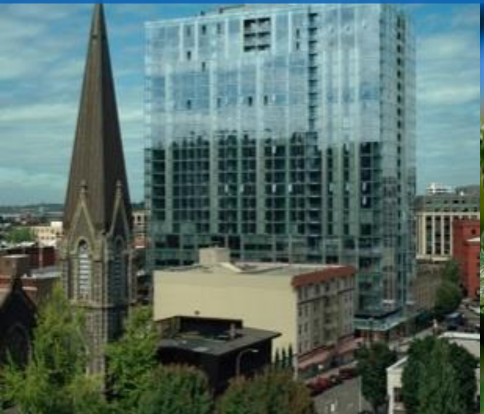
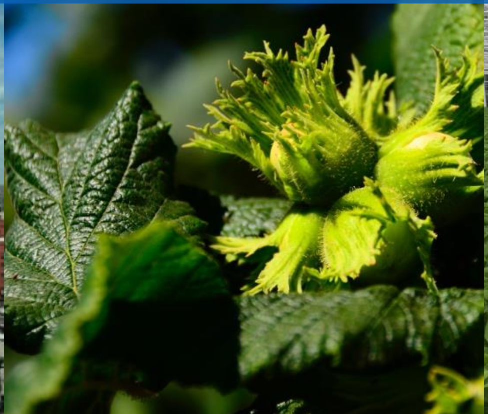
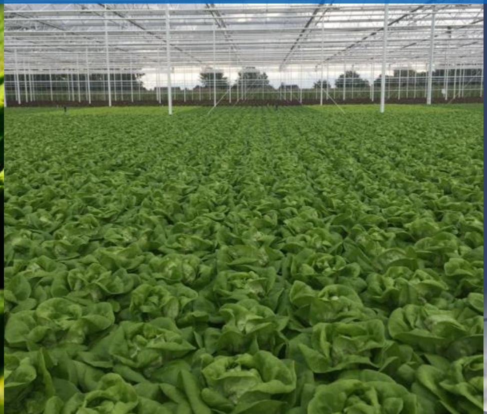
ULI HOUSING OPPORTUNITY 2017

Kimberley Player, Director of Research


Equilibrium

- Equilibrium builds and operates **sustainability-driven real asset portfolios** for institutional investors
- **US$1.93bn** gathered across strategies, focusing on three segments:
  - AGRICULTURE & FOOD
  - RENEWABLE RESOURCES
  - SUSTAINABLE REAL ESTATE
- **Institutional** focus
  - Market **competitive** returns
  - Meaningful **scale**
  - Institutional, central **investor services**
- **Global -** San Francisco, CA; Portland, OR; London, UK

Delivering Sustainability at Scale

Sustainability

- Principle that drives long-term business models, operations and financial results

Investment Theses

- Resource constraints
- Supply-demand imbalances
- Mispriced assets, inefficiencies
- Resilient business models
- Margin enhancement opportunities

Scale

- Large, underserved, long-term markets
- De-risking with integration and scale
- Operating expertise / experience
- Transparency, compliance

Innovation

- Unique proprietary strategies
- Investor-aligned structures

- **LONG DURATION**
- **CURRENT YIELD**
- **CAPITAL PRESERVATION AND APPRECIATION**
- **OPERATING ASSETS**

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Affordable Housing Segmentation Summary

Type	Description	Households Earning	Subsidized/ Regulated	Opportunities	Risks
Existing Properties					
Public Housing	Public housing authority owned/managed properties. Rent set at 30% of income.	<30-50% AMI	Yes	Strong demand; Rental Assistance Demonstration (RAD) allows Housing Authorities to convert to Section 8 to capture additional funding.	Highly regulated with extensive compliance requirements; subsidy-dependent and vulnerable to policy changes; Housing Authority-controlled.
Section 8 Housing	For- and non-profit owned/managed properties that accept Section 8 vouchers. Owners receive subsidies for renting to low income households.	<30-50% AMI	Yes	Strong demand; opportunity to capture tax credit funding.	Highly regulated with extensive compliance requirements; subsidy-dependent and vulnerable to policy changes; large pool of established players.
Regulated (Tax Credit) Affordable Housing	Tax credit subsidized properties with remaining affordability compliance periods. Tax credits may have expired (year 10); affordability period extends 15-30 years.	<60% AMI	Yes	Strong demand, predictability of tax credits; resyndication with additional tax credit allocation in year 15; qualified contract exit after year 15.	Highly regulated with extensive compliance requirements; vulnerable to policy changes; high operating costs; large pool of established players; tax credit equity does not align well with private equity.
Workforce (Naturally-Occurring Affordable) Housing	Properties in which rents are "naturally affordable" due to location, age, or lack of amenities.	60-120% AMI	No	No public subsidy dependence or compliance requirements; large inventory; stable demand; renovations can reduce costs and drive NOI.	Increasingly competitive; fragmented market makes deal sourcing difficult.
New Construction					
Regulated (Tax Credit) Affordable Housing	Leveraging LIHTC and other public subsidies (e.g., New Market Housing Credits) to develop 100% affordable housing projects.	<60% AMI	Yes	Tax credits (and other subsidies, grants, and public funding sources) can make affordable housing development feasible.	Must acquire land below market; large pool of established players; compliance requirements can translate to high costs; vulnerable to policy and entitlement risk; tax credit equity does not align well with private equity; can be subject to community opposition.
Mixed-Income Housing	A specific number (generally 20+ percent) of units rent below-market to households making 30-120% AMI. Can have a tax credit component for units targeting <60% AMI but generally more feasible at 80-120%.	<120% AMI	Potentially	May be possible to leverage subsidies; combine stable demand for affordable and workforce units with upside from market-rate rents; green construction can drive yields.	Must acquire land below market; high construction costs; cyclical market rate and entitlement risk; large field of established players; compatibility of mixed incomes; vulnerable to policy changes if reliant on public subsidy.

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Affordable Housing Value Chain

Varying degrees of inefficiencies exist at the following stages of the affordable housing value chain:

- **Land acquisition and property development:** Look for opportunities to acquire well-located land at below-market pricing, either through public sector subsidies or donations, or via incentives such as density bonuses.
- **Project financing:** Leverage tax credits, grants, and other forms of subsidies.
- **Design and construction:** Find ways to reduce construction costs via value engineering (e.g. modular construction) and/or standardized design.
- **Asset management and operations:** Rehabilitate, upgrade, and “green” properties at a scale that allows for consolidated purchasing and lower operating costs. Services that promote residents’ well-being (active design) will boost demand, create tenant “stickiness”.

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Summary of Findings

- **Workforce housing preservation** can provide an attractive investment strategy offering steady returns and low volatility.
  - View as low-risk, core assets with an emphasis on predictable cash flows.
  - Challenges include increased competition (including value-add buyers), scalability, and an exit strategy that aligns with ongoing affordability preservation goals.

- **Mixed-income development** makes sense only where uniquely compelling land acquisition or construction strategies exist, and where market and entitlement risks are minimal.
  - Virtually impossible to avoid an upfront J-curve with new construction.
  - Challenges include current market cycle peak, land/construction costs, and financing without LIHTC or other funding sources that come with regulatory compliance requirements.

- **Success factors:**
  - Partners with financing and operational expertise, access to off-market deals, and strong community relationships.
  - Green and active social design operational expertise.
  - Selection of markets on the edge of affordability thresholds.
  - Institutional scale.
  - Minimal dependence on federal subsidies.
  - Pre-identification of seed investments.

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Equilibrium Readiness Checklists

Product Readiness	
Fit with mission and culture?	✓
Sustainability-driven impact?	✓
Acceptable risk/return?	✓
Fragmented and growing sector?	✓
Market and information inefficiency?	✓

Market Readiness	
Sector is in asset allocations?	✓
Known strategies, patterns of success?	✓
Size of opportunity is sufficient?	✓
Solid investment returns thesis?	✓
Is the mainstream market ready?	✓

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