Newbury
LIVING

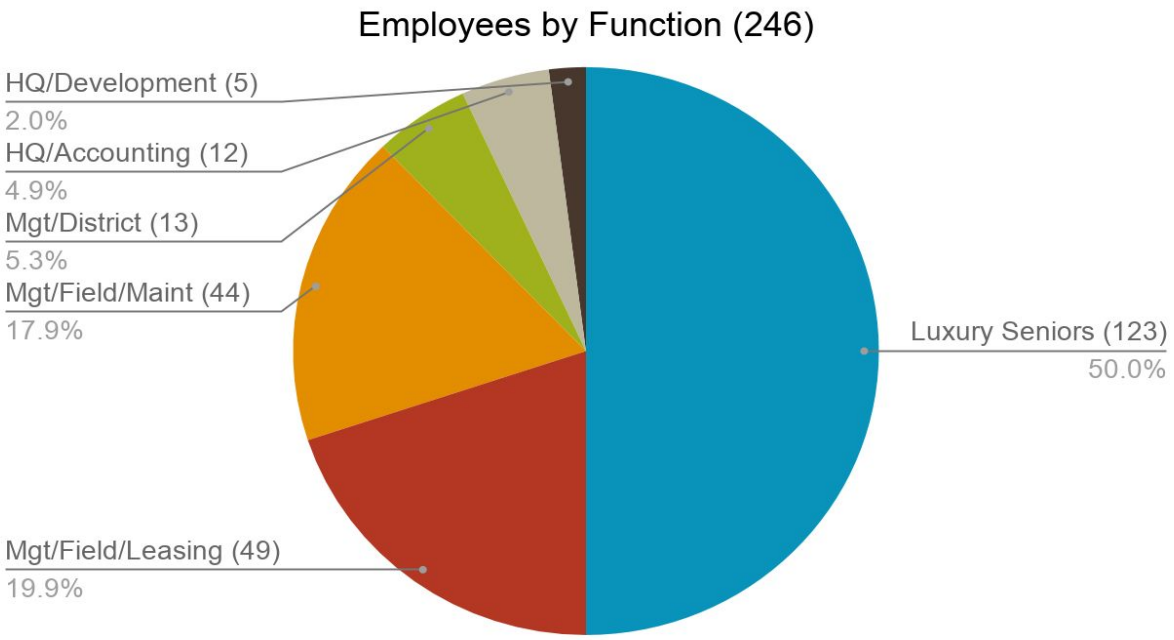
Managing and
Developing
Communities
You're Proud to
Call Home

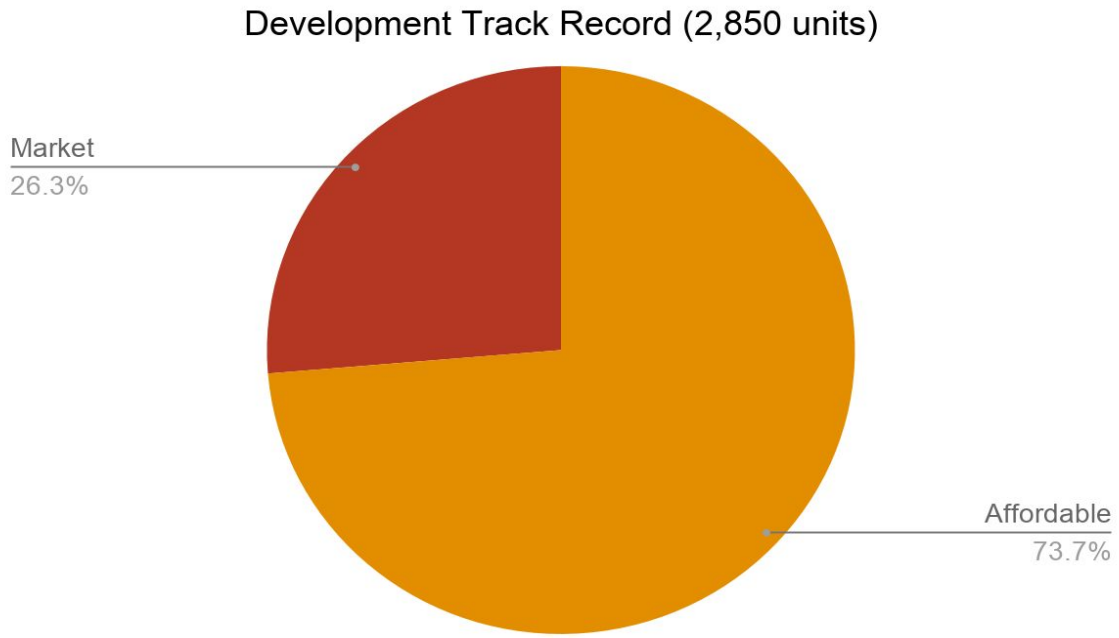
2020 in Review

Iowa Commercial Real Estate Association
December 15, 2020

Who are we?

- Jim Levy founded Levy, Malone & Company in 1974, developing 40+ projects 1974-1986
- Jim and Debbie Fisher split from Bob Malone and formed Newbury Development in 1987.
- Newbury developed 57 projects (2,850 units) 1987 to the present. 33 projects (1,810 units) remain our care.
- Newbury Management began in 1993 and now manages 59 projects containing 3,102 units in Iowa.
- 51% of units managed are affordable and 63% are managed for third-party owners.
- Firm renamed Newbury Living in 2008 after Jim's death.
- Half of the firm's projects since 2013 have been market-rate or mixed income.
- Six market-rate deals, with 563 units, have had outside investors.
- 246 people on payroll.





2020: Executive Summary

2020: Executive Summary

2020: Executive Summary

2020: Major Accomplishments during 2020

2020: Major Accomplishments

Restabilized during pandemic

Deal saved despite pandemic

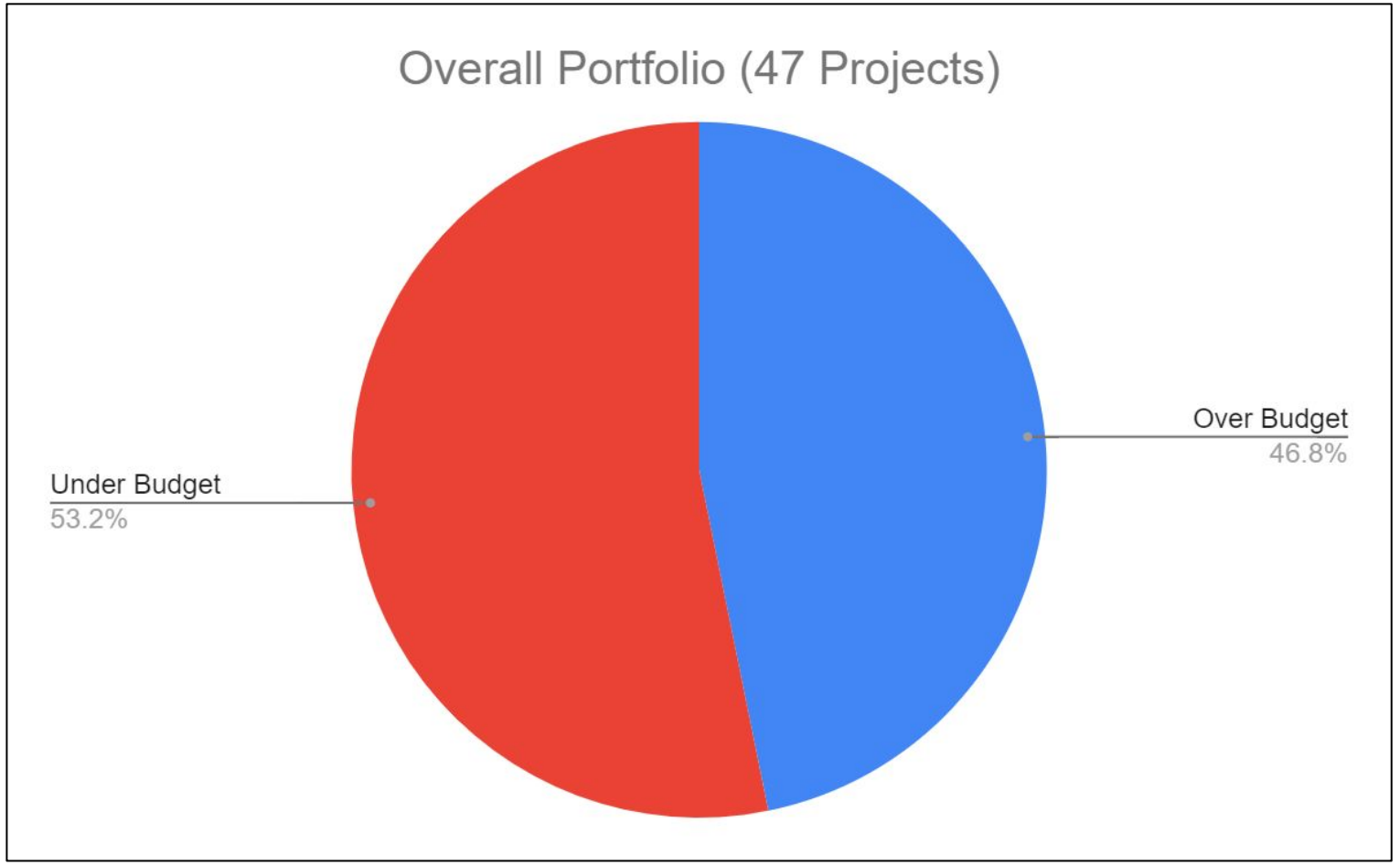
Equity raised during pandemic

THE JAMES

Newbury Portfolio: 2020 Budget-to-Actual Performance

- With skillful budgeting, you'd expect half of projects to come in under, and half over. That's about what happened.
- Overall, missing the target by just 1.9% seems pretty good.

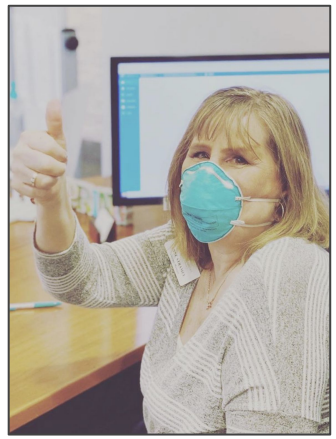
Let's look for some patterns.

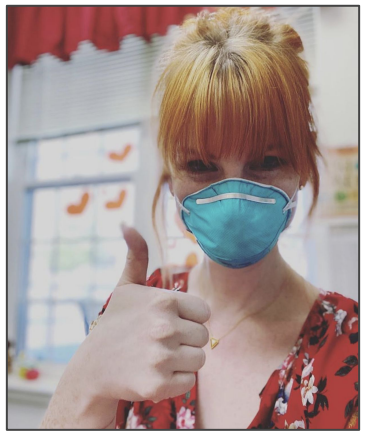


Total Income YTD 11/20:
1.9% Under Budget

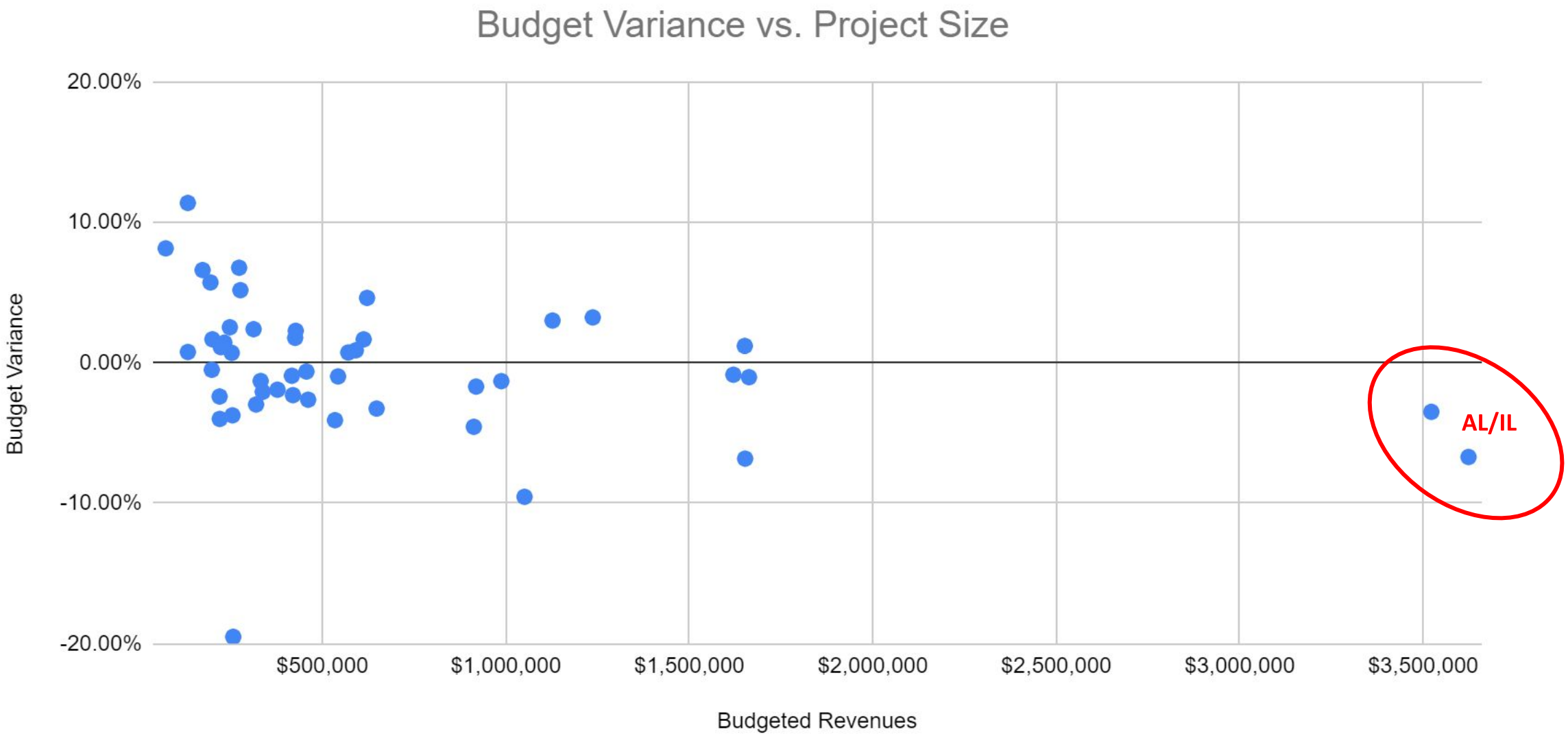
It’s not surprising that AL/IL missed its revenue target

- **Difficult or impossible to move in new residents for major stretches of the year.**
- **2 Assisted/Independent Living Projects.**
- **Both Under Budget; -5.1% in aggregate.**

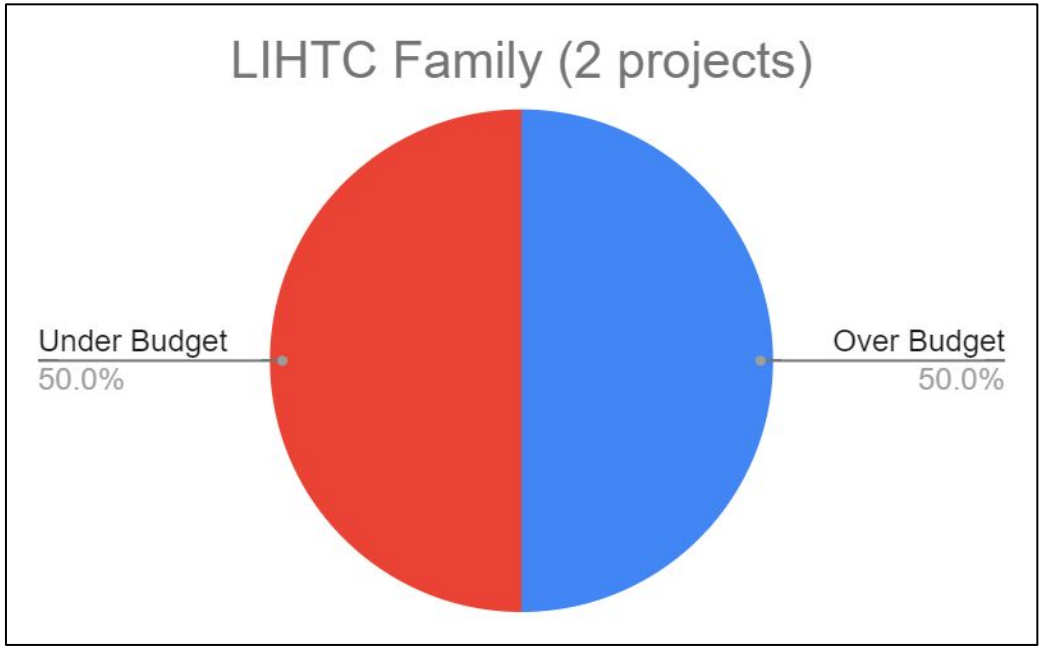




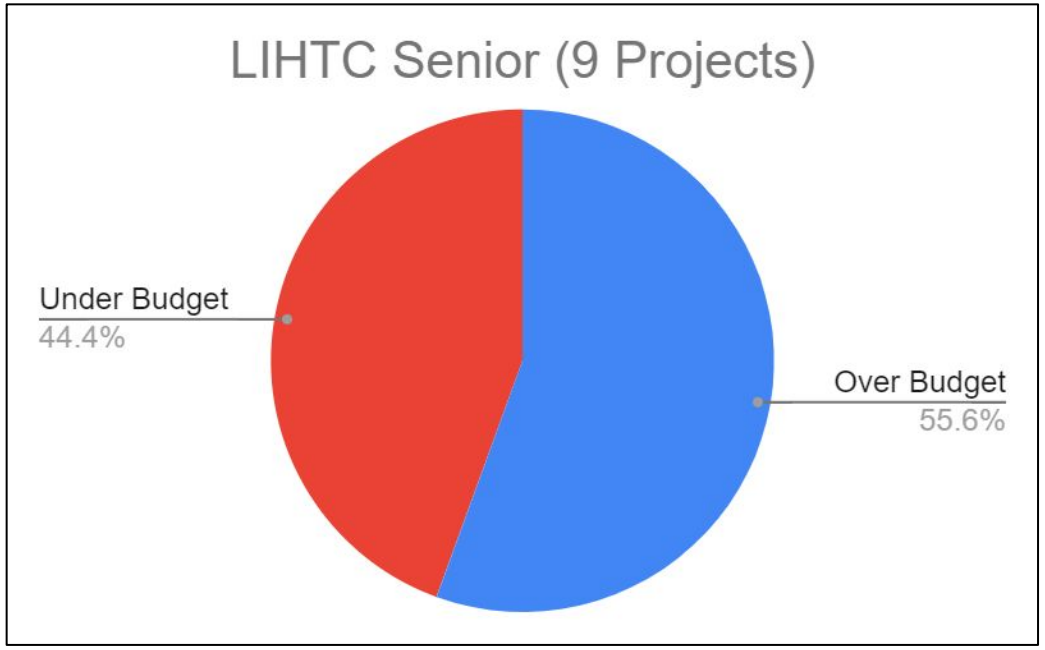
“Size doesn’t matter, much”



LIHTC properties look as expected

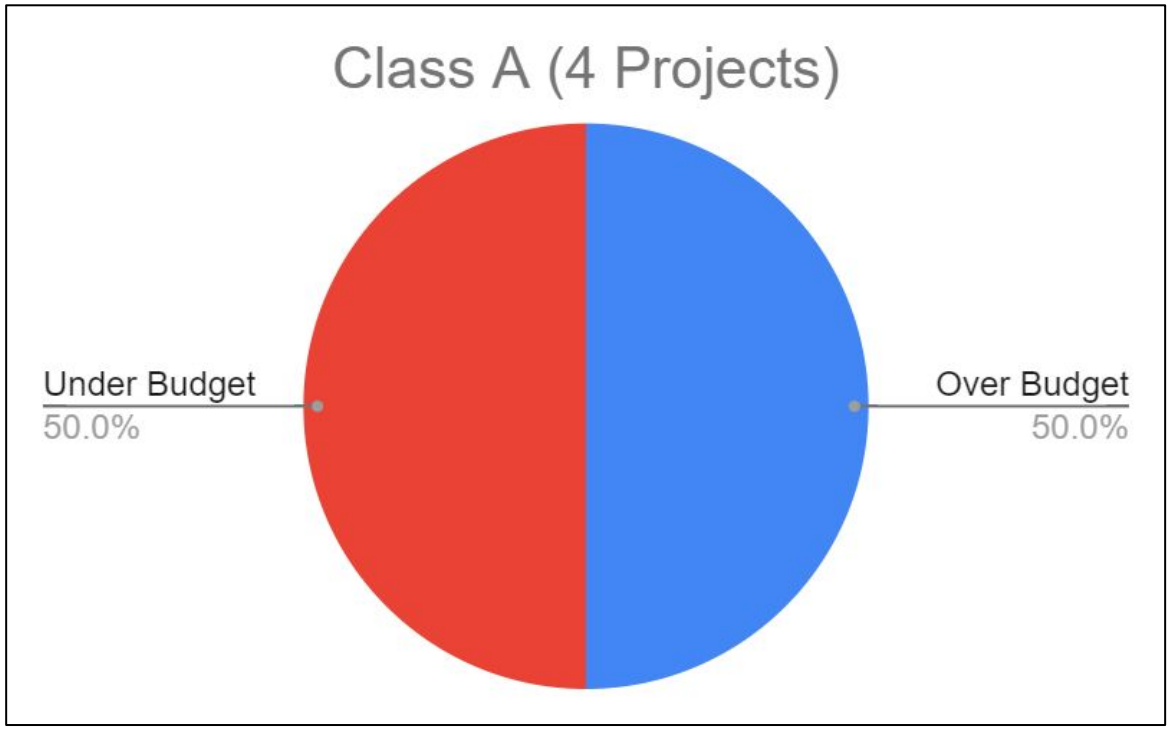


Income YTD 11/20:
2.7% Over Budget

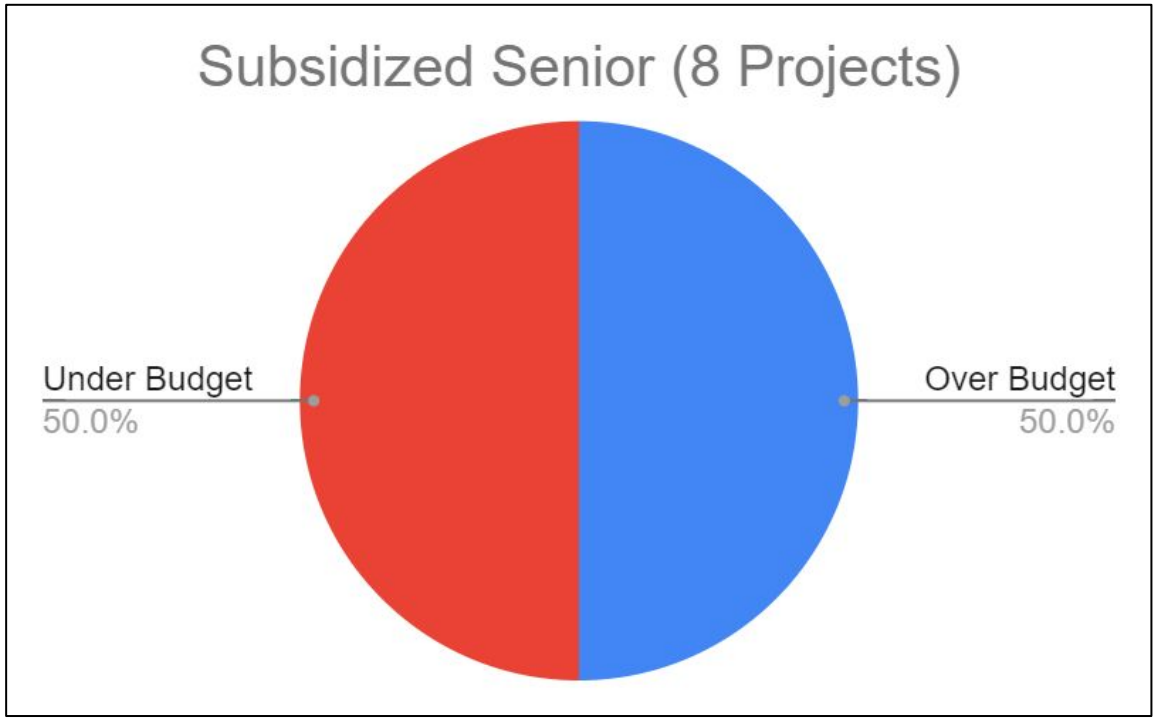


Income YTD 11/20:
0.8% Under Budget

Class A, and Subsidized Seniors, look as expected

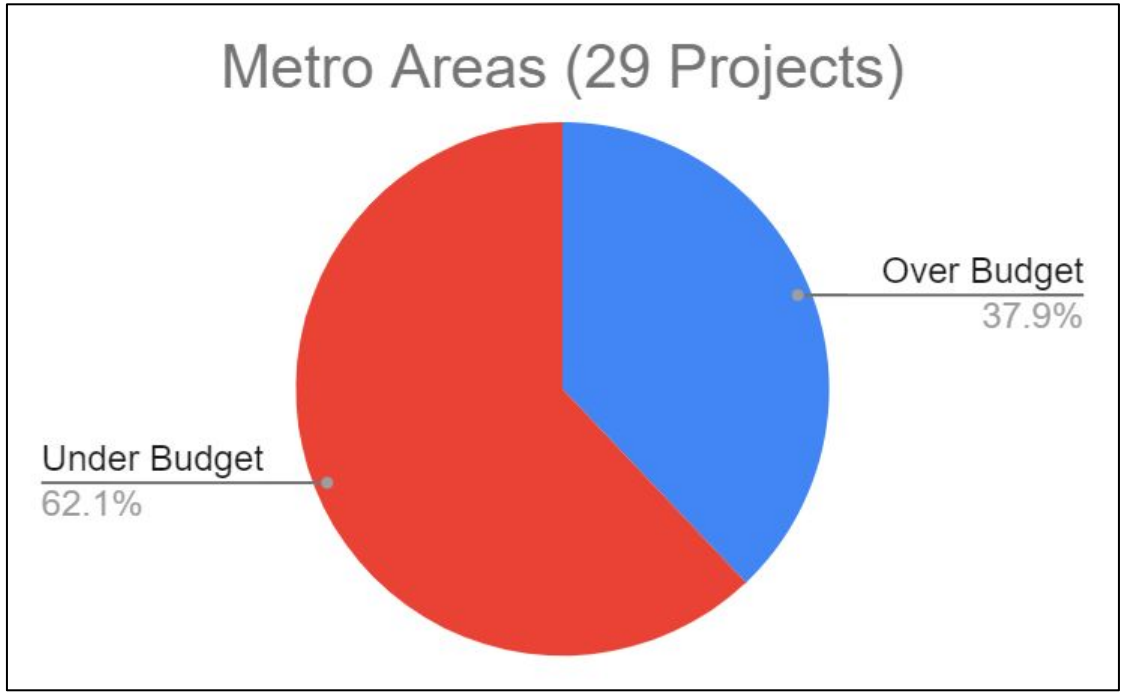


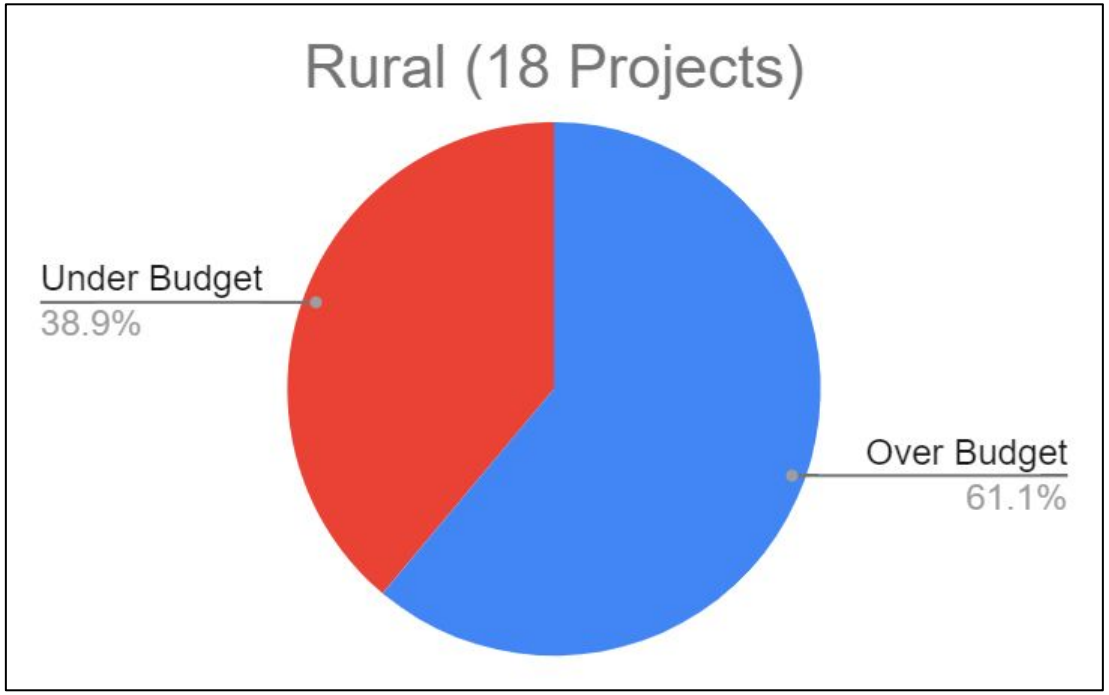
Income YTD 11/20:
0.2% Over Budget



Income YTD 11/20:
Exactly On Budget

Rural faring better than Metro

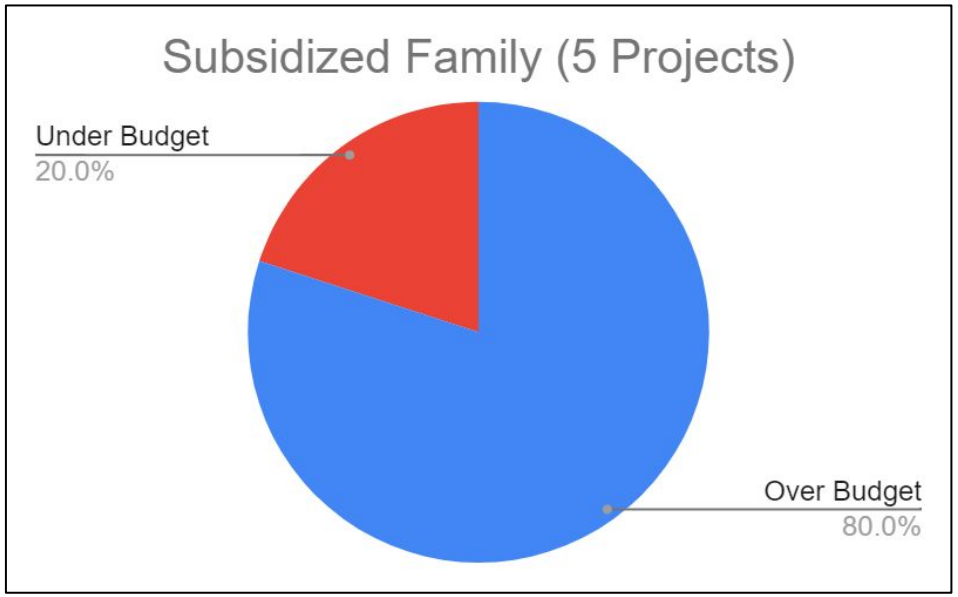




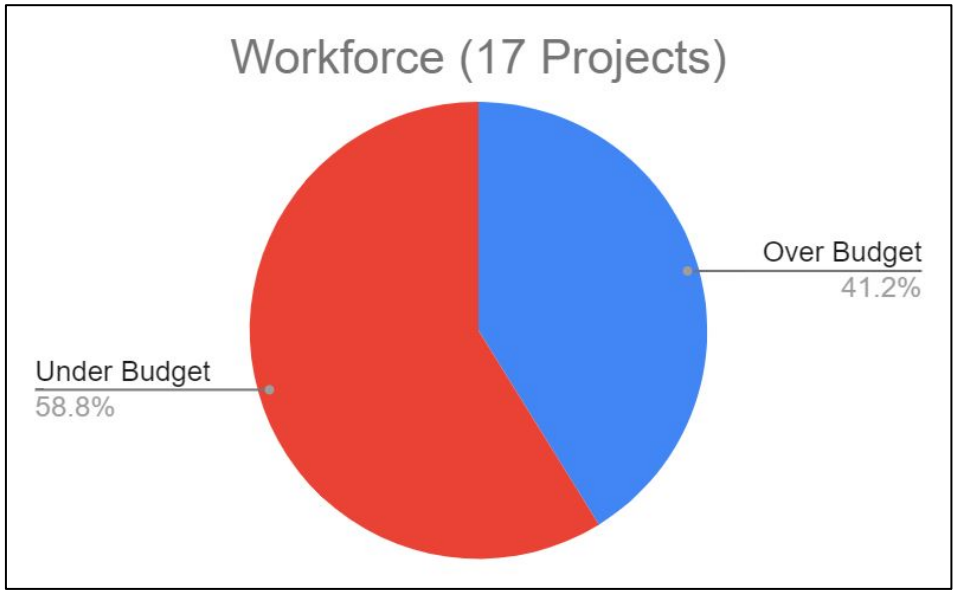
Income YTD 11/20:
2.6% Under Budget

Income YTD 11/20:
0.9% Over Budget

Lower income younger households faring worse

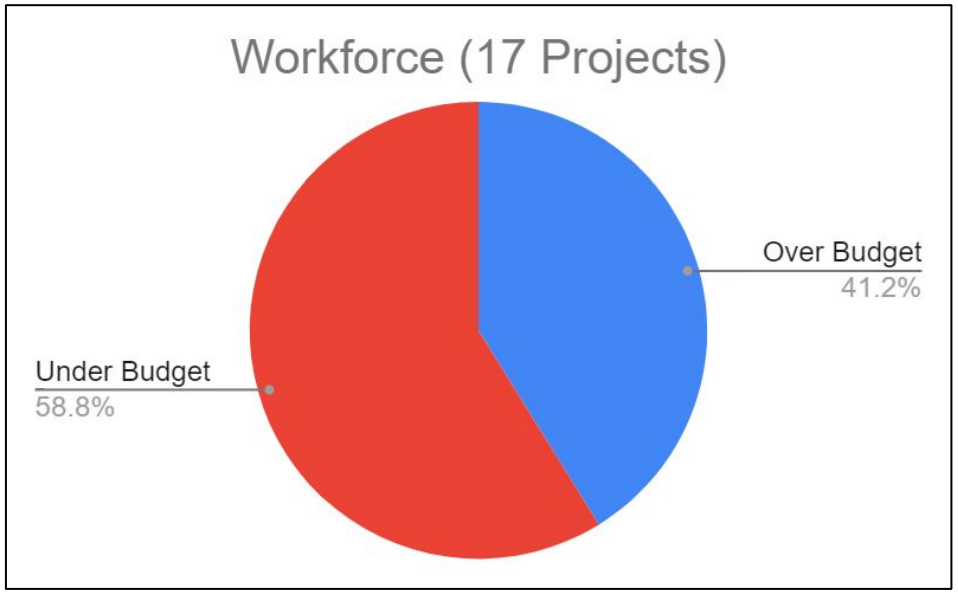


Income YTD 11/20:
2.3% Over Budget

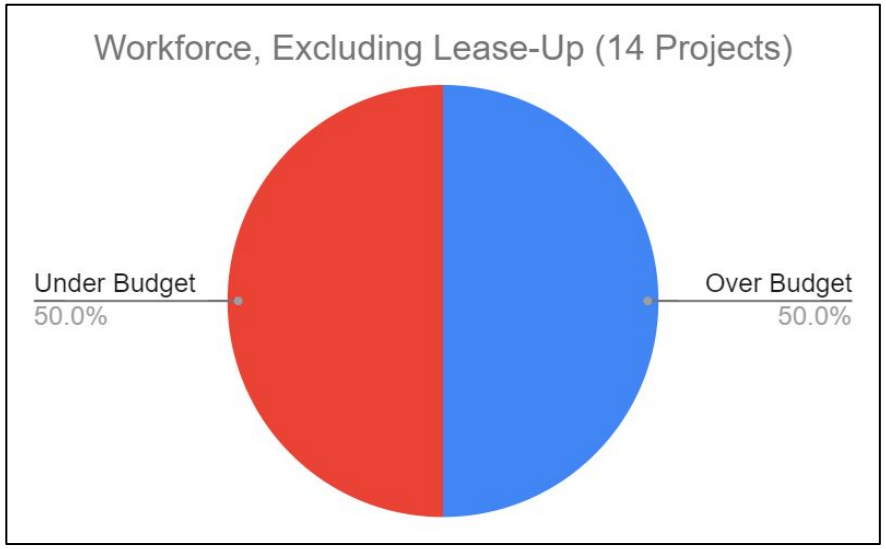


Income YTD 11/20:
2.7% Under Budget

Lease-Up Situations within the Workforce category have been particularly difficult



Income YTD 11/20:
2.7% Under Budget



Income YTD 11/20:
Exactly On Budget

3 Projects in Lease-Up, all below budget
Income YTD 11/20:
8.7% Under Budget

So Close and Yet So Far

Bryn Mawr: 511 29th (28 units)

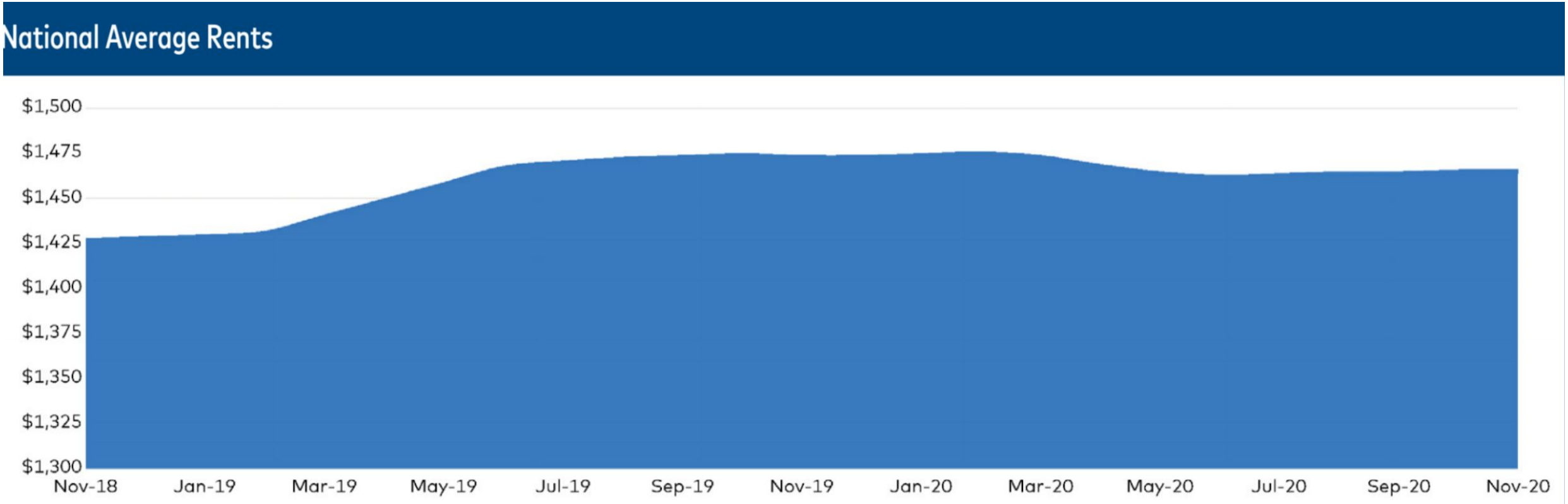
Grand Prix: 3205 Grand (45 units)

So Close and Yet So Far

	Bryn Mawr	**Grand Prix -** *Non Rehabbed*	**Grand Prix -** *Rehabbed*
Finishes	historic & very charming	clean but plain	updated but not charming
Unit Sizes	0BRs: 500 sq ft 1BRs: 650 sq ft	0BRs: 421-460 sq ft 1BRs: 530/720 sq ft	
Laundry, Parking	Shared, Surface	Shared, Surface	
Amenities	None	Gym & community room under construction	
Utilities	Tenant paid heat & a/c	Tenant pays A/C, Landlord pays heat & WiFi	
Pricing	0BRs: $700-$800 1BRs: $895-1,095	Non-Rehabbed 0BRs: $685 1BRs: $740/$760	Rehabbed 0BRs: $745 1BRs: $845/$865
Occupancy	100%	76% *(conversion to non-students underway)*	

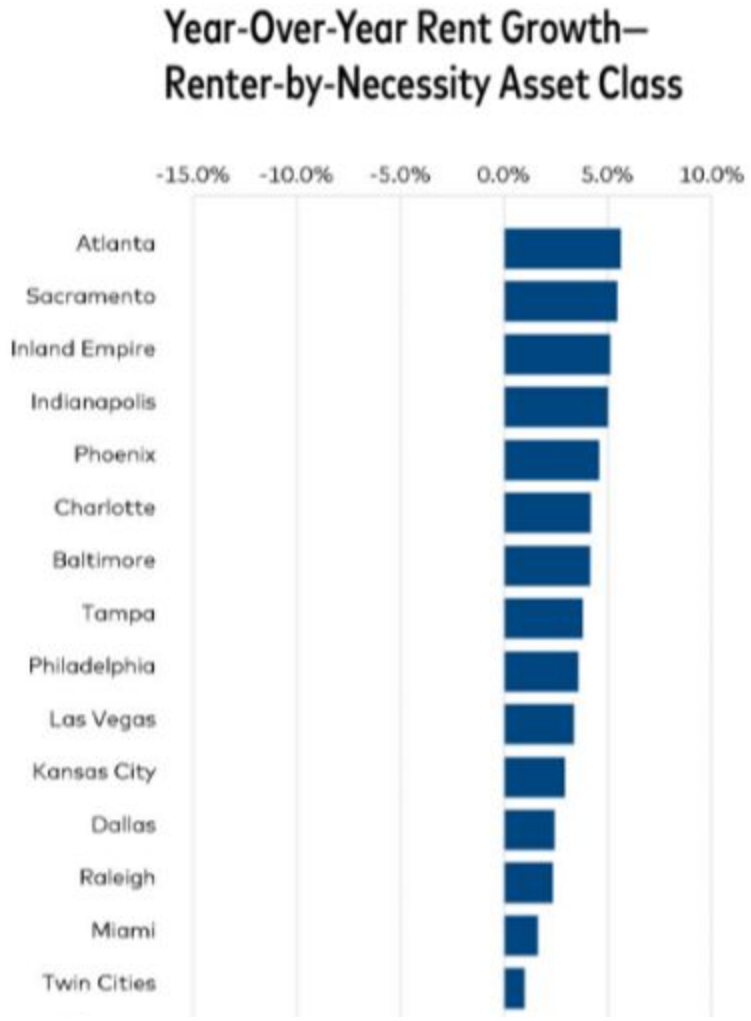
More than anything, 2020 has been the year of headwinds.

Yet YardiMatrix is showing stable rents on a national basis.



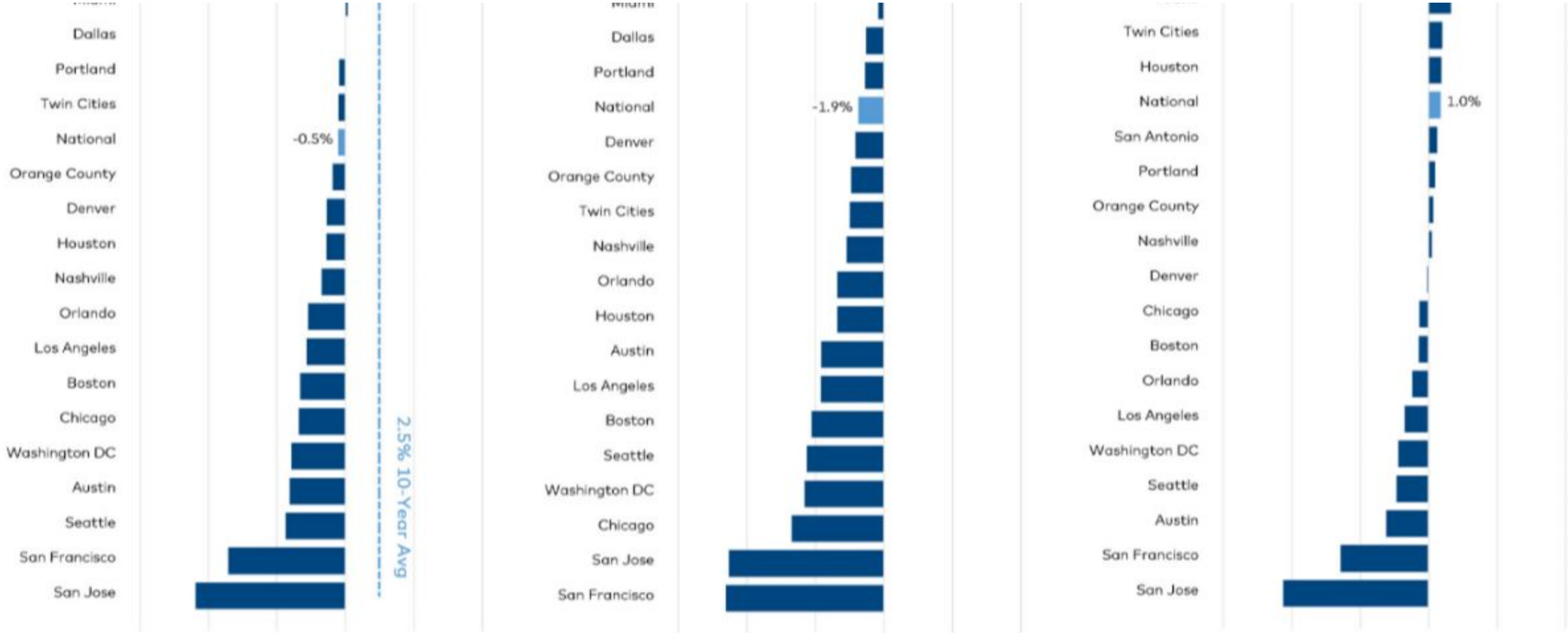
Source: Yardi Matrix

The data varies widely by market, with some markets showing net increases...



Source: Yardi Matrix

...which counterbalances the deterioration in other markets



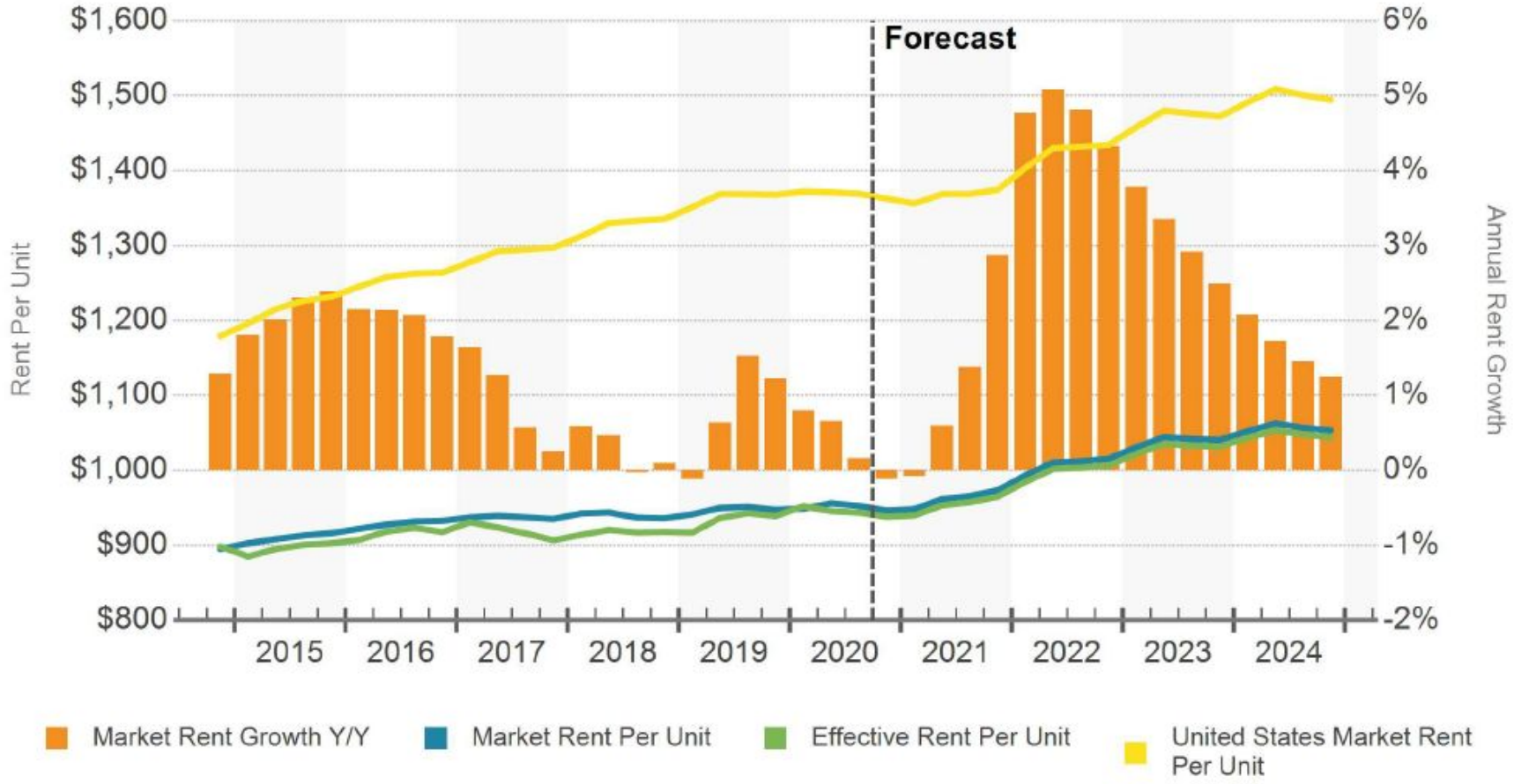
Source: Yardi Matrix

According to CoStar, Des Moines was in the positive bucket.

Rent

Des Moines Multi-Family

MARKET RENT PER UNIT & RENT GROWTH



CoStar™

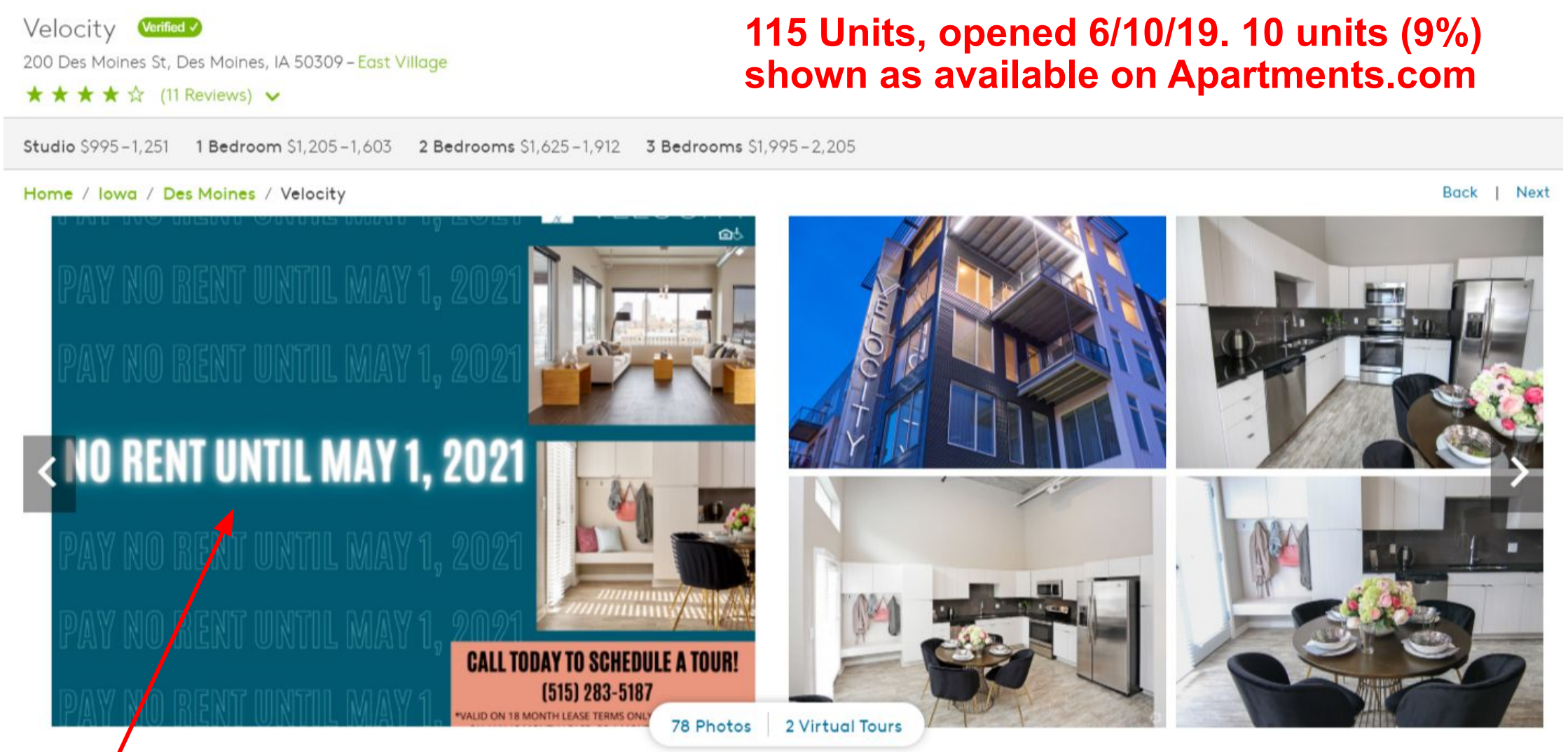
...including for 4- and 5-star properties.

4 & 5 STAR VACANCY & RENT

	Vacancy			Market Rent				Effective Rents	
Year	Units	Percent	Ppts Chg	Per Unit	Per SF	% Growth	Ppts Chg	Units	Per SF
2024	1,208	7.8%	0	$1,256	$1.32	1.0%	(1.3)	$1,245	$1.31
2023	1,129	7.8%	0.3	$1,244	$1.31	2.3%	(1.9)	$1,233	$1.30
2022	1,016	7.5%	0.4	$1,216	$1.28	4.2%	1.3	$1,206	$1.27
2021	920	7.0%	0.1	$1,167	$1.23	2.9%	4.1	$1,157	$1.22
2020	892	6.9%	(1.0)	$1,134	$1.19	-1.2%	(3.0)	$1,124	$1.18
YTD	905	7.0%	(0.9)	$1,138	$1.20	-0.9%	(2.6)	$1,128	$1.19
2019	1,000	7.9%	(3.2)	$1,148	$1.21	1.8%	2.8	$1,135	$1.19
2018	1,379	11.1%	(6.1)	$1,128	$1.19	-1.0%	(0.2)	$1,090	$1.15
2017	1,959	17.2%	5.7	$1,139	$1.20	-0.9%	(2.3)	$1,092	$1.15
2016	997	11.5%	0.2	$1,149	$1.21	1.5%	(0.3)	$1,121	$1.18
2015	828	11.3%	(0.4)	$1,133	$1.19	1.7%	0.7	$1,114	$1.17
2014	626	11.8%	5.7	$1,113	$1.17	1.0%	(0.6)	$1,095	$1.15
2013	241	6.1%	(2.5)	$1,102	$1.16	1.6%	0.4	$1,103	$1.16
2012	309	8.6%	3.7	$1,085	$1.14	1.1%	0.5	$1,072	$1.13
2011	152	4.9%	(6.2)	$1,073	$1.13	0.6%	0.6	$1,066	$1.12
2010	325	11.0%	5.2	$1,066	$1.12	0%	2.4	$1,052	$1.11
2009	138	5.8%	0.1	$1,066	$1.12	-2.4%	(3.8)	$1,060	$1.11
2008	136	5.7%	0.6	$1,092	$1.15	1.4%	-	$1,083	$1.14

CoStar™

But CoStar doesn't seem to be in sync with reality.



115 Units, opened 6/10/19. 10 units (9%) shown as available on Apartments.com

No rent through April on 18 month lease (4.5/18 = 25%)

How accurate are the data gathering techniques? Is there a lag?

Rocket Transfer Lofts

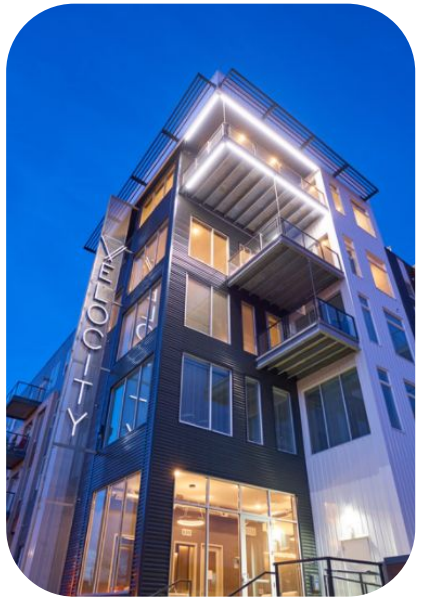
- Axio: 3.5% Q3 vacancy, $26 concessions
- Apartments.com: 12% “available”, 1-2 months free

R&T Lofts

- Axio: 7% Q3 vacancy, $31 concession
- Apartments.com shows 14% available, 2 mos free rent

Carbon 550

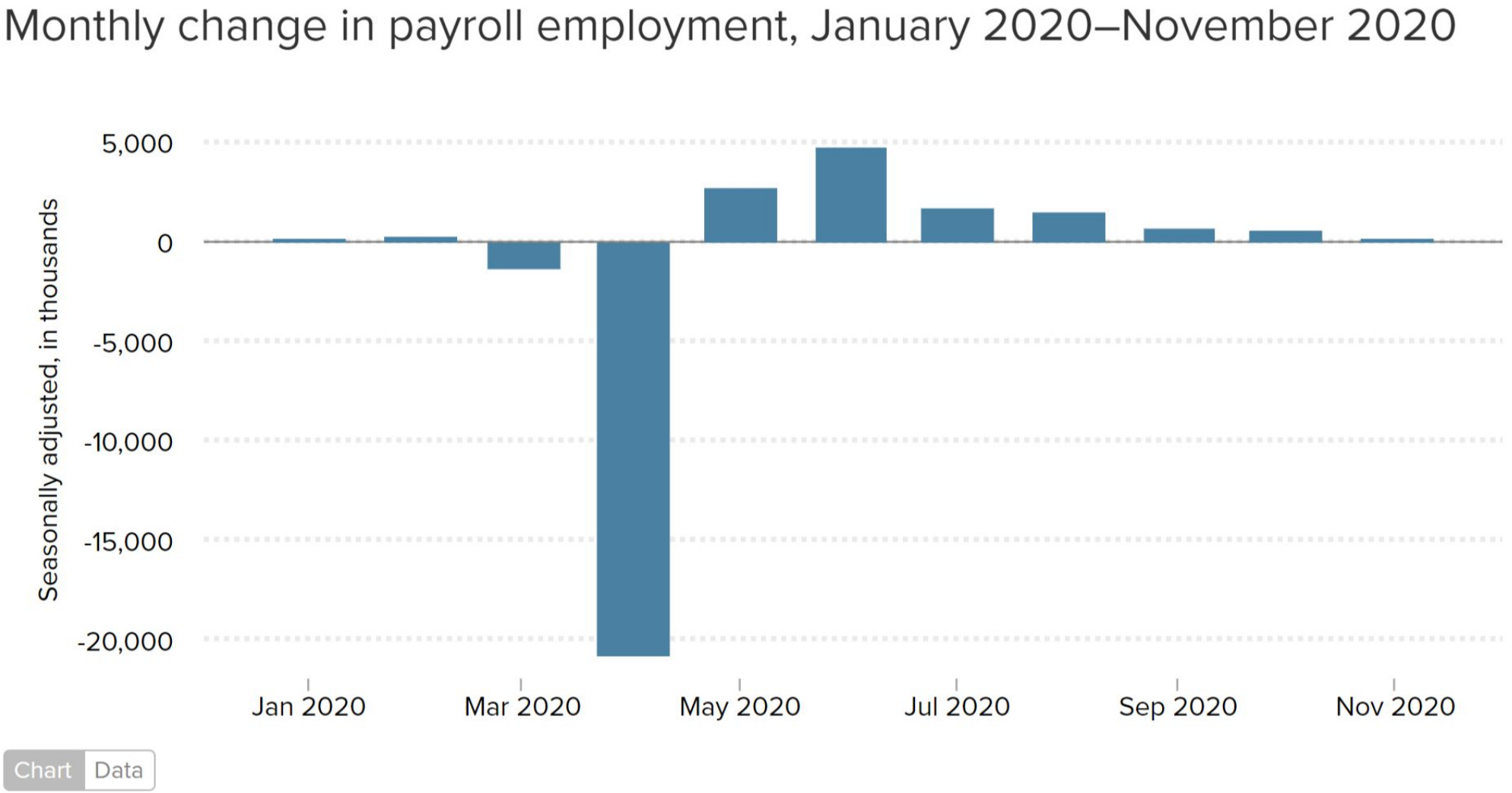
- Axio: 8% Q3 vacancy, $42 concessions
- Actual vacancy: 12% on 9/30, 14% now
- Actual concession: $65 on 9/30, $119 now



Velocity

- Axio: 8% Q3 vacancy, $79 concession
- Apartments.com shows 9% available, 4.5 mos free on 18 month lease

Employment data shows lots of catching up to do



Source: EPI analysis of Bureau of Labor Statistics' Current Employment Statistics public data series

In Sioux Falls, there have been job losses across most sectors.

SIOUX FALLS EMPLOYMENT BY INDUSTRY IN THOUSANDS

	Current Level		12 Month Change		10 Year Change		5 Year Forecast	
NAICS Industry	Jobs	LQ	Market	US	Market	US	Market	US
Manufacturing	14	1.0	-0.99%	-4.18%	1.68%	0.62%	0.59%	0.56%
Trade, Transportation and Utilities	32	1.1	-2.43%	-3.60%	1.17%	0.82%	0.98%	0.78%
Retail Trade	18	1.1	-3.24%	-3.17%	0.65%	0.45%	1.02%	0.74%
Financial Activities	16	1.7	0.41%	-1.30%	0.41%	1.23%	0.66%	0.78%
Government	14	0.6	-4.94%	-4.04%	0.84%	-0.26%	1.77%	0.80%
Natural Resources, Mining and Construction	9	1.1	-1.05%	-3.71%	3.40%	2.48%	2.90%	1.26%
Education and Health Services	32	1.3	-3.90%	-4.31%	1.86%	1.51%	2.21%	2.01%
Professional and Business Services	16	0.7	-2.54%	-4.99%	2.99%	1.85%	2.22%	1.75%
Information	3	0.9	0.14%	-6.56%	-0.99%	-0.03%	0.47%	2.30%
Leisure and Hospitality	15	1.0	-3.50%	-21.04%	1.75%	0.05%	1.02%	4.95%
Other Services	6	1.0	-4.19%	-7.43%	1.47%	0.25%	1.47%	1.53%
Total Employment	**156**	**1.0**	**-2.61%**	**-6.02%**	**1.56%**	**0.87%**	**1.49%**	**1.60%**

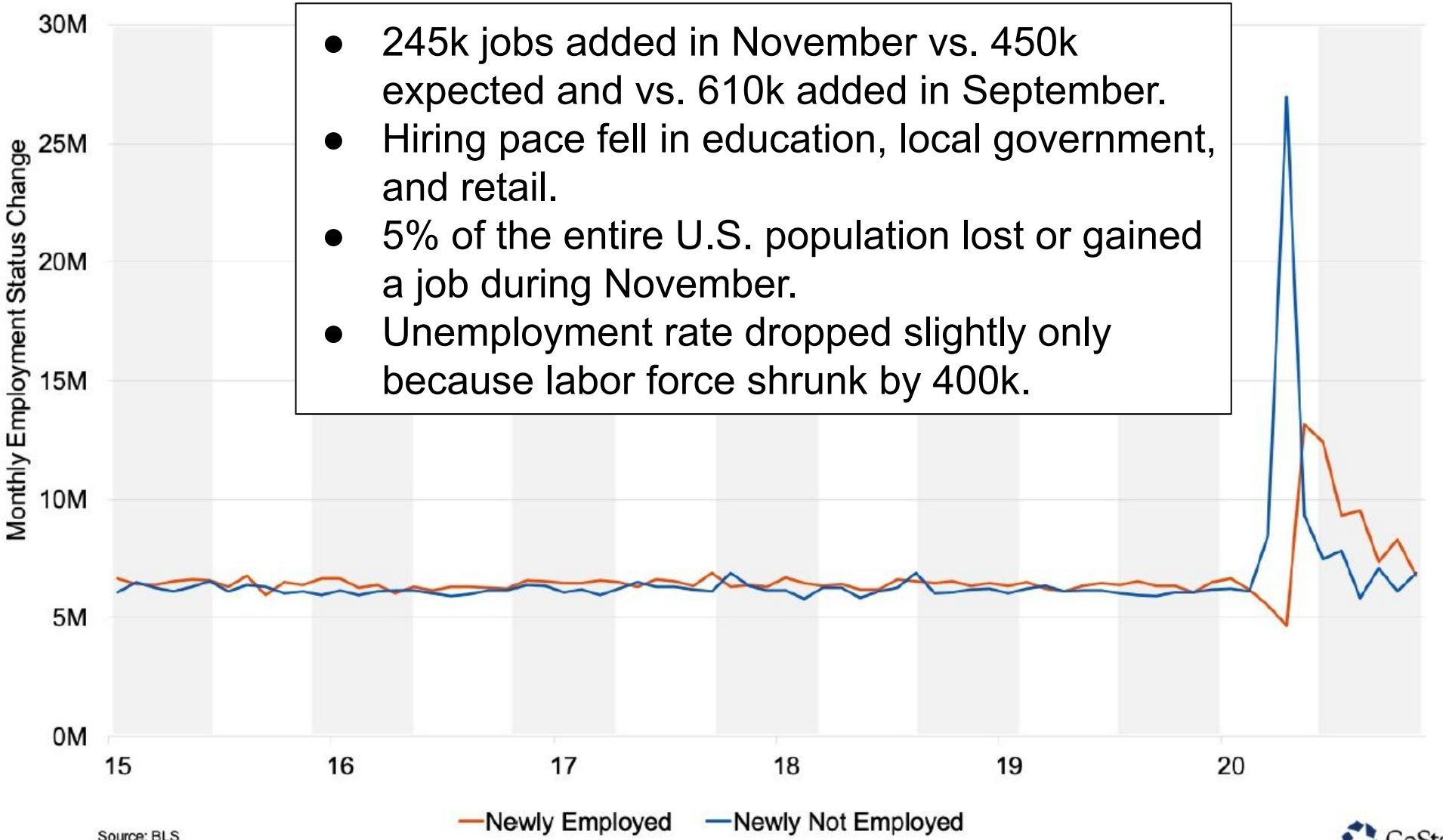
Source: Oxford Economics

LQ = Location Quotient

Many households face disruption and uncertainty.

Unprecedented Churn Continues, Worsens

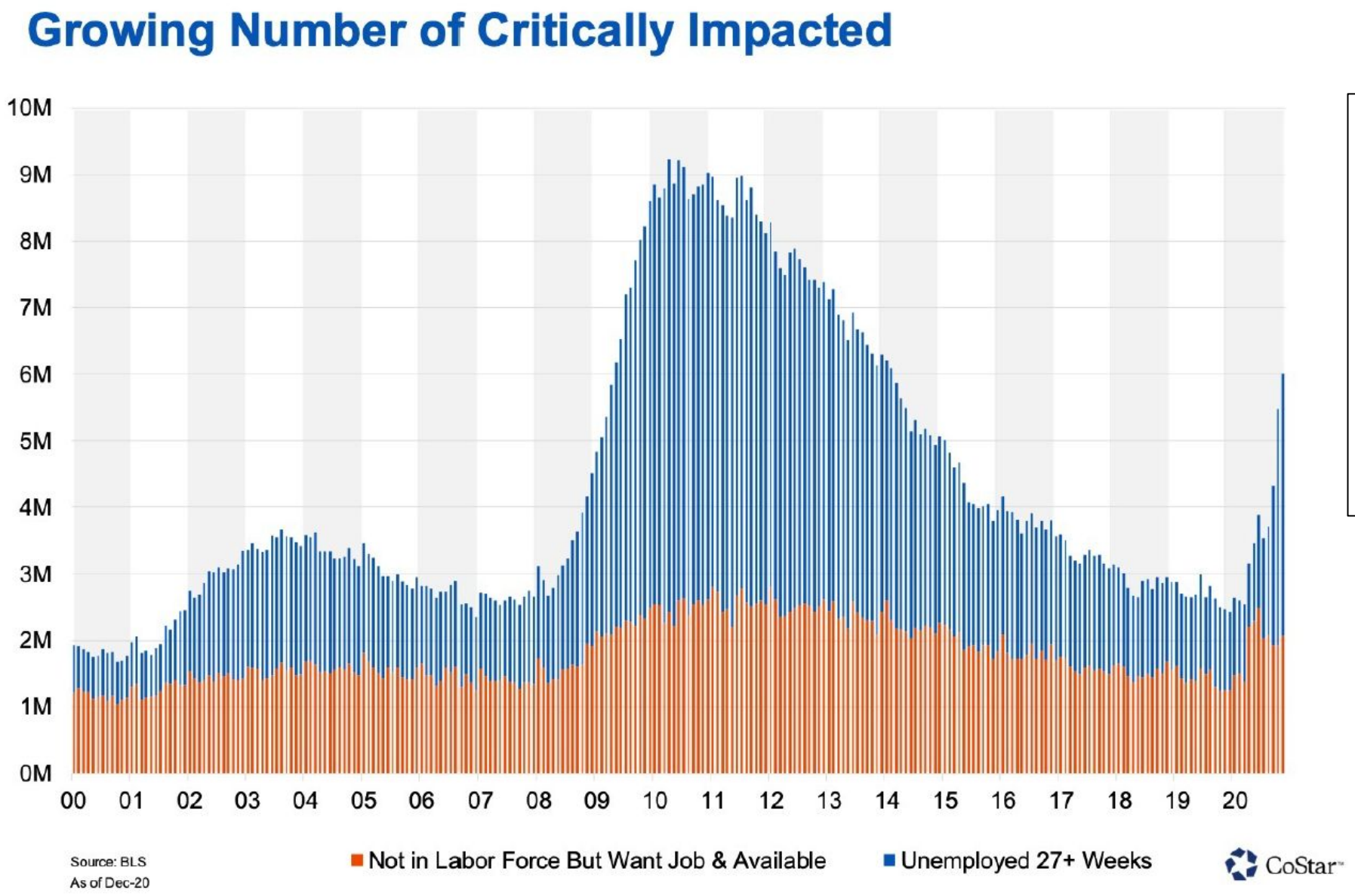
- 245k jobs added in November vs. 450k expected and vs. 610k added in September.
- Hiring pace fell in education, local government, and retail.
- 5% of the entire U.S. population lost or gained a job during November.
- Unemployment rate dropped slightly only because labor force shrunk by 400k.



Source: BLS
As of Dec-20

CoStar

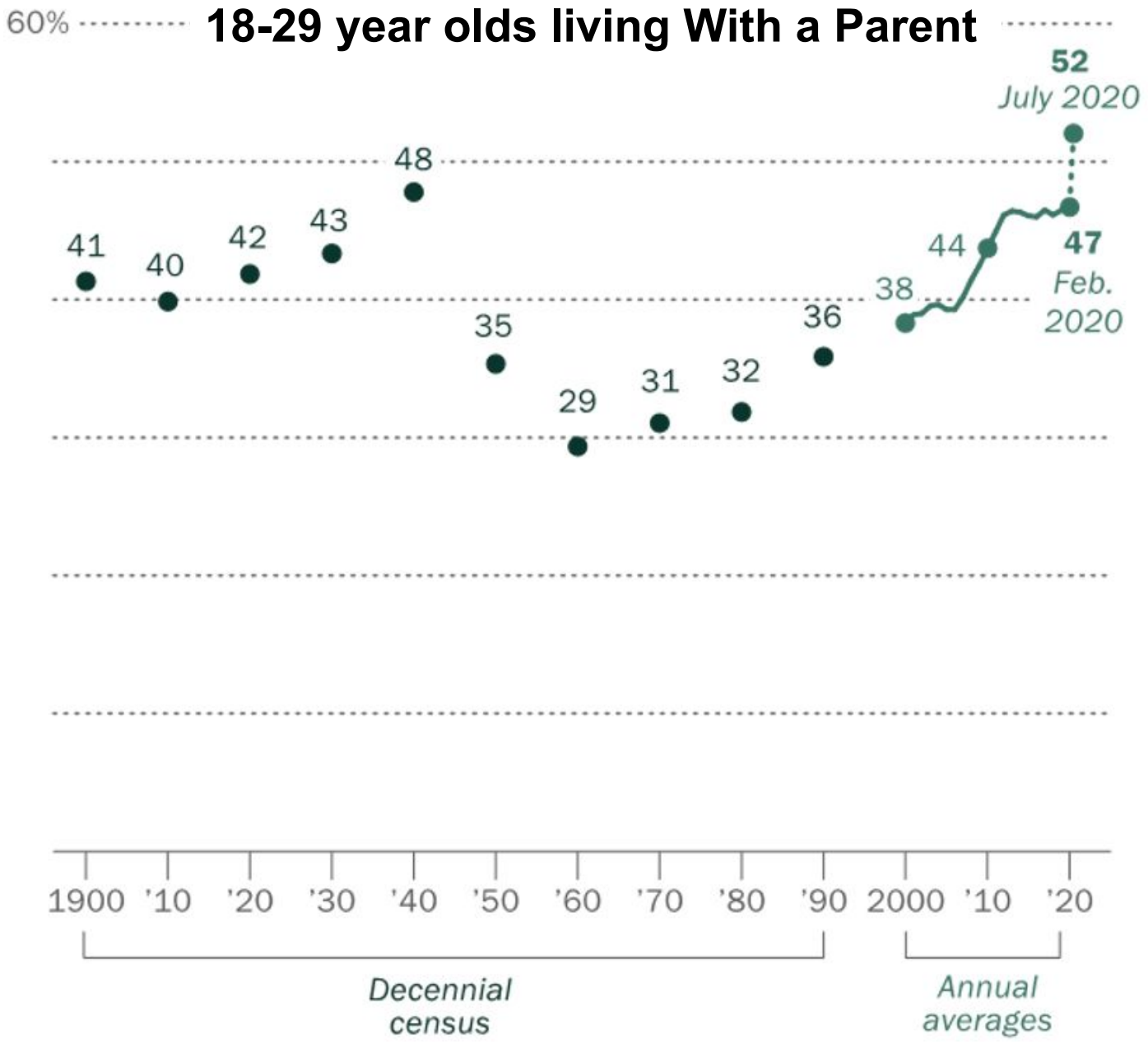
Many people have exited the work force.



- 3.9 mm unemployed for > 6 months
- 2.1 mm have given up looking (no longer counted in the labor force)

A staggering portion of young people are living at home

- Most of growth coming from 18- to 24-year-olds
- 16- to 24-year-olds who are neither in school nor employed more than doubled from Feb (11%) to June (28%)
- Data not affected by college students. Already counted as living with a parent.



PEW RESEARCH CENTER

Despite these challenges, apartment buildings are selling for very high prices.

- Newbury would have been manager for a St. Louis buyer that was not highest bidder.
- Project ultimately purchased by national investor owning > 50k units. First purchase in Des Moines market.
- Cap rate below 5.5% depending on assumptions.

A second example

- $57mm price
- 1st investment in IA for NY investor
- $45.4mm loan
- 80% Loan to Cost
- 2.77% (FNMA)

A New York investment firm has purchased several Ankeny apartment buildings, including this one at 458 N.E. Delaware Ave. *Photo courtesy of Polk County assessor*

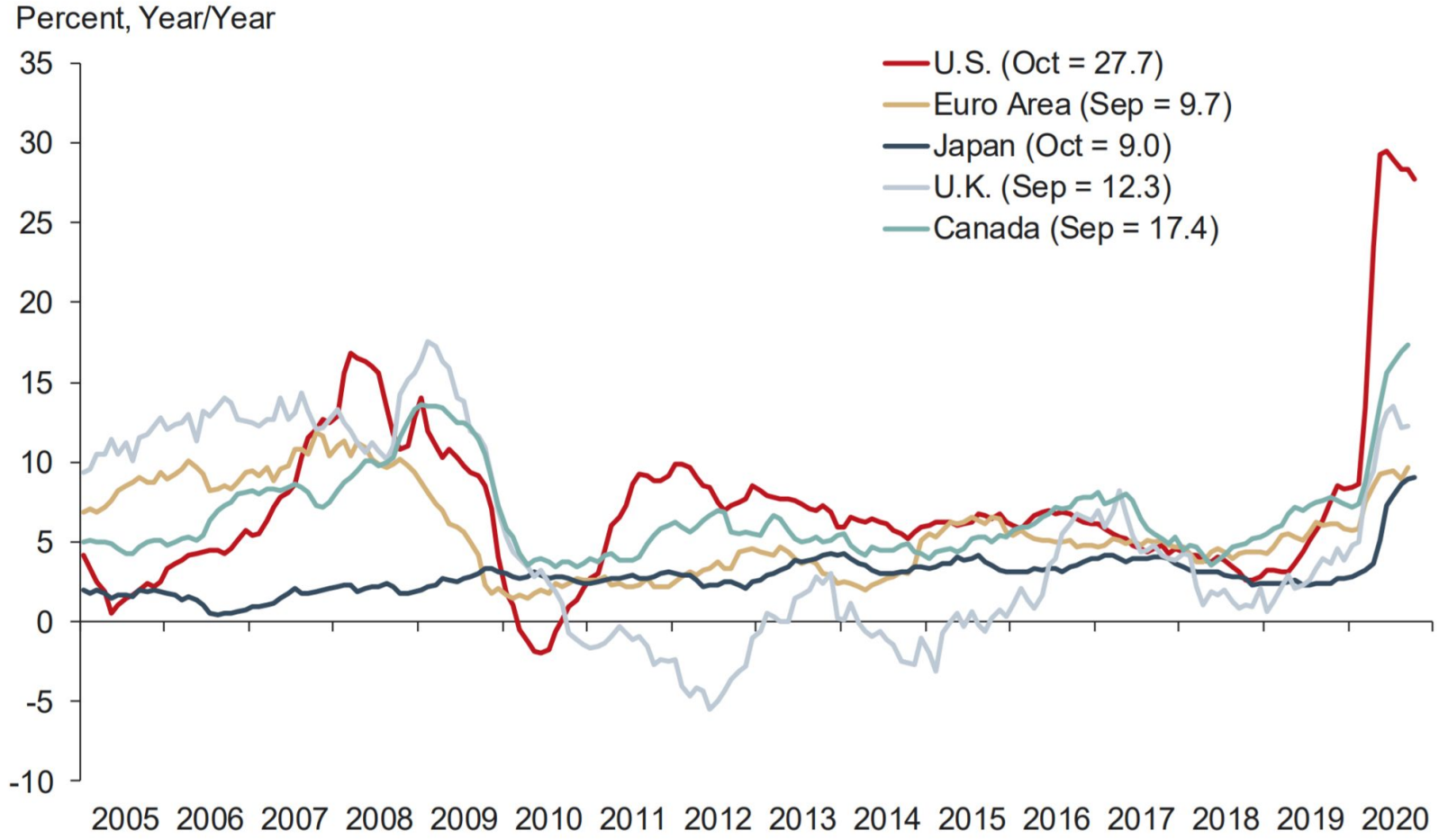
Improving asset values despite deteriorating fundamentals?

Or does it?

The U.S. Money Supply is growing dramatically.

Governments around the world are doing the same.

Chart 24. Money Supply Growth in Major Advanced Economies

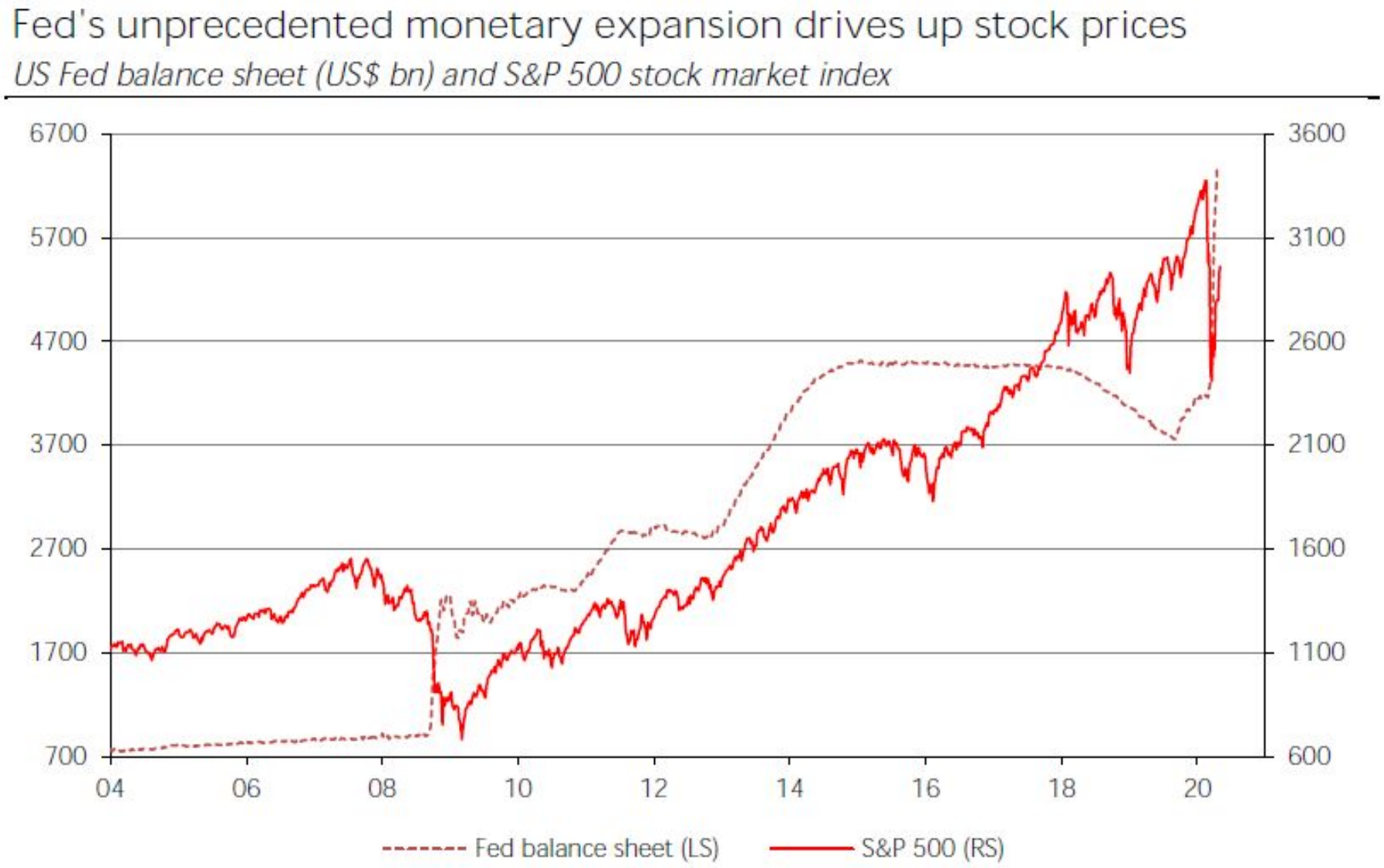


NOTE: The chart plots MZM in the U.S, M2 in the Euro Area, Japan and Canada and M4 in the U.K.

SOURCES: National Central Banks; Haver Analytics

Globalization Institute
Federal Reserve Bank of Dallas

Money supply pushes up asset prices.



Source: Refinitiv; own calculations.

Mises Institute

Additionally, long term forces are supporting the rental housing market

Demographic and Lifestyle Changes

- Aging Population
- Increasing Divorce Rates
- Young People Living At Home
  - Student debt burden
- Lifestyle Changes
  - People getting married later in life
  - People having less kids and later in life

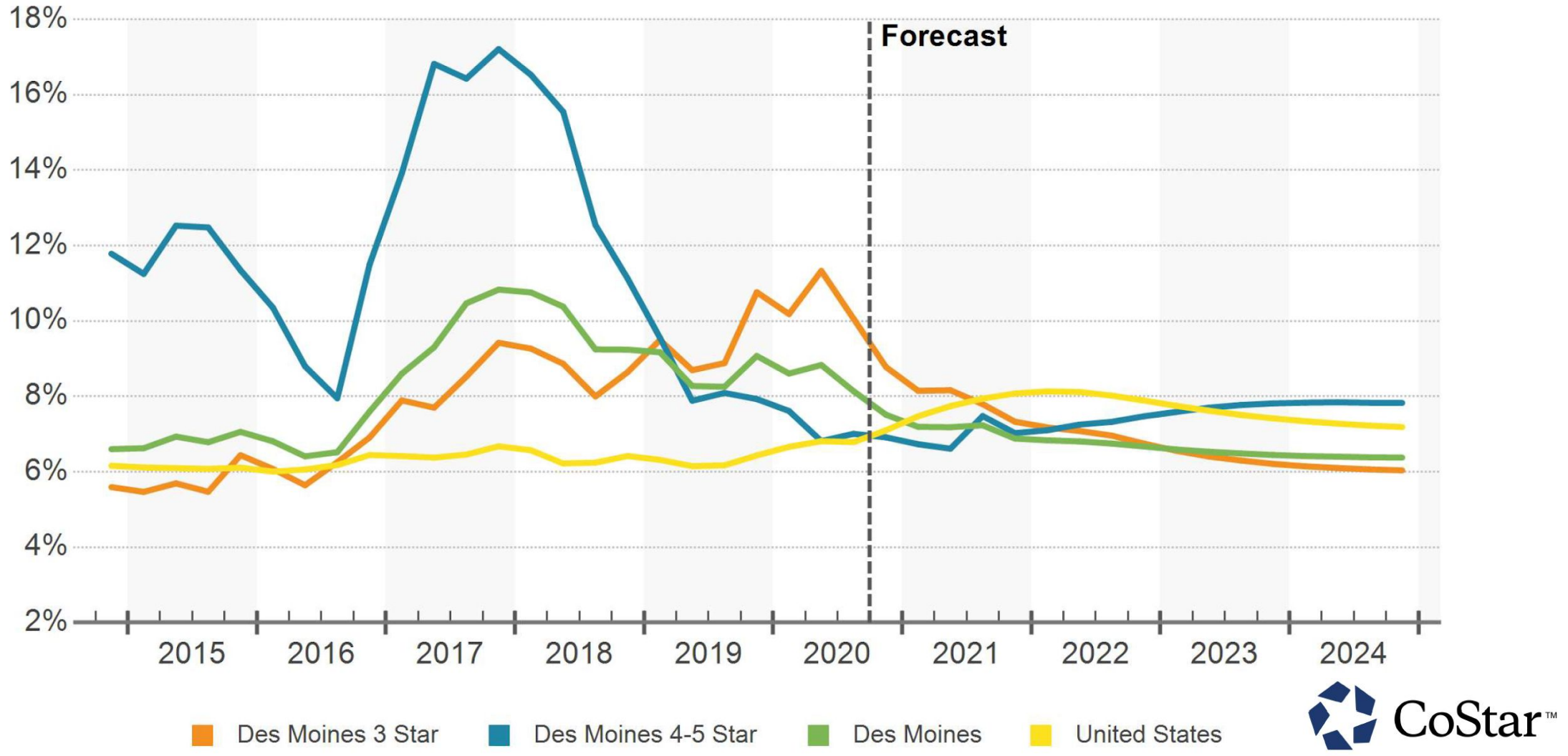
All of these in combination created a surge out of the recession, but the effects seem to be durable

Source: Yardi®Matrix

YARDI

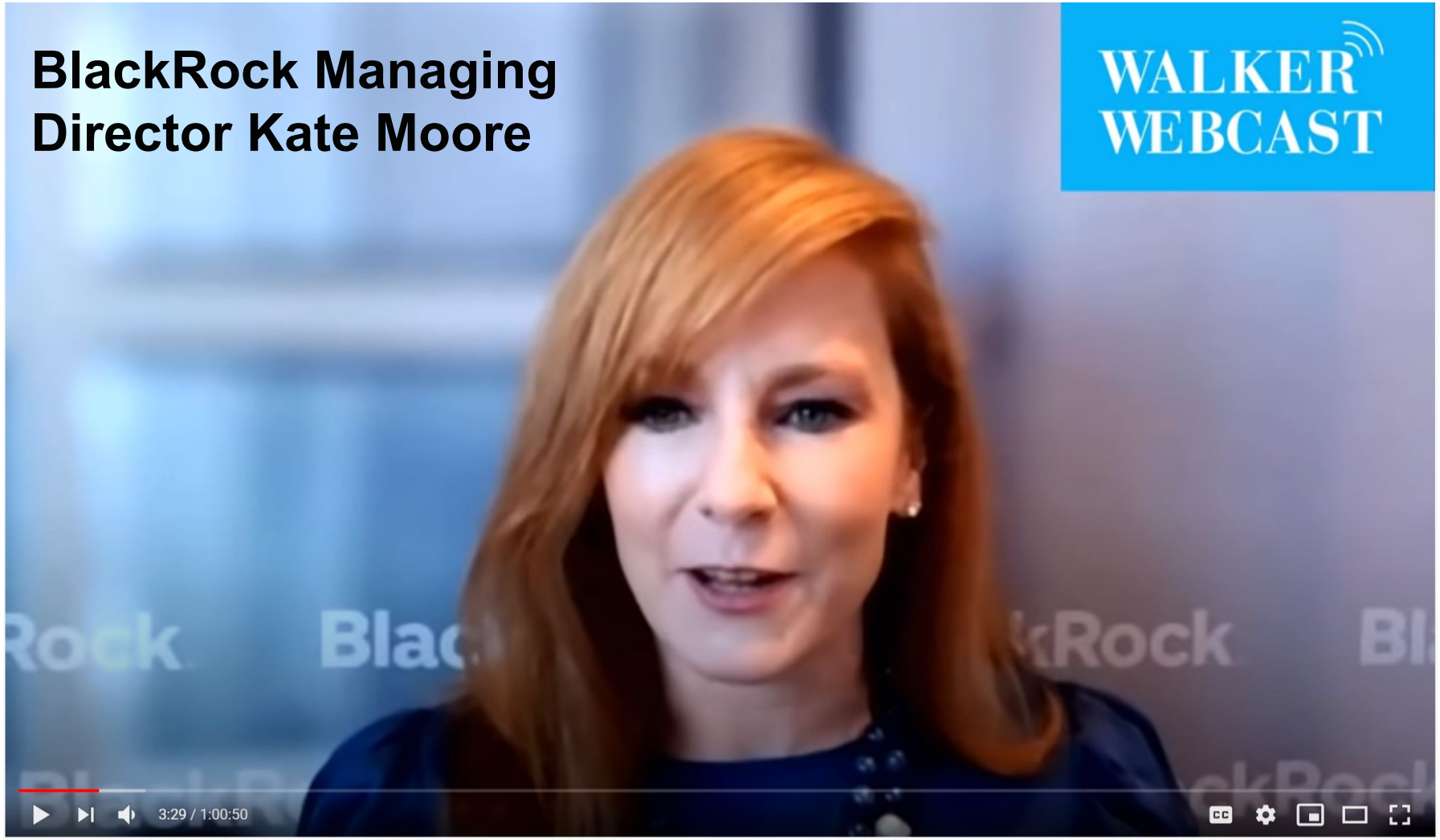
...which contributes to why CoStar forecasts occupancy improvement.

VACANCY RATE

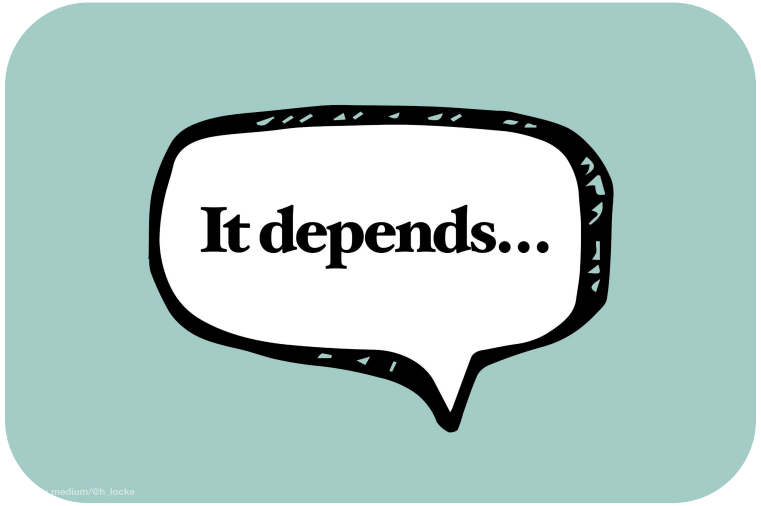


CoStar™

BlackRock forecasts “Accelerated Economic Restart” (as opposed to *recovery)*



- Foresees shift back to services.
- Yet “Near term may be hoppy...companies will be slower to rehire.”
- And, “The shape of the economy might be different, even if the size might return to pre pandemic levels.”

Major Takeaways

- The year defies generalizations.
- The data often do not paint the full picture.
- The tailwind of asset inflation and trends towards rentership counter balance or even overpower the headwinds of joblessness.
- It’s a lot tougher to lease in this environment.