

PRIVATE CREDIT MASTERCLASS

AGENDA

- **Backgrounds**
- **The State of Multifamily**
- **What is Private Credit?**
- **Case Studies**

ABOUT YOUR PRESENTERS



BOB FRASER

CO-FOUNDER & CHIEF FINANCIAL OFFICER

Mr. Fraser has 20+ years experience in finance, investing and technology and has held several CFO and CTO positions. Fraser is a former E&Y entrepreneur of the year winner when he founded a technology company that became one of the fastest growing companies in the Midwest reaching 250+ employees. He was magna cum laude graduate of U.C. Berkeley's computer science program.



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.

SPECIAL GUEST PRESENTER



ANTON MATTLI

CEO, PEAK FINANCING

Decades of experience in commercial and investment banking, private equity, and commercial real estate. After graduating from Zurich Business School in banking and finance, he held senior management positions at major financial institutions in New York, Tokyo, Hong Kong, and Zurich. Anton also directed the structuring of complex cross-border commodity and trade finance transactions for Fortune 500 companies.

Over 15 years of lending expertise, placing billions of credit investments into profitable multifamily and commercial real estate through commercial banking, private equity, and complex transactions for Fortune 500 companies.

OUR PROCESS FOR IDENTIFYING DEALS

Our team co-invests in every deal.

1

Identify key macro trends in play and likely to continue.

2

Identify best asset classes and investment strategies that will benefit from those trends

3

Form best-in-class teams and Investor-friendly structures

TRACK RECORD

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



\$200M

Investor Capital
Managed



\$500M

Assets Under
Management



11+

Years Track
Record



\$50M

Investor Distributions
Since Inception

INVEST LIKE A **BILLIONAIRE™**

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.

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SCAN ME

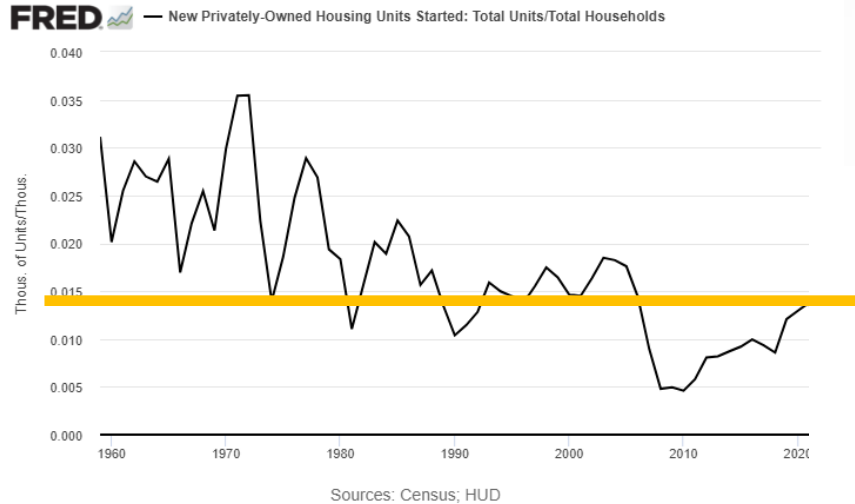
Short-Term Crisis in Multifamily Creates Great Opportunity

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

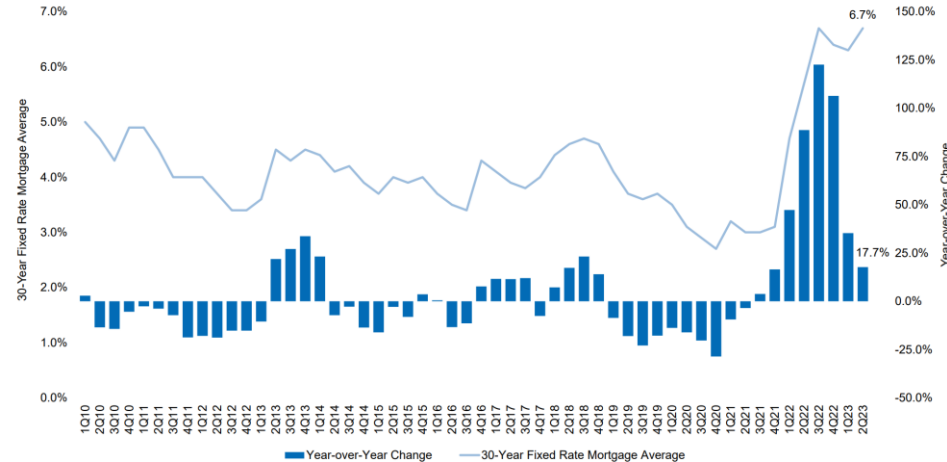
Let's look at the Good, the Bad & the Ugly in Multifamily

The GOOD – The Long Term

Chronic Underinvestment in Housing

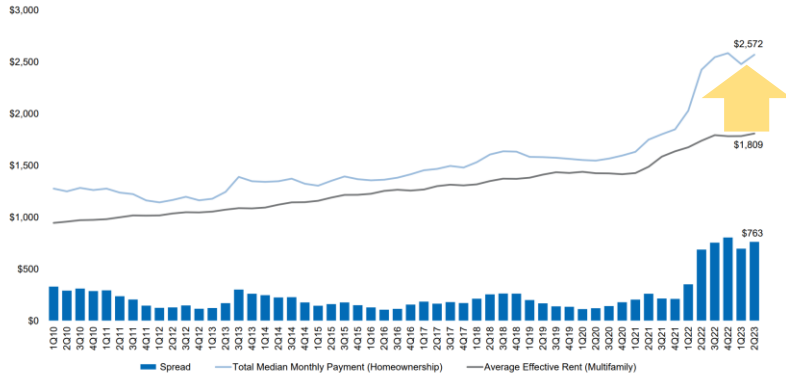


Shrinking Single-Family Buyer Pool



The GOOD – The Long Term

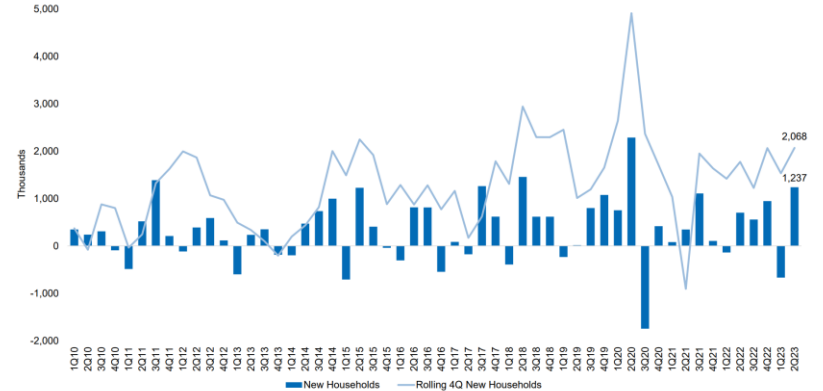
Renting is Cheaper than Owning



Source: Newmark Research, Atlanta Federal Reserve, RealPage

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

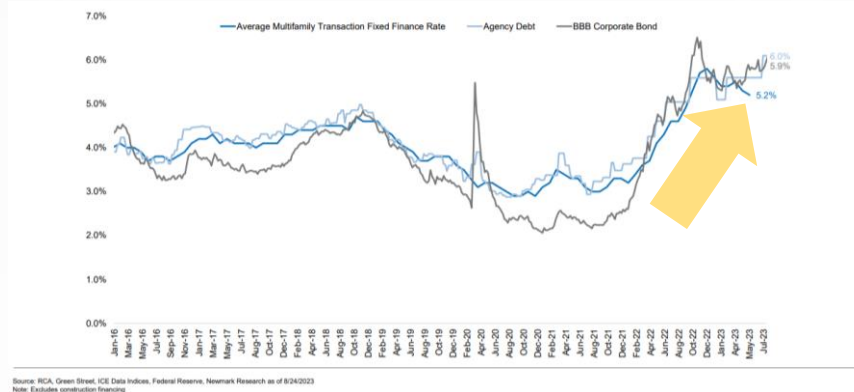
Household Formation Strong



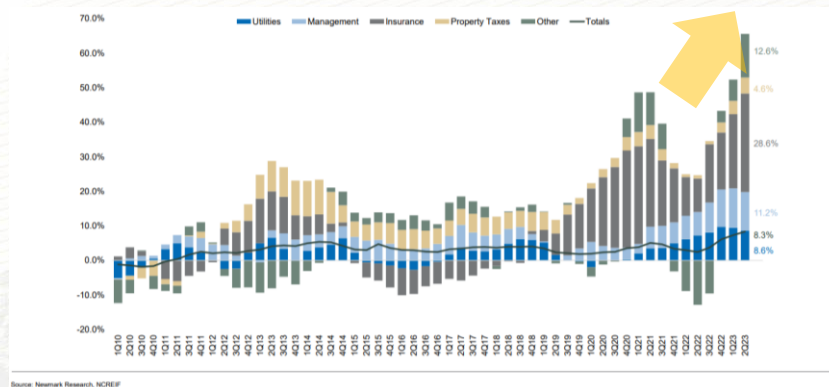
Source: Newmark Research, Federal Reserve Bank of St. Louis, U.S. Census Bureau

The Bad

Debt Costs Up 75%

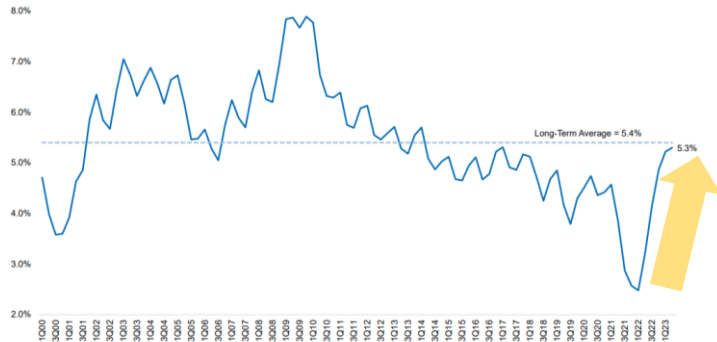


Operating Costs Up 8.3%



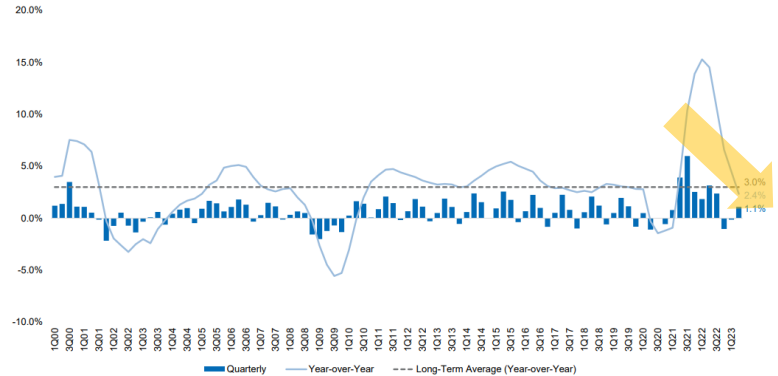
The Bad

Multifamily Vacancies Up



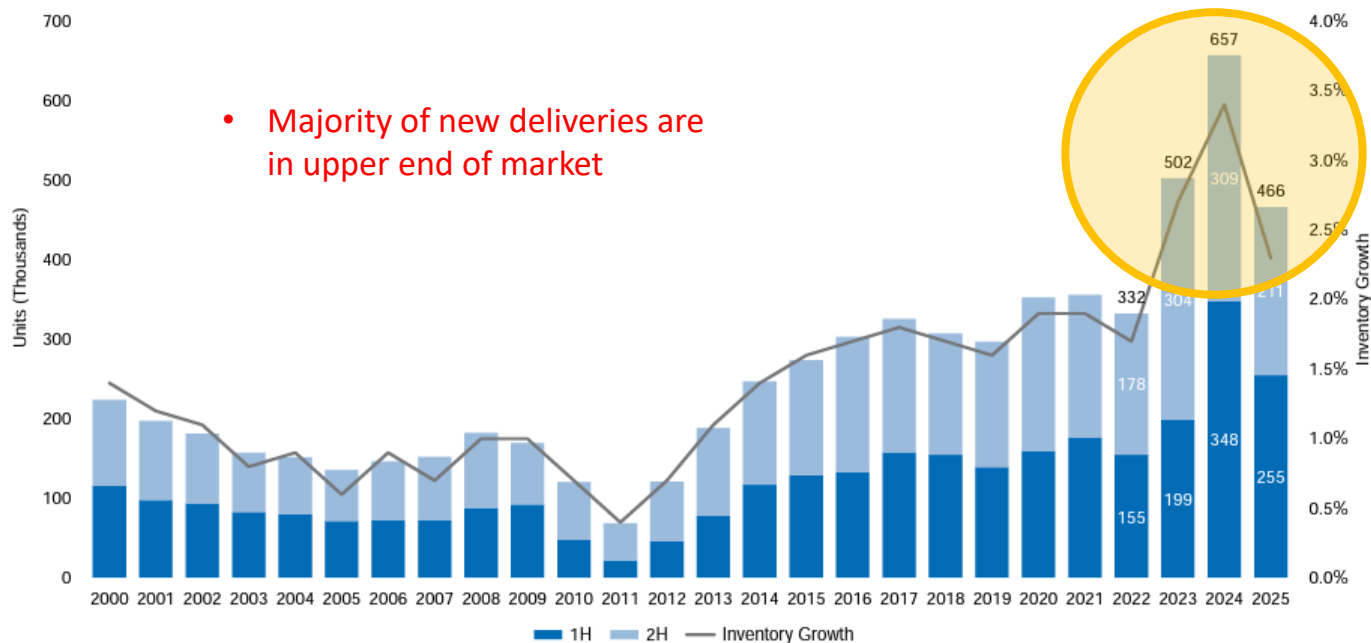
Source: Newmark Research, RealPage

Rent Growth Down



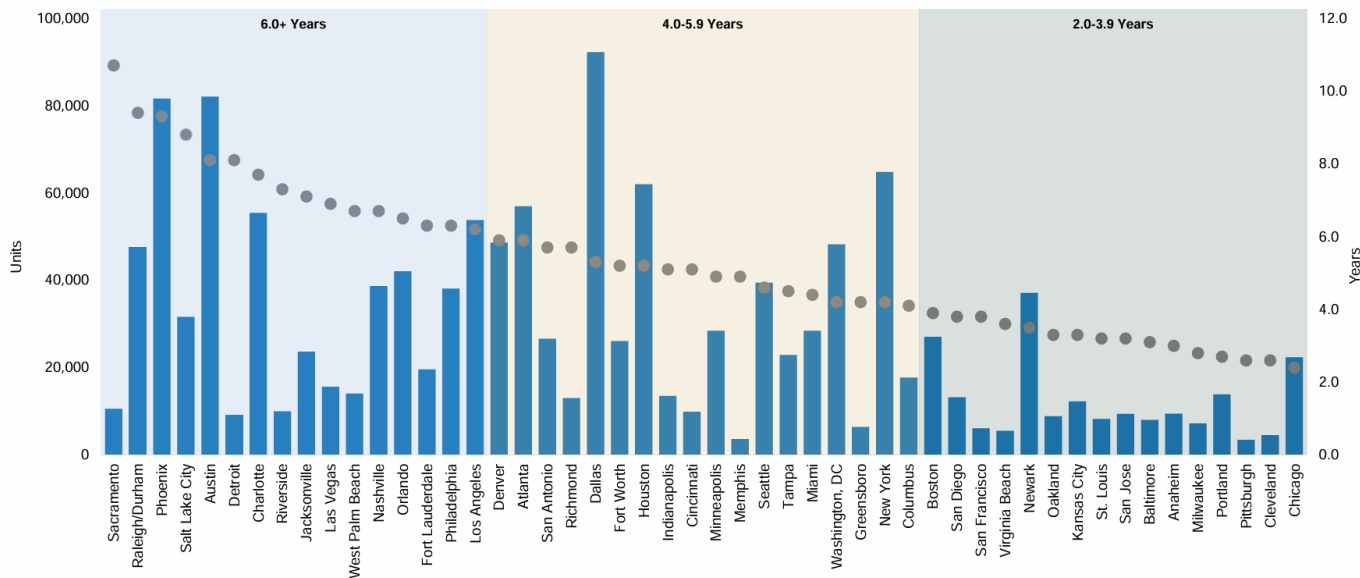
Source: Newmark Research, RealPage

The UGLY – Record Deliveries of New Apartment Complexes



The UGLY – Absorption Will Take 2-6+ Years

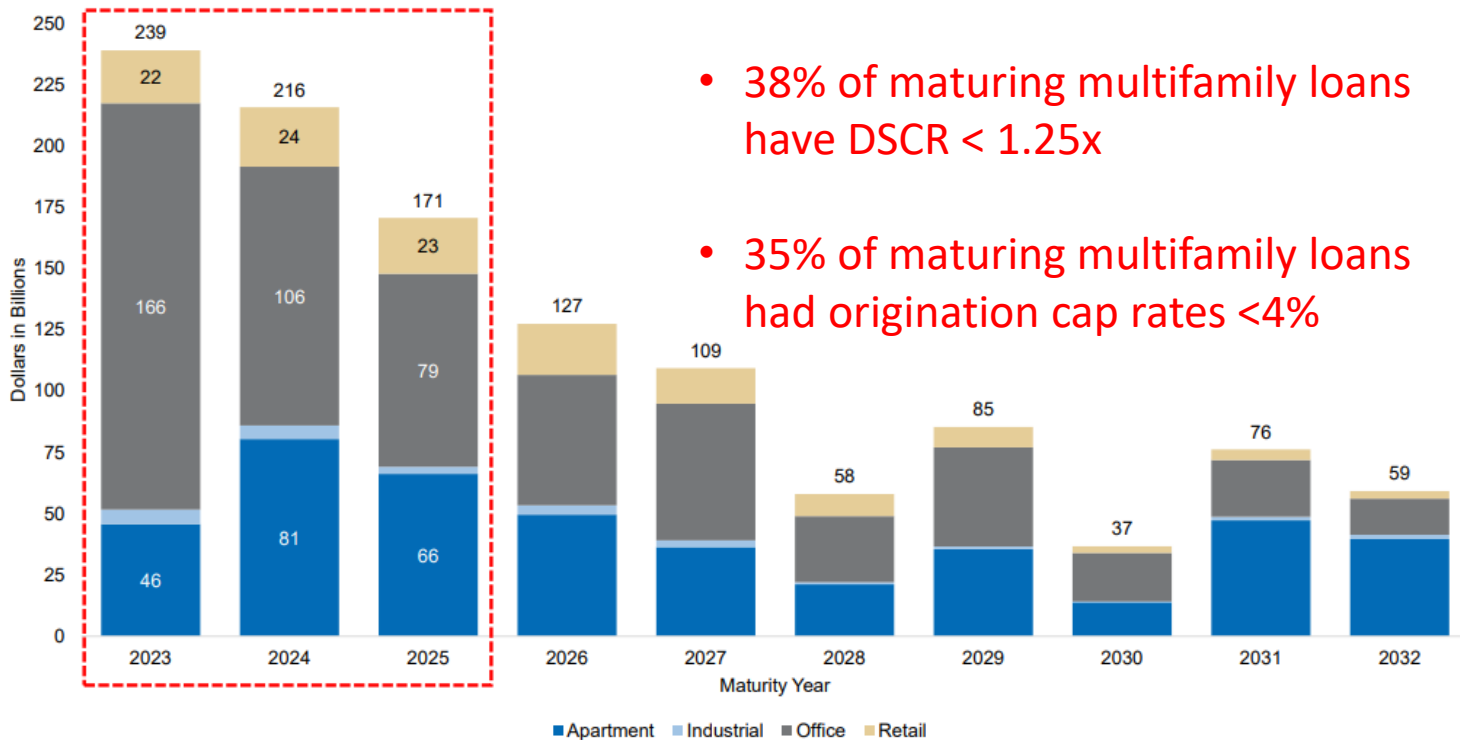
2023-2025 New Supply (Top 50 Markets)



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

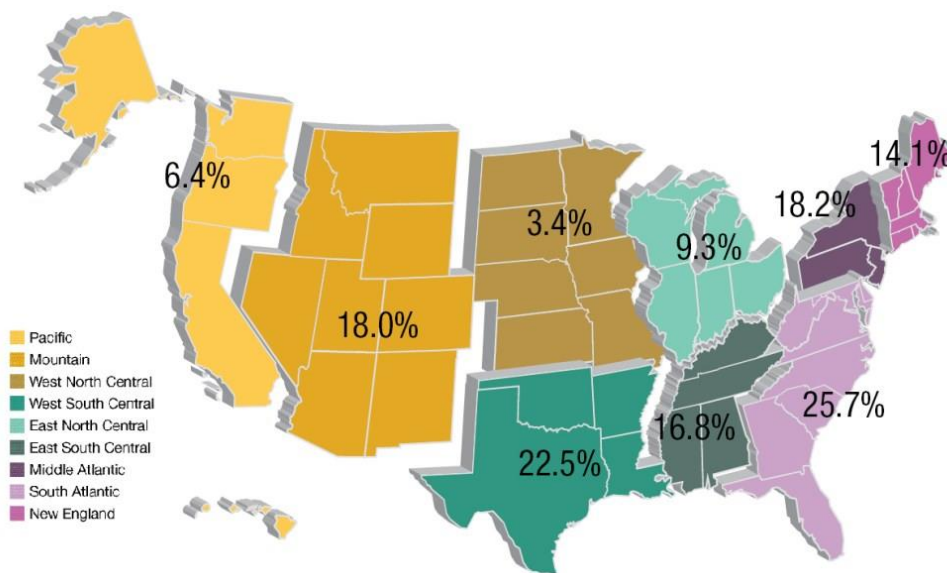


- 38% of maturing multifamily loans have DSCR < 1.25x
- 35% of maturing multifamily loans had origination cap rates < 4%

The UGLY – Sunbelt Markets

Loans of concern

Percentage of multifamily bank loans with potential performance issues, by region



CBRE Rent Growth 2024

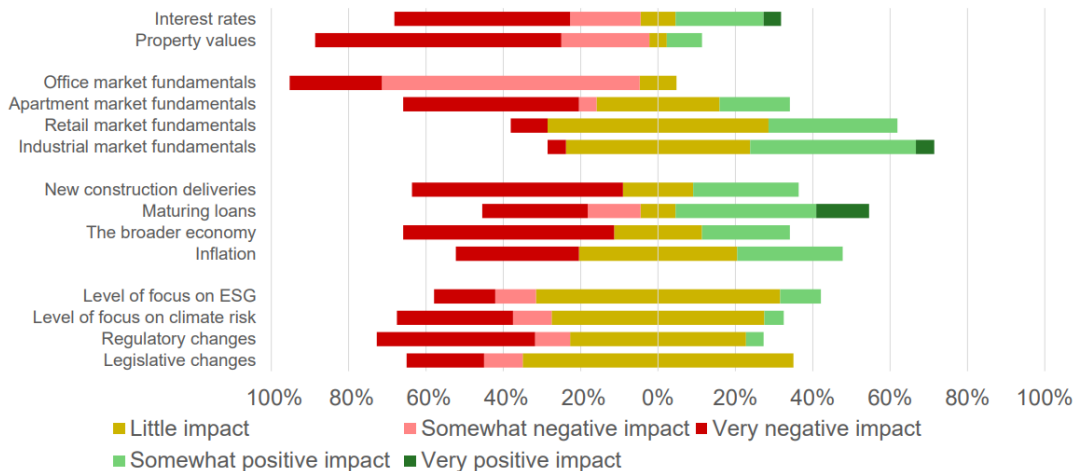
Tale of Two Cities (Quartiles)

- 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

Credit Tightening Creates Opportunities

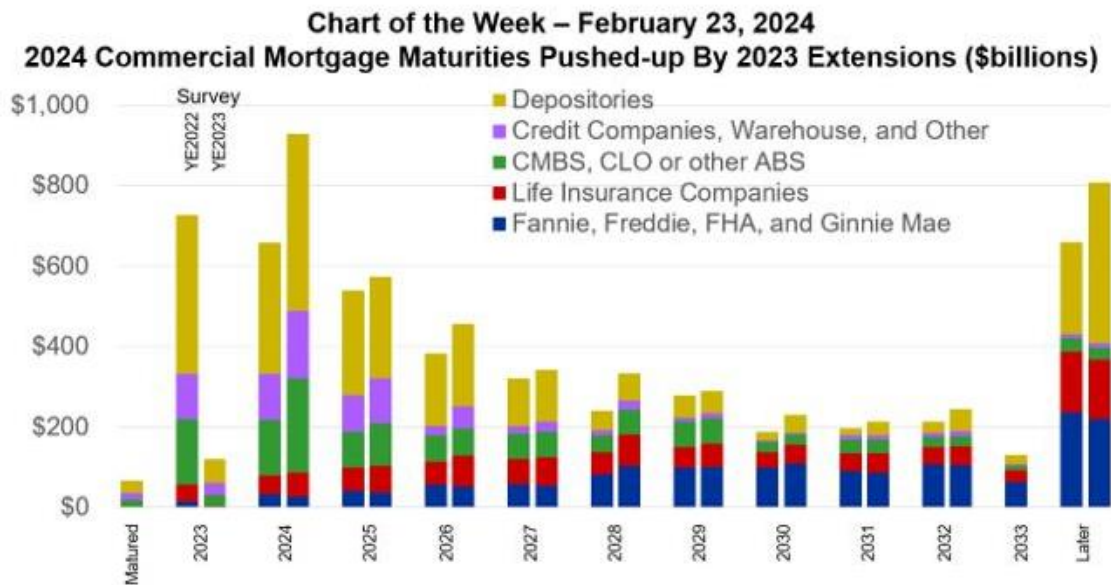
- Traditional lenders are pulling back on leverage ratios on new deals due to negative/cautious sentiment

Rate each of the following for how you think they might affect markets this coming year.



Credit Tightening Creates Opportunities

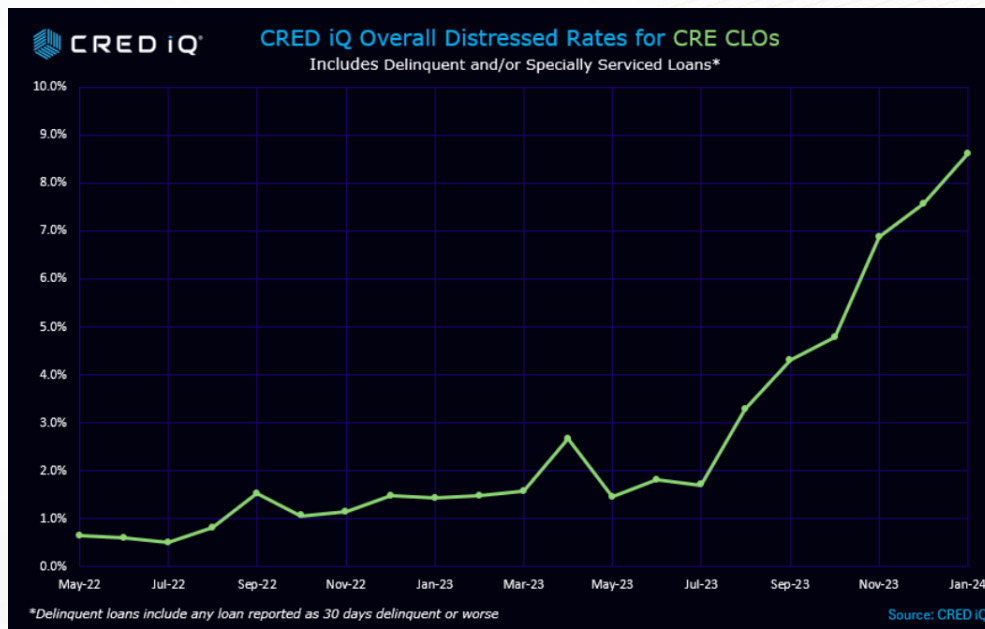
- Lack of payoffs has restricted available funds for new deals



Source: Mortgage Bankers Association

Credit Tightening Creates Opportunities

- Bridge loans that were originated in 2021 & 2022 will add additional strain to the system



Credit Tightening Creates Opportunities

- Regulations restrict bank's appetite for lending (and banks are getting ready for new rules under "Basel III" Accord)

Impact of Basel III on Financial Institutions



Credit Tightening Creates Opportunities

- Widespread distribution stops and capital calls as well as recent losses to foreclosures/deed-in-lieu have reduced (common) equity investors' appetite, creating deeper funding gaps

Houston Apartment Owner Loses 3,200 Units to Foreclosure as Multifamily Feels the Heat

Building values are falling, interest rates are rising and rent growth is slowing

By Will Parker [Following](#) and Konrad Putzier [Follow](#)

Updated April 11, 2023 10:12 am ET

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One of the first dominoes to fall...



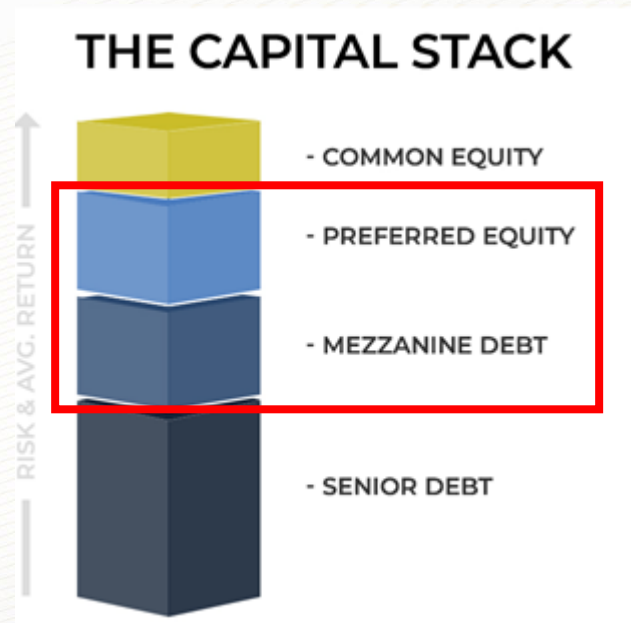
The Universe of Private Credit

- Anything non-banks - types of Lenders - Bridge, CMBS, Agency, etc.
- Non-institutional, opportunistic private credit
- Are all “Debt Funds” created equal?
- Secured vs. Unsecured
- Business vs. Real estate
 - Unique verticals - e.g. Cannabis - can't get traditional financing

Our Focus – Real Estate Private Credit

Benefits of Private Credit

- Priority of payment before common equity
- Current cash flow
- Lower in the capital stack, reduces risk of capital loss
- Generally can takeover the deal or force a sale if not meeting expectations



Uses of Private Credit

1. EXISTING DEALS

Goal is to stabilize property and hold until market improves

- Distressed Situations – interest rate cap, bolster reserves, complete renovation program {goal is to protect equity}
- Capital Injection – in place senior debt has low rate and don't want to refinance yet {goal is to keep in-place debt}

Uses of Private Credit

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Uses of Private Credit

2. NEW DEALS

Goal is to increase overall leverage

- Quick Close & Gap Funding – senior lender falls through or can't raise equity in time {goal is to bridge gap short-term}
- Loan Assumptions – low interest rate on senior, but low leverage {goal is to increase leverage}
- New Construction – banks reticent to lend, generally very low LTVs {goal is to increase leverage}

EXAMPLE #1 | Capital Injection

- Value-add multifamily about 75% through renovation program
- First property manager poorly managed occupancy
- Need \$750,000 to complete renovations
- In-place senior debt has low interest rate, won't increase funding
- Mezz loan to help finish renovations, stabilize and refinance us out

CASE STUDY

Purpose	Complete Renovations
Amount	\$750M
Lien Position	2 nd
LTV	75%
Interest Rate	15% + 2% origination
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	2 nd (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 ~45%
- 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, 2% origination fee
Personal Gty	Yes

Different Types of Structures

Mezzanine Debt

- Collateral: Equity interest in property owner (pledge of equity in entity), may negotiate personal guarantees, at minimum carveouts for fraud and gross negligence
- Terms: Interest rate + origination fees
- Priority of payment: after senior debt, before any equity holders, including preferred equity
- Capital Protection: UCC foreclosure on equity pledge. Once foreclosed, lender becomes 100% owner of property-owning entity.

Different Types of Structures

Preferred Equity

- Collateral: No recourse to property, may negotiate pledge of sponsor's equity and/or personal guarantees
- Terms: Contracted rate of return, typically with a current pay plus accrued pay, usually payable based on available cash flow
- Priority of payment: Behind senior debt & mezzanine debt, before common equity holders
- Capital Protection: Contractual remedies, primary remedy is to remove sponsor as managing member and take over control. Sponsor as well as limited partners remain members. Various possible remedies, including transfer of sponsor's promote and ownership, forced sale of property, default interest rate, etc.

Different Types of Structures

2nd Position Loans

- Collateral: secured by property behind senior lender
- Terms: Interest rate + origination fees
- Priority of payment: after senior debt, before any mezzanine debt & equity holders
- Capital Protection: recourse to property, can force foreclosure for events of default

Keys To Good Underwriting

- Cushion - healthy leverage & DSCR ratios
- Business Plan - understand the plan & likelihood of success
- Take-out risk - what is likelihood to get taken out upon a refinance or sale
 - Interest rate assumptions
 - Stabilized NOI for agency financing
- Sponsor Strength
 - Track record
 - Financial strength
 - Skin in the game - alignment of interests



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INVESTOR CLUB

TO GET EARLY
ACCESS TO DEALS



SCAN ME