiting the Workforce



Investors Are Almost Always Wrong About the Fed



Bottom Line: Higher for Longer

- Fed remain committed to long-term 2% GDP growth
- Persistent inflation driven by energy costs & labor shortage will keep pressure on
- Higher inflation will put pressure on Fed to maintain steady monetary policy
- Higher interest rates keep pressure on borrowers reliant on cheap leverage

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Multifamily Meltdown

Mini-bubble Popping Creates Opportunity

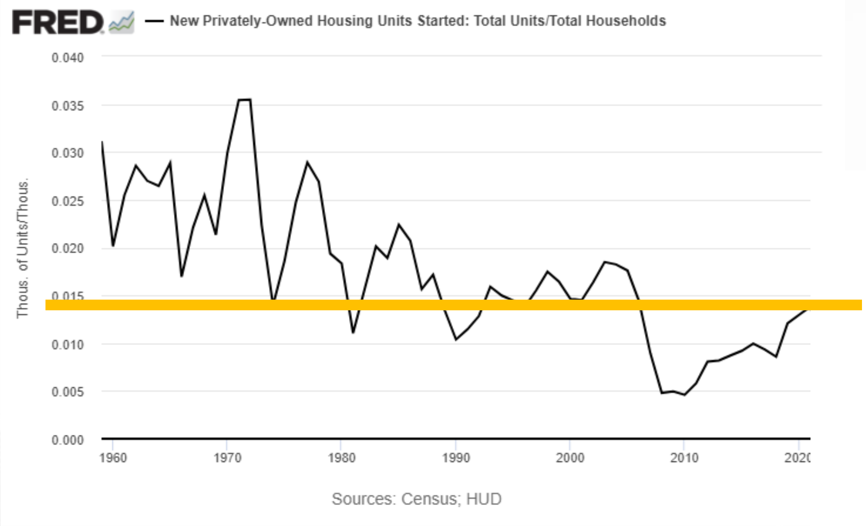
Short-Term Crisis in Multifamily Creates Great Opportunity

- Housing shortage continues
- Strong household formation
- Ultimate inflation beater

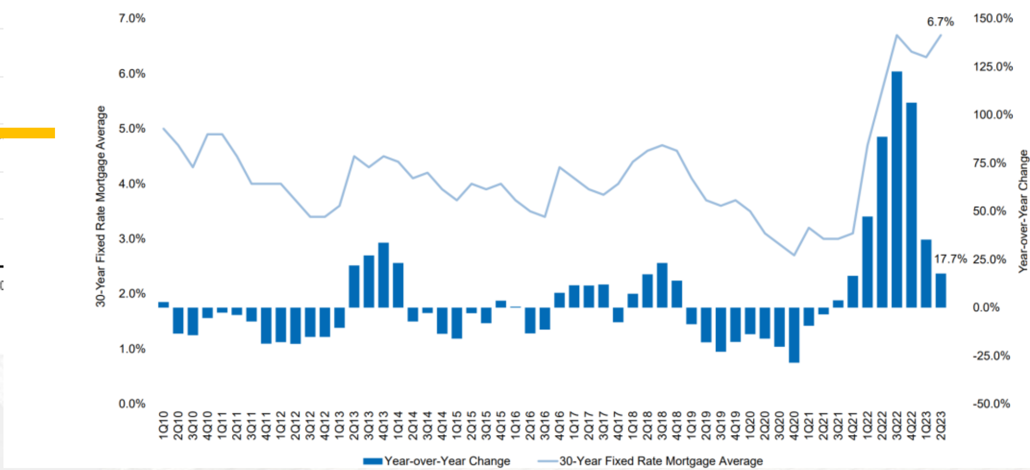
Let's look at the Good, the Bad & the Ugly in Multifamily

The GOOD – The Long Term

Chronic Underinvestment in Housing



Shrinking Single-Family Buyer Pool



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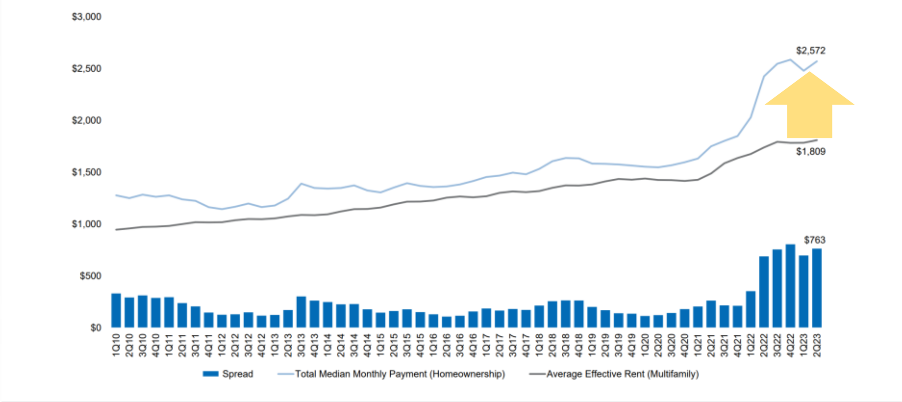
The GOOD – The Long Term

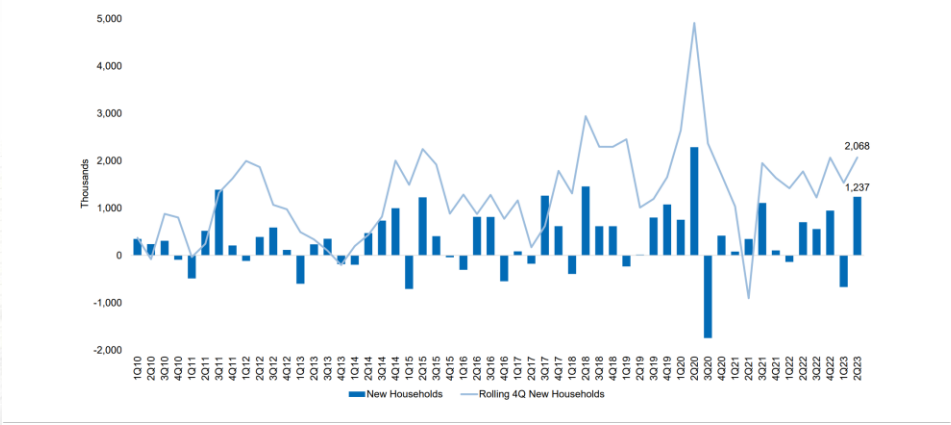
Renting is Cheaper than Owning



Source: Newmark Research, Atlanta Federal Reserve, RealPage

* Total Monthly Median Home Payments include P&I, Taxes, Insurance and PMI

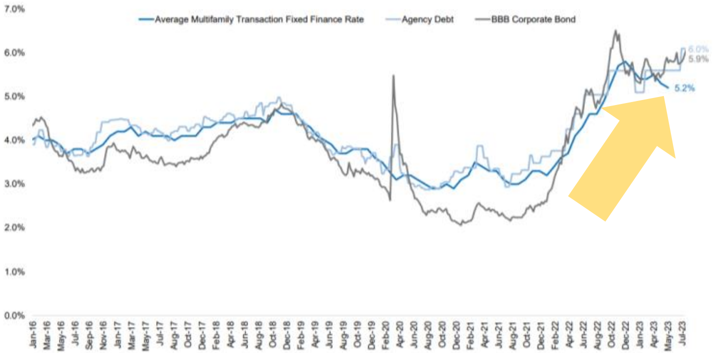
Household Formation Strong



Source: Newmark Research, Federal Reserve Bank of St. Louis, U.S. Census Bureau

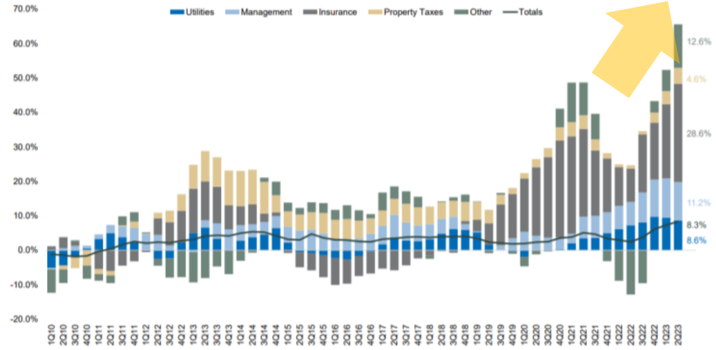
The Bad

Debt Costs Up 75%



Source: RCA, Green Street, ICE Data Indices, Federal Reserve, Newmark Research as of 8/24/2023
Note: Excludes construction financing

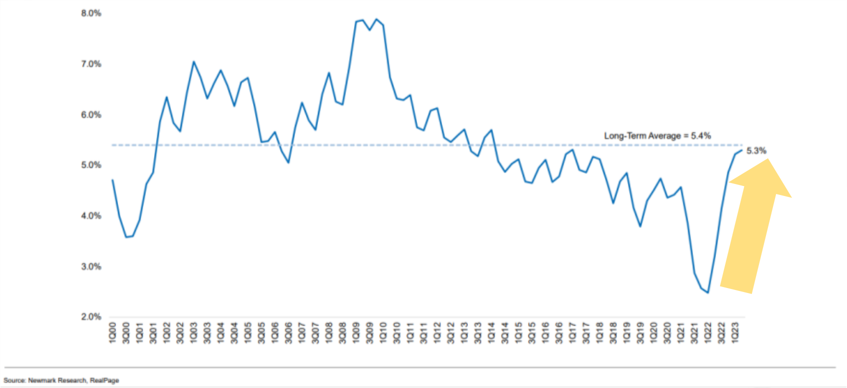
Operating Costs Up 8.3%



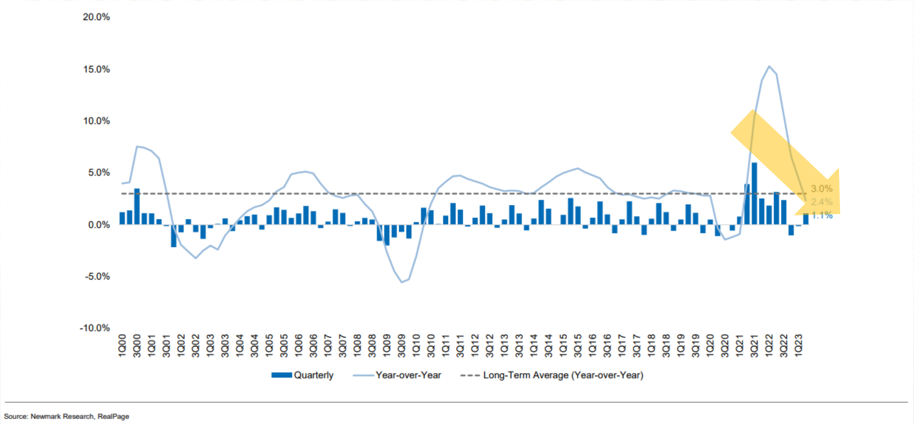
Source: Newmark Research, NCREIF

The Bad

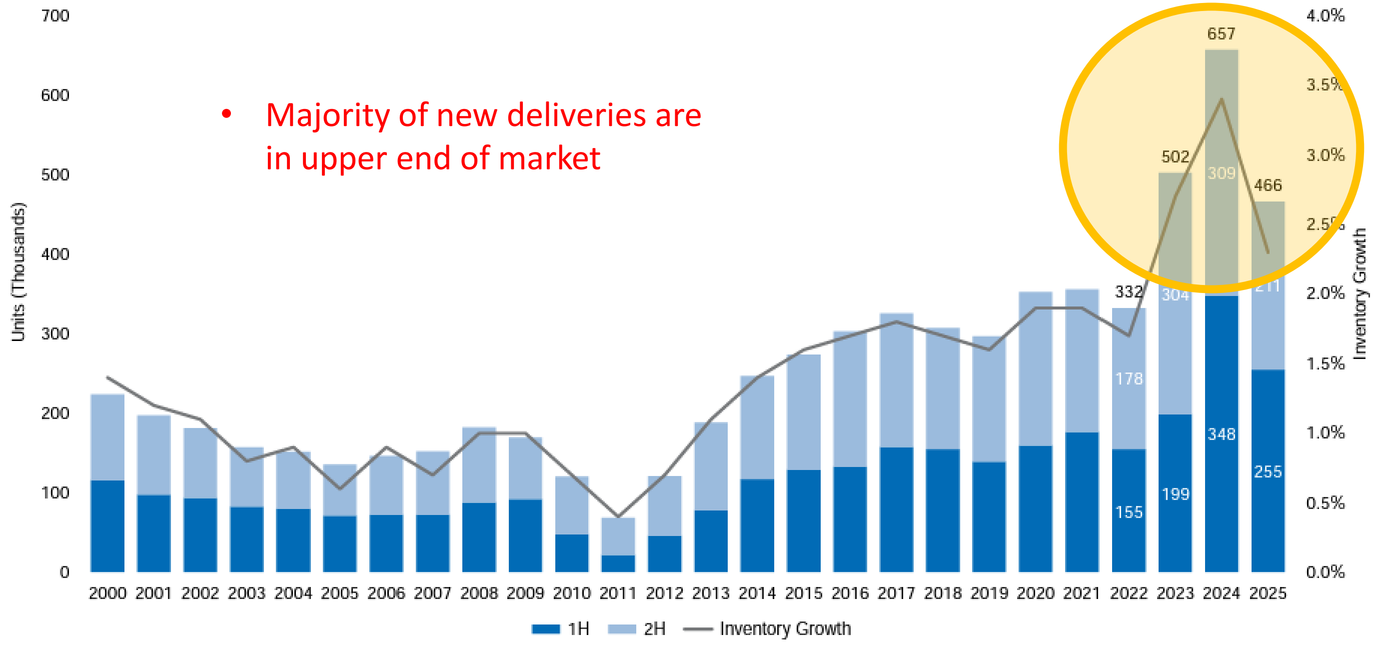
Multifamily Vacancies Up



Rent Growth Down

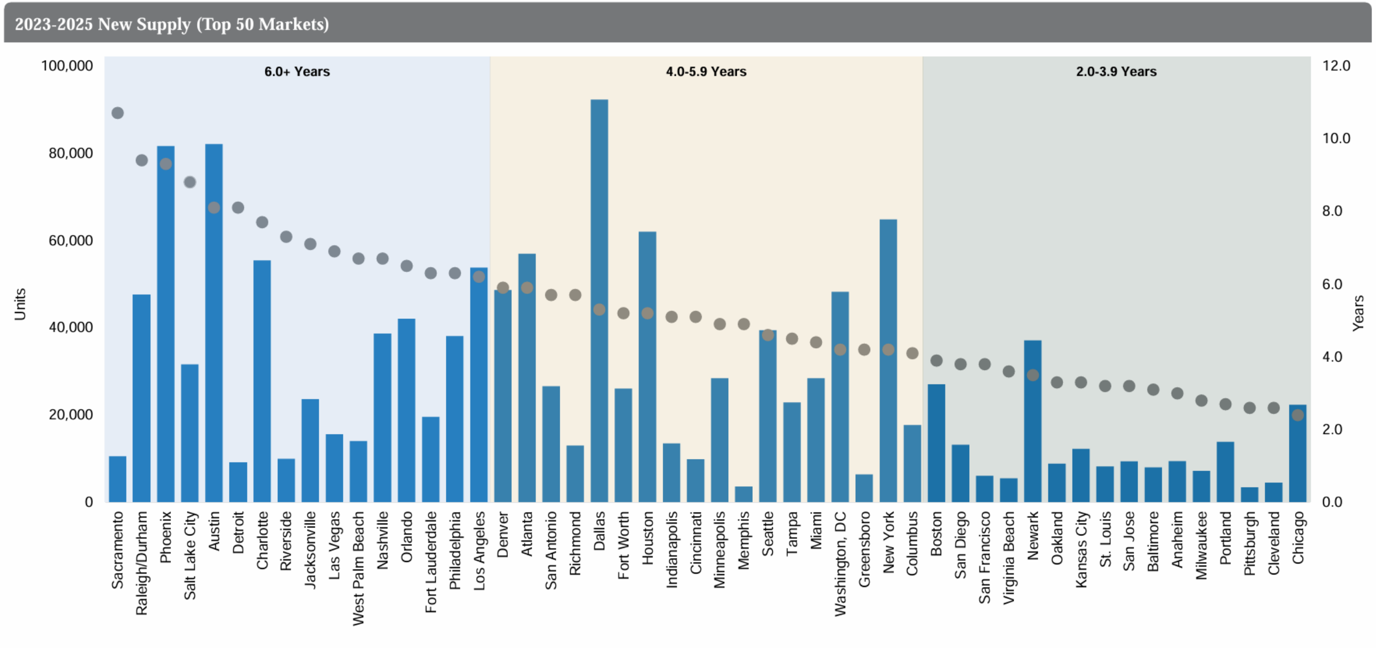


The UGLY – Record Deliveries of New Apartment Complexes



Source: Newmark Research, RealPage

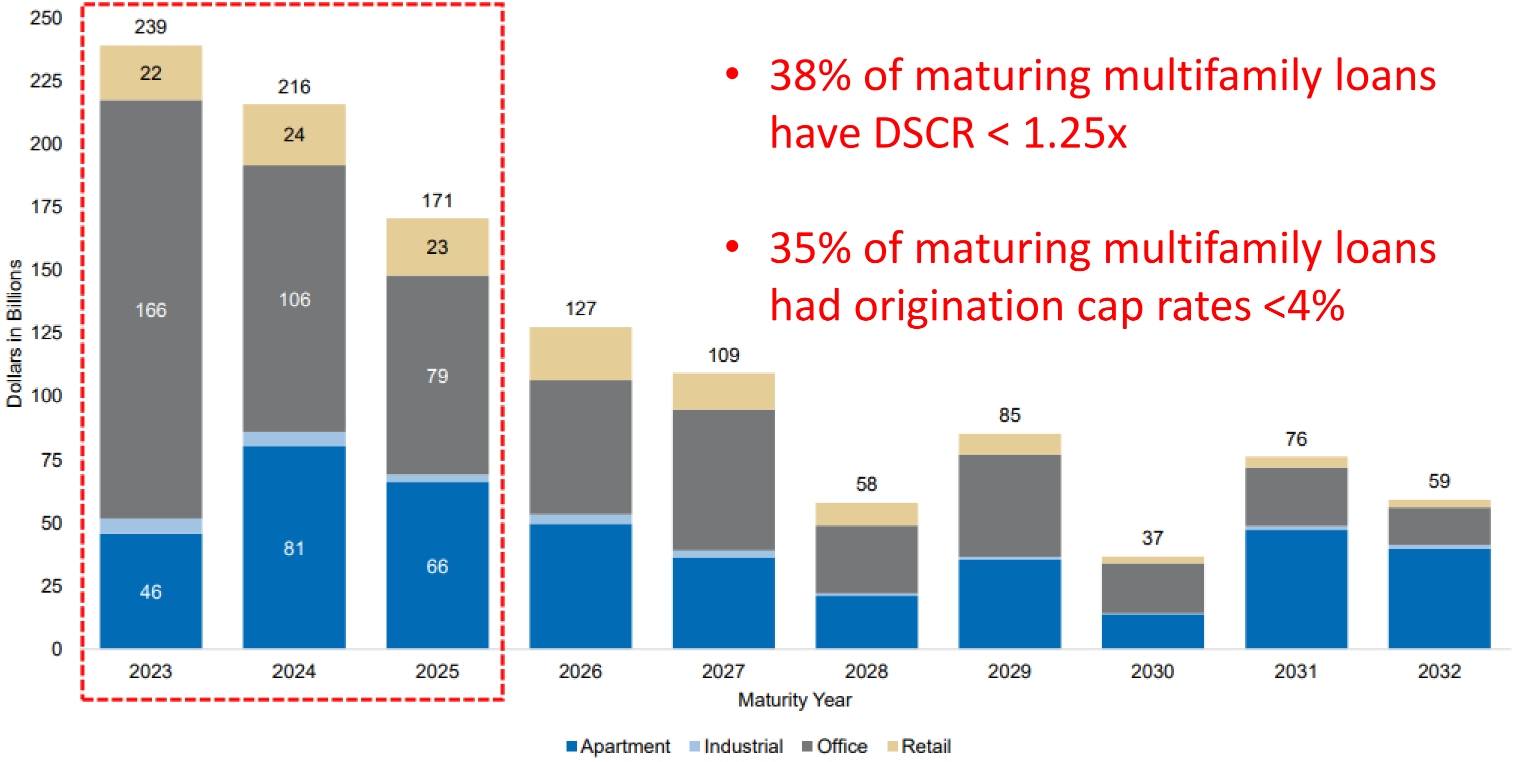
The UGLY – Absorption Will Take 2-6+ Years



Source: Newmark Research, RealPage

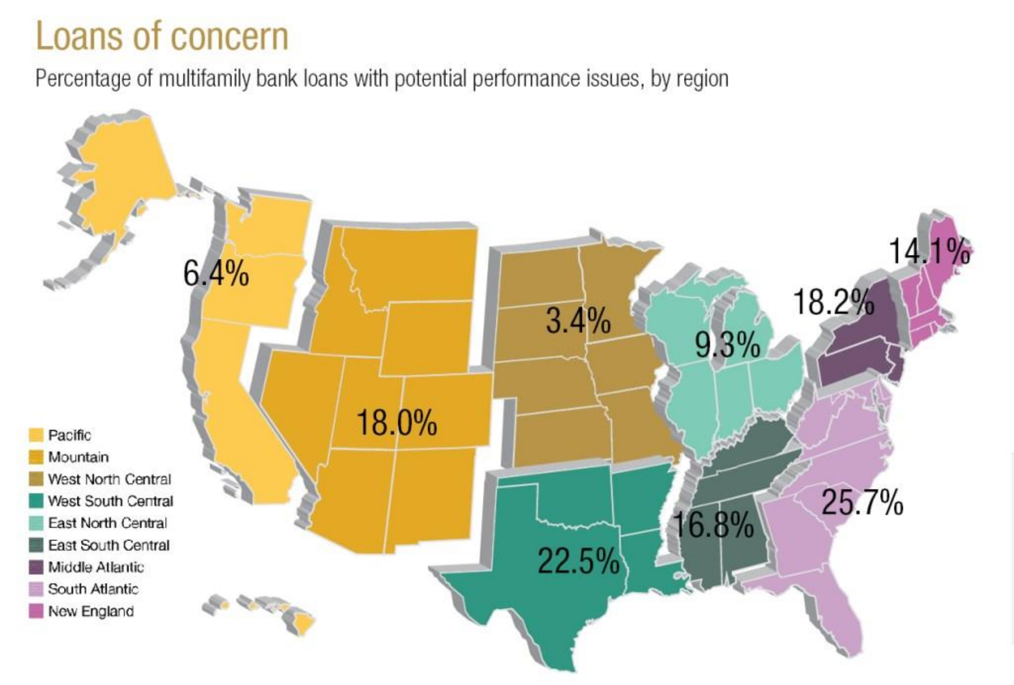
*Years to absorb methodology is based on annual average absorption from 2018-2022.

The UGLY – $159B in Troubled Debt Matures in 2024-25



- 38% of maturing multifamily loans have DSCR < 1.25x
- 35% of maturing multifamily loans had origination cap rates <4%

The UGLY – Sunbelt Markets



CBRE Rent Growth 2024
Tale of Two Cities (Quartiles)

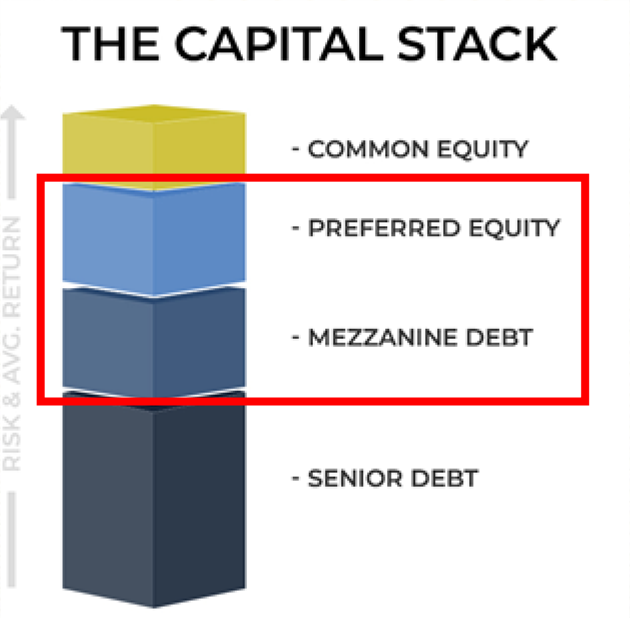
- Top Quartile markets
  - +6% rent growth
  - Midwest, Rust Belt, Northeast
- Bottom quartile markets: High supply markets
  - -4% rent growth
  - Florida, Austin, Boise, Atlanta, Phoenix, and Salt Lake City

Private Credit

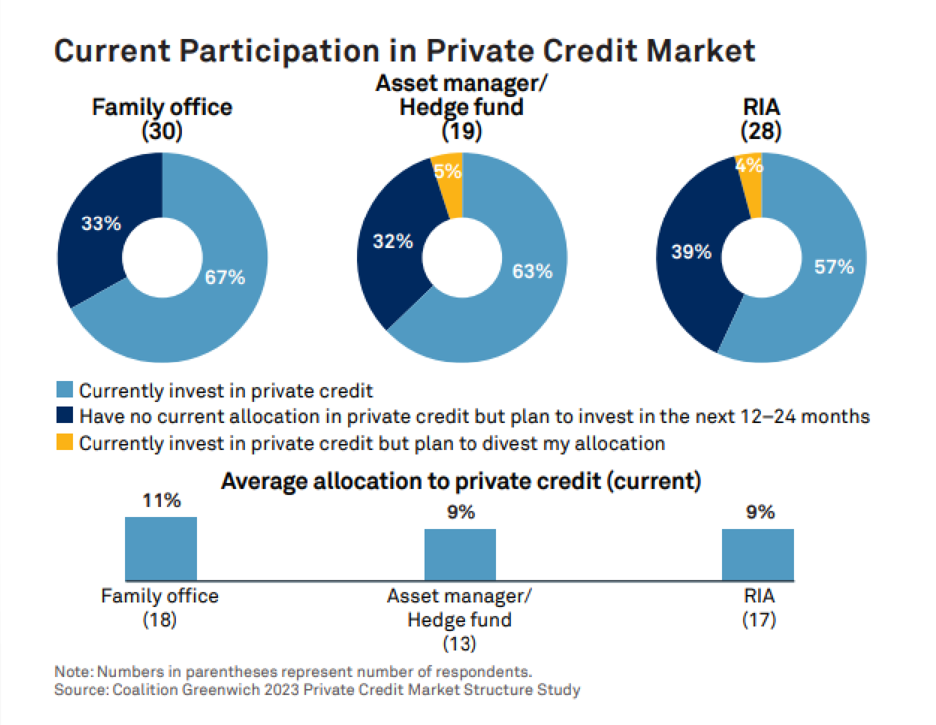
What is it and Why Now?

WHY PRIVATE CREDIT

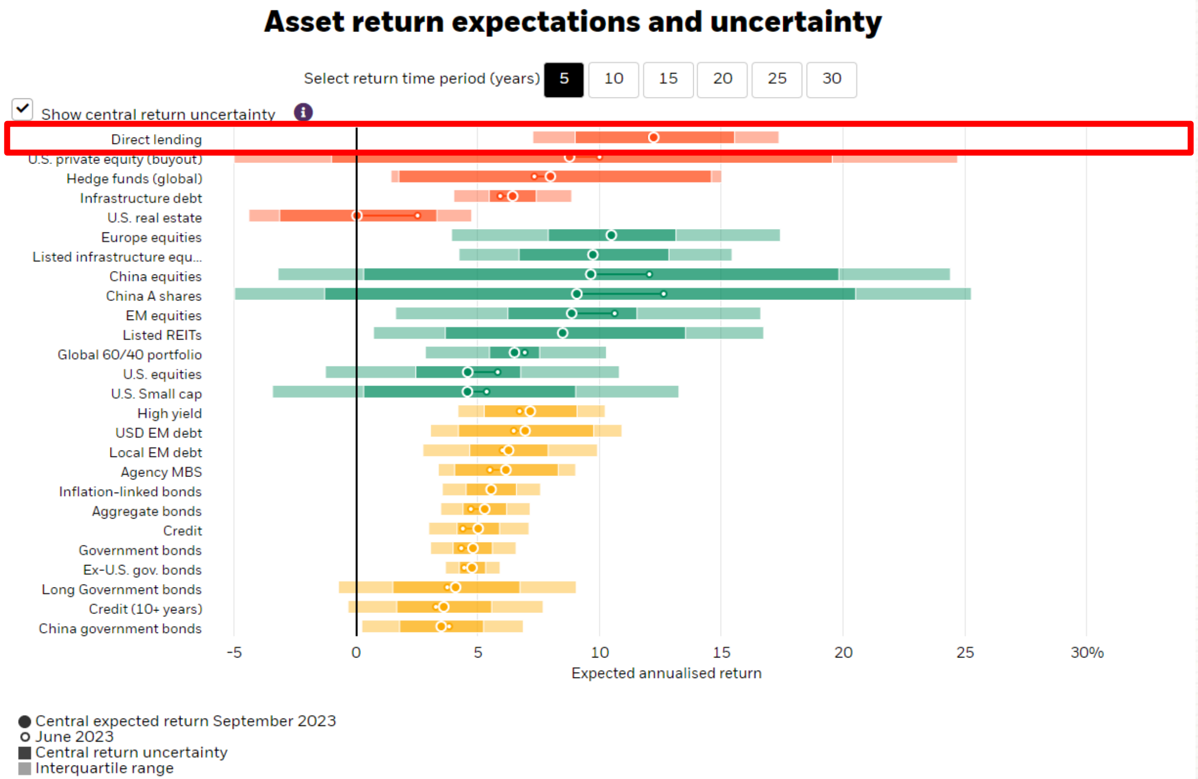
Great opportunity to get lower in the capital stack for strong returns with less risk



WHY PRIVATE CREDIT



WHY PRIVATE CREDIT



This information is not intended as a recommendation to invest in any particular asset class or strategy or as a promise - or even estimate - of future performance.

Source: BlackRock Investment Institute, November 2023. Data as of 30 September 2023.

HOW IT WORKS

- Reasons for Pref/Mezz
  - Credit markets tighter
  - Good deals, good locations, good operators
  - Examples of uses:
    - Replenish reserves
    - Rate cap expiring
    - Construction budget overage
    - Gap funding
    - Low senior LTV

- Being lower in the capital stack...
  - Reduces cap rate expansion risk
  - Prioritizes your principal in the capital stack
  - Increases risk-adjusted returns

EXAMPLE #1 | Bridge Lending

- Developer needed to refinance hard money loans
- Needed a longer runway to get to cash flow positive
- Willing to pledge additional collateral reducing our LTV to 30%
- Received a 1st lien position & personal guarantee

CASE STUDY	
Purpose	Refinance for bridge to cash flow
Amount	$2.4MM
Lien Position	1st
LTV	30%
Interest Rate	15% + 2 points, 20% default interest
Personal Gty	Yes

EXAMPLE #2 | Gap Funding

- Sponsor couldn't raise equity in time to close
- We were able to gap fund to help close
- Loan will be paid off in 90 days, or will incur penalties
- Allows us to recycle cash into other opportunities

CASE STUDY	
Purpose	Equity gap to close deal
Amount	$500M
Lien Position	2nd (mezz)
LTV	75%
Interest Rate	12.5% + 2.5 points, penalties
Term	90 Days
Personal Gty	Yes

EXAMPLE #3 | Loan Assumption

- Sponsor assuming an agency loan with 2.94% interest rate
- But LTV is very low ~50%
- Layering in preferred equity helps increase investor IRR
- We earn 14%+ and have 45% equity cushion

CASE STUDY	
Purpose	Increase Leverage Ratio
Amount	$1MM
Lien Position	Preferred Equity, with takeover rights
LTV	55%
Interest Rate	8% current + 6% accrued
Personal Gty	Yes

SCAN ME

UPCOMING!

Live Private Credit Masterclass