GRUBB
PROPERTIES
Perspective drives performance.

The Durability of Resiliency-Focused Portfolios

How Grubb Properties leverages growth and cyclicality to drive its market-leading, essential housing strategy

Despite fiscal and monetary policy efforts to drive economic activity ever higher, the cyclical nature of economies and asset markets persists. For nearly 35 years we have seen these cycles interrupted by major economic crises: the Savings & Loan crisis of the late 1980s, the Asian Financial Crisis of the late '90s, the Dot.com bubble of the early 2000s, the Global Financial Crisis of 2007-2010, and most recently the coronavirus pandemic. Each of these episodes dramatically interrupted periods of solid growth, and in none of these episodes did a bell ring to warn we were at the top of the market and that the next move was a hard down.

This reality has highlighted the value of thoughtfully constructed, risk-managed portfolios. This is particularly true in real estate, where imbalances in the market cannot be responded to quickly.

Unlike in equity markets or currency markets, price adjustments in real estate cannot occur quickly – so imbalances in supply and demand take longer to reach equilibrium. When these disruptions occur, investors realize that the value of survivorship—the ability to play again and invest in the next cycle—is priceless.

When evaluating a company's portfolio and strategy, investors need to look closely at its performance history through previous cycles, its approach to risk management, and its emphasis on resiliency. Investors who identify a prudent, agile company that can navigate the path from entry to exit will have a significant advantage. Portfolios that can thrive even in chaotic and fragile environments do exist and can deliver differentiated, high-risk-adjusted returns for their investors.

At Grubb Properties, a fundamental methodology underpins our strategy. We place a premium on resiliency – in the markets we invest in, in our product design and execution, and in our overall portfolios. This is the foundation for our strategy to provide essential housing across the United States in the cities where the housing affordability crisis is the most acute.

To strengthen our process, we have identified five core pillars of resiliency. (These are outlined on the following pages.) In addition, we use cyclical analysis allowing us to evaluate market performance over economic cycles of the past 35 years. This enables us to differentiate between markets that are countercyclical and those that we have identified as high growth. An important byproduct should be a robust portfolio delivering outperformance over the life of the fund.

What is Essential Housing?

The U.S. housing market is 3.8 million homes short of what is needed to meet the country's demand, according to recent statistics from Freddie Mac. The government agency estimates there has been a 52% rise in the nation's home shortage since 2018 – the result of underbuilding for 10 years, with most of this shortage in essential housing.

Essential Housing is the product for households earning more than 60% of an area's median income (AMI), putting them above the cutoff for a public housing subsidy, but less than 140% of that AMI, putting them below the threshold to afford luxury housing.

In addition, over the last five years, roughly 75% of the new housing product built in the multifamily market was luxury housing, further amplifying the shortage in essential housing.

The essential housing gap is influenced heavily by the growing demographic demand from the large Millennial and Gen Z generations who are already in, or just entering, the workforce. The road to lifestyle independence and home ownership has gotten very long for this population sector.

The Foundations of Market Resilience

When we think about resilience, we score markets on five pillars:

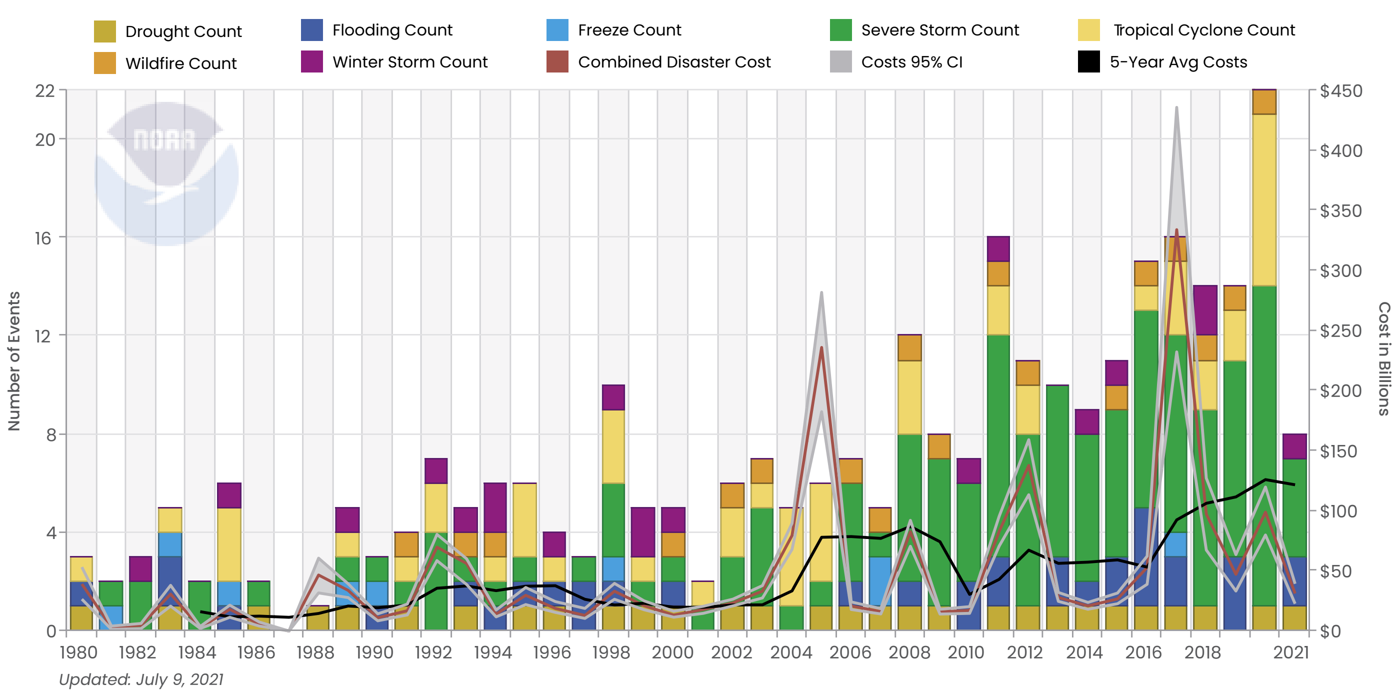
1 Climate-related risk

Climate-related risk is critical to account for in a resilient market strategy, because while there are many things we can control, flooding, rising tides, and wildfires are not among them. Climate-related risk represents the "left tail" in the probability distribution of risk management. It is the outcome that you cannot hedge when it is in your portfolio. The key is to mitigate it. For example, our exposure is focused away from coastal regions where rising sea levels create tail risk and also raise risk premia for borrowers through higher financing and insurance costs.

2 Presence of State and/or Federal Government

An increasingly important trend since the Global Financial Crisis is the growth of the public sector. While we can argue whether this contributes or detracts from the long-term health of the country, the public sector's role as a stabilizer during periods of economic contraction is not up for debate. We see the public sector as a countercyclical force that dampens the downside amplitude of normal economic cycles. The present decade has distinguished itself from previous decades in that recovery periods have not been met with a contraction of the public sector. Our Link Apartments[SM] Glenwood South project in Raleigh, N.C., and our Link Apartments[SM] Manchester in Richmond, Va., have benefited from this steady employment presence. We anticipate our Link Apartments[SM] H Street in Washington, D.C., will as well.

United States Billion-Dollar Disaster Events 1980-2021 (CPI-Adjusted)



Source: NOAA

3 Presence of public and well-capitalized private universities

Public state-funded universities and higher education institutions are another pillar of market resilience as well as keystones of long-term performance. Universities are natural and historical magnets for innovation, creativity, and professional/personal reinvention. They draw together young and talented minds that are focused on both problem-solving for today and on creating for the future. In turn, this concentration has historically drawn arts and culture and other forms of innovation, building further growth. Higher education institutions also tend to do well in economic downturns as jobseekers often choose to further their education in order to increase their chances of getting hired. We have found this to be true in Chapel Hill, N.C. with Link Apartments℠ Linden at Glen Lennox, which has proven to be a strong counter-cyclical resilient real estate investment through three recessions.

4 Presence of a highly developed hospital and medical infrastructure

A developed medical infrastructure is often related to the public university education system. Not only a resource to the city and its residents, the medical system also serves as a magnet for young creative thinkers and problem-solvers. In addition, the aging of the large Baby Boomer population will lead to a greater demand for medical services, driving biotech innovation. This infrastructure can be a permanent source of growth. The plans for the University of Colorado Anschutz Medical Campus in Aurora, CO., point toward a doubling of employment over the next decade. We are building Link Apartments Fitz℠ across from the campus, as we have found that quality housing near transit by these campuses is a powerful draw, such as with our Link Apartments℠ Brookstown in Winston-Salem, N.C., close to Wake Forest Baptist Hospital. Strong medical institutions in aggregate represent sectors of the economy that are stable with inelastic demand. As such, they too represent shock absorbers for the downside amplitudes of a cycle.

Link Apartments℠ Strategy

Creating sustainable communities through a repeatable, scalable strategy

When we develop Link Apartments℠, we focus on two key differentiators: location, determined by our deep research and five pillars of resiliency, and price point, aiming for rents affordable to residents earning 60-140% of AMI.

We focus on just six highly efficient floor plan types that we replicate across our communities – something unique in the industry. We also have a standardized amenity package that focuses on the items that our residents truly care about and that fit within our strategy.

Sustainability and ESG are core strategic levers and also investment tools that drive down the recurring costs of utilities for our residents.

Focusing on the customer delivers both a better resident experience as well as the returns investors expect – all through a differentiated product that addresses a critical market gap.

Aurora, Colorado - Link Apartments[SM] Fitz

5 Presence of a developed infrastructure/ public transportation system

When it works as intended, a public transportation infrastructure accomplishes a number of things that ultimately contribute toward a more resilient urban environment with a higher quality of life:

- It removes a source of friction by reducing traffic
- It reduces a source of pollution by reducing car count
- It allows many residents to live without a car, reducing their cost of living and allowing them to reallocate those resources
- It provides for corridors of high-density land utilization with efficient concentrations of housing and employment, allowing other parts of our communities to remain at lower density

A high-functioning public transport infrastructure allows us to develop and promote a more sustainable lifestyle. Our strategy and amenities focused on decreasing car usage, such as state-of-the-art cycle centers, have become a hallmark of our Link Apartments[SM] communities.

Geographic Selection That is Differentiated

When looking for markets in which to execute our strategy, we reliably seek a balance between resilient markets that outperform during periods of weakness, and cyclical markets, which we can enter during periods of stress and price capitulation.

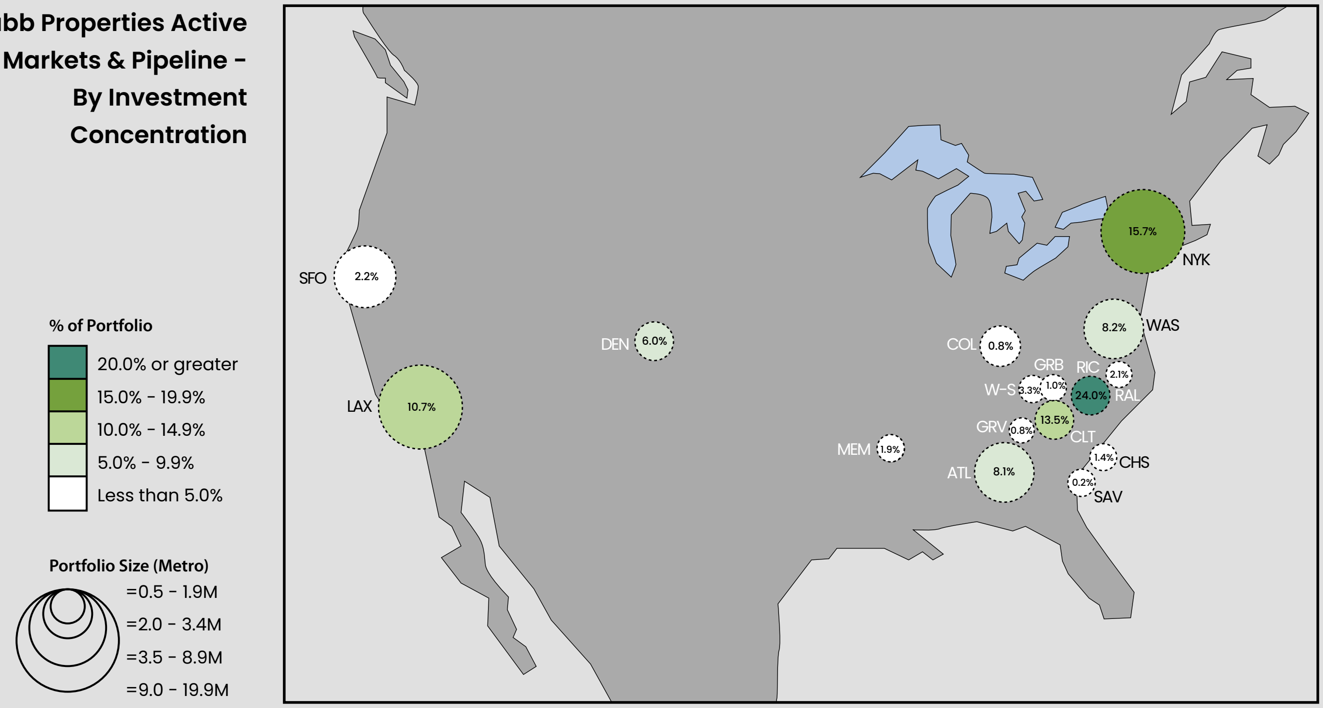
First, we differentiate the geographies:

- **Resilient** markets with high barriers to entry and countercyclical performance
- **High-growth** cyclical markets, with a focus on high barrier-to-entry submarkets

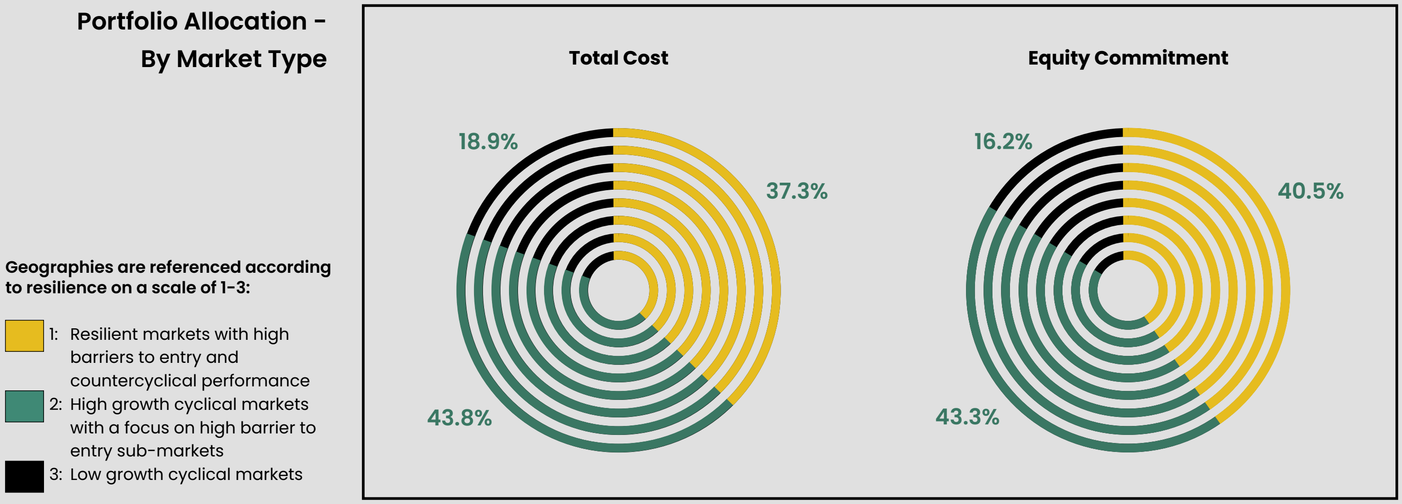
Second, we choose from two different strategies to develop and deliver our essential housing product:

1. Value-add office buildings with potential Link Apartments℠ development on excess land
2. Ground-up Link Apartments℠ sites with subsidies

Grubb Properties Active Markets & Pipeline - By Investment Concentration



Portfolio Allocation - By Market Type



Historical Market Cycle Performance

We have observed our 22 target markets' performance for a period of nearly 35 years, including four recessions.

01 When the market **entered bear territory** in the economic cycle

02 Its "price" performance from peak to trough to **a new peak**

03 The **length of time** it took to surpass the previous cycle's peak

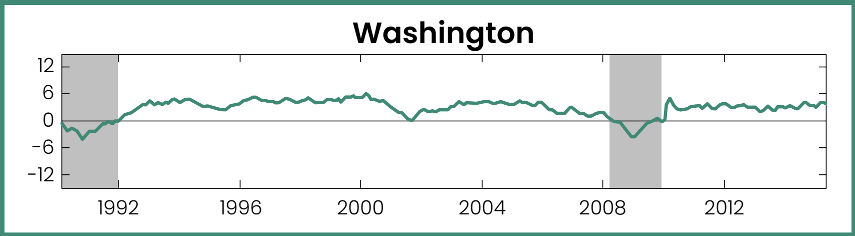
The success of any portfolio is rooted in both the strategy selection and its execution. Awareness of the cycle and the market - and how it can be evaluated under the five pillars of resiliency - is essential to long-term outperformance.

Over our 35-year observation period, there are a few important factors to note. The most important is the growing correlation of markets over time. While we can clearly differentiate among the market types, correlation among them has increased. This is due to several factors including greater synchronization of economic cycles, greater interconnectedness within the banking system, and more professional investors entering the real estate space. Even with those factors, performance remains highly influenced by the prevailing forces of the five pillars of market resilience: Climate-related risk / Government / University / Hospital/medical infrastructure / Transportation

Examples of Market Cycle Performance

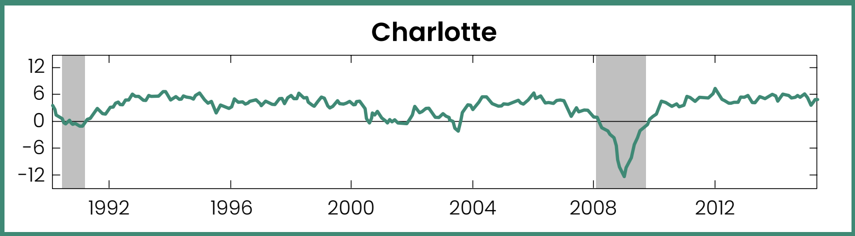
Washington, D.C.

As a resilient market with high barriers to entry, Washington, D.C., differentiates itself as the best example during the observation period. It exhibited the shallowest setbacks and quickest return to peak. The heavy public sector expansion—particularly during the Global Financial Crisis—was a heavy counterweight to private sector stress.



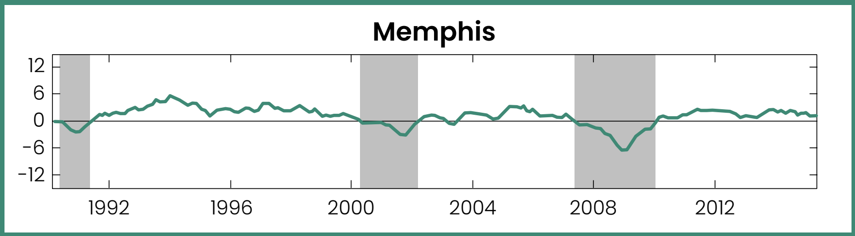
Charlotte, N.C.

Charlotte presents a good example of a high-growth cyclical market with increasingly high barriers to entry. While it exhibited marginal weakness in the 1990s and virtually none during the Dot.com bust, Charlotte saw some of the most protracted weakness in the observation group during the Global Financial Crisis. This was due to its growing concentration of financial services, which has since contributed to its outsized growth.



Memphis, Tenn.

Memphis initially scored as a low-growth cyclical market but has since rerated over the course of the post-COVID-19 cycle. Its performances in previous cycles were unremarkable, noteworthy only for their long recovery time. Yet the city is home to higher education institutions and nationally ranked hospital systems, including St. Jude Children's Research Hospital and the University of Tennessee Health Science Center College of Medicine. Additionally, it has several highly cyclical employers including FedEx, International Paper and Walmart, which command pricing power in the current environment. This combination creates the potential for further meaningful outperformance.



Source: Federal Reserve Bank of St. Louis

Fortress Markets in Times of Crisis

During the pandemic recession in 2020, many of the largest real estate companies were reeling in fortress or gateway markets like Los Angeles and New York City. This profound weakness and resulting price concessions in historically resilient markets created a generational opportunity for investors. The pandemic forced down the drawbridge of these fortress markets and reset prices for the next bull run.

As early as the spring of 2021, these markets began to reprice higher. In other words, the drawbridge was starting to be raised. This was not a surprise to us, as our research has consistently demonstrated that fortress markets historically enter and exit periods of weakness earlier in the cycle than non-gateway markets. This quick turnaround shows why it is crucial for companies to maintain financial strength and stability in periods of crisis. They can make the most of early opportunities while their competitors are attempting to recover. Grubb Properties was in a fortunate position with free capital to invest – combined with a strong infrastructure securely in place – so we were able to expand our footprint into new geographies that were previously cost-prohibitive to our business model. It is crucial to see at this moment that while the price of entry to these markets had temporarily changed, there had been no meaningful structural reduction in demand and the affordability crisis was unaffected.

We can now deliver essential housing in some of the urban markets that are most starved for housing for those earning more than 60% of an area's median income (AMI), but less than 140% of AMI. Affected by the pandemic, these markets became accessible to us because of our stability and preparedness. In Los Angeles, a typical multifamily site can normally sell for more than $200,000 per unit just for the land, while our acquisition just off Sunset Boulevard was purchased for $50,000 per unit in May 2020. Yet by the second quarter of 2021, similar sites in Los Angeles were asking close to $300,000 per unit.

The sites we have acquired are near many transit options and adjacent to three major hospital systems. All of this reflects our commitment to prioritizing the five pillars of resiliency. Our ability to execute efficiently and early while the drawbridge was down ensured solid risk management and increased the likelihood of positive outperformance versus benchmarks and our peer group.

The X Factor: Scalability and Efficiency

Investors should also consider the resiliency of the product being offered, and how efficiently it is being created. In real estate, the cycle of acquisition, entitlement, development, and stabilization lasts years. Having a product that is efficiently designed that can be quickly scaled has an advantage in being responsive to propitious market timing.

At Grubb Properties, we have spent more than a decade perfecting our Link Apartments℠ product, and believe it offers one of the most efficient designs in the multifamily housing marketplace. We focus on the six most desirable floor plan types that we replicate across all our communities in different markets. Compare this to the industry standard of more than 25 unit types. We reliably gain efficiencies in construction and materials costs, and design and build time. We have standardized our amenity package to the items that our target essential housing residents most value and use, such as pools, state-of-the-art fitness centers, and cycle centers.

This allows us to develop a branded product that is scalable and consistent. It also creates vibrant Link Apartments℠ communities in every market, regardless of whether they are in the Bay Area or Atlanta.

Conclusion

The important point is that markets are not static but evolve over time. Recognizing this dynamic is key to Grubb Properties' risk management and performance profile. Our deep and intensive research helps us develop a coherent overall strategy and approach in location selection and portfolio execution. Our efficient, scalable Link Apartments℠ strategy helps us ensure quality of product that meets the critical essential housing need. The success of any portfolio lies ultimately with the execution of the strategy. From experience we believe that over time, these tools build a portfolio that both protects and enhances investors' capital and grows our assets in an often chaotic and unpredictable world.

About the Authors:

James Hochman is the Chief Financial Officer at Grubb Properties. James is responsible for overseeing the company's financial management practices and provides strategy and guidance on accounting, acquisitions, and underwriting. He is a key member of the company's Investment Committee and oversees and manages its process, as well as managing the company's Impact Investment process.

James has more than two decades of experience in fund management. He spent 25 years in London where he managed discretionary macro portfolios for Caxton Associates, Moore Capital and Graham Capital where his investment strategy focused on global interest rate markets, foreign exchange, and Emerging Markets. At Graham Capital, he was the CEO of the London operation and a member of the firm's Risk and Investment Committees.

Clay Grubb is the CEO of Grubb Properties. Clay leads the long-term, strategic vision for Grubb Properties and plays an active role in all investment decisions. Under his leadership, Grubb Properties successfully transformed from a family-owned business to an employee- and board-owned company. Since 2002, when Clay became the CEO of Grubb Properties, the company has grown significantly and been a top quartile producer of returns for its real estate investment funds. Clay has and Grubb Properties have been profiled in several leading publications, including The Wall Street Journal's Deal of the Week and the cover of Business North Carolina.

Clay is an adjunct professor of real estate at the A.B. Freeman School of Business at Tulane University. He has been involved in a number of initiatives to enhance the communities and environments where Grubb Properties operates. He serves as chair of the Grubb Real Estate Preservation Foundation, which focuses on land preservation. Clay has served and continues to serve on several for-profit and non-profit boards focused on housing, education, and arts. He is currently working on a venture with the Aspen Institute to create greater access to home loans with a concept of a safety net for when life happens. He is also doing extensive work on innovative approaches to address the homelessness crisis. His book, "Creating the Urban Dream," was published by ForbesBooks in 2020.

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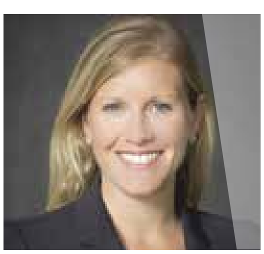

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About Grubb Properties:
Grubb Properties, founded in 1963, is a vertically integrated real estate fund manager focused on the Essential Housing space through its Link Apartments℠ brand. The company targets residents earning between 60% and 140% of area median income (AMI), directly addressing a growing crisis for essential housing, while providing residents with exceptional living spaces. Grubb Properties maintains a long-term perspective and its careful and measured approach to real estate investment has delivered resilient and impressive returns. Grubb Properties has received numerous sustainability designations and recognitions and undergoes annual ESG assessments through GRESB. For more information, visit **grubbproperties.com**.

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