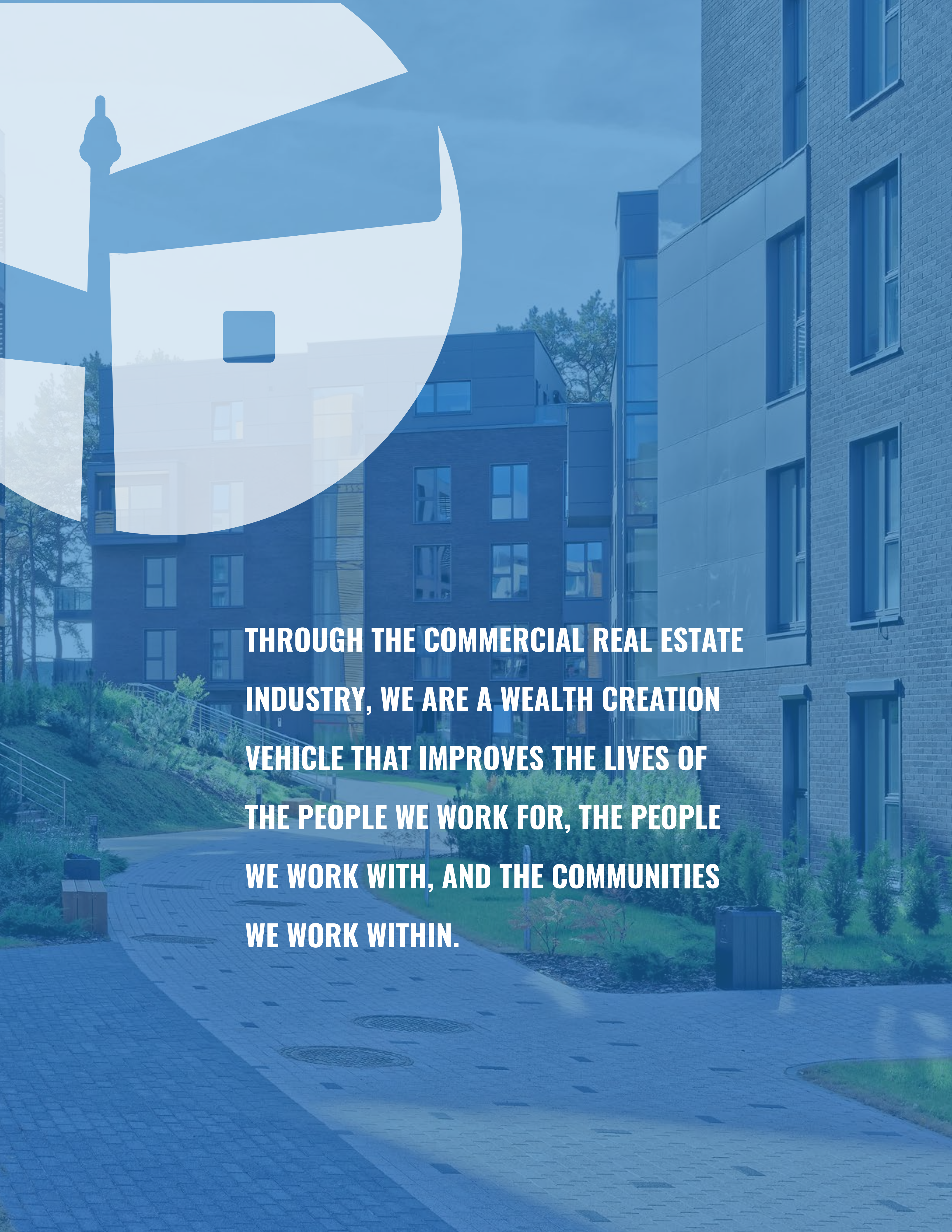
INVESTING FOR CASH FLOW

The time for diversification is now

UPSIDE AVENUE



THROUGH THE COMMERCIAL REAL ESTATE INDUSTRY, WE ARE A WEALTH CREATION VEHICLE THAT IMPROVES THE LIVES OF THE PEOPLE WE WORK FOR, THE PEOPLE WE WORK WITH, AND THE COMMUNITIES WE WORK WITHIN.

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IN 2007, ABOUT TWO-THIRDS OF AMERICANS WERE INVESTED IN THE STOCK MARKET. THAT FIGURE DROPPED TO ABOUT 50 PERCENT BY 2016.

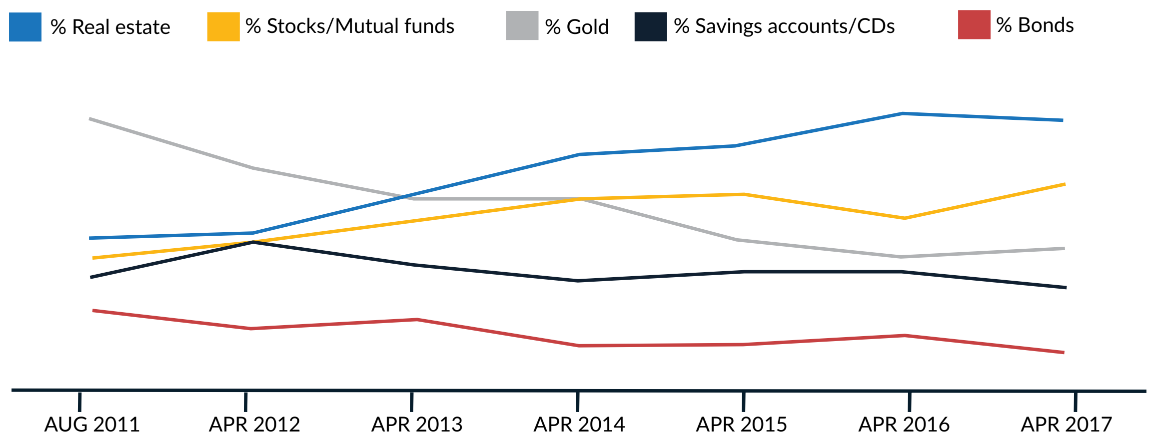
The last decade has seen a transformation of the average American investor. During the 2008 financial crisis, when the stock market lost more than half of its value, many investors responded by taking their money out. And while the stock market has since made up for those losses, new research indicates many Americans are still not ready to reinvest.

In 2007, about two-thirds of Americans were invested in the stock market. That figure dropped to about 50 percent by 2016[1]. Despite investors' cautiousness toward stocks, the real estate market remains a favorite in the U.S. for the fourth consecutive year. A Gallup survey found that one-third of Americans say real estate is the best choice for long-term investment, beating out stocks and mutual funds.[2]

There is a reason for this; the real estate market has outperformed the stock market over a 16-year period. Between 2000 and 2016, the S&P 500 Index yielded a 5.43 percent annual total return[3] while real estate returned 10.71 percent.[4]

1 Gallup, 'U.S. Stock Ownership Down Among All but Older, Higher-Income,' 2017
2 Gallup, 'Americans Still Favor Real Estate for Long-Term Investment,' 2017
3 Bloomberg and CBOE, 'Month-end closing value', 1986 - 2017
4 Nareit, 'Monthly Index Values & Returns,' 1972-2017

Figure 1 - American's Choice of Best Long-Term Investment



Source: Gallop

Despite the benefits, there is one thing that may be holding investors back from truly reaping the financial rewards from owning rental properties. About 70 percent of Americans think investing in real estate is more difficult than investing in other asset classes.[5]

If an investor is going at it alone, this may be true, considering the process of purchasing a property does require research, negotiation and what may seem like hoop-jumping to obtain a loan. What many do not realize, however, is that there are several types of real estate investment strategies—ranging from hands-on acquisition and management to completely passive strategies, both of which allow investors to invest alongside billion-dollar institutions through private market real estate investing.

Take the multifamily market as an example, which has not only withstood the economic downturns of the past and enjoyed high yields, but is poised to remain strong for years for come. This special report will seek to demystify the real estate market as well as provide an overview of the opportunities the passage of the 2012 JOBS Act has brought to all investors.

5 RealtyShares, 'Report: 2017 Real Estate Investment Survey,' 2017

THE BENEFITS OF REAL ESTATE INVESTING

One of the most popular reasons why investors choose real estate is because it is a tangible investment. Unlike stocks, real estate assets can be seen and touched. This tangibility plays a role in the client having peace of mind and great control over the investment and its cash flow compared with other asset types.

When many people think about investing, they think about buying a rental house. In an ideal situation, the landlord charges enough rent from tenants to cover the mortgage, taxes and maintenance of the property. The remaining cash can provide the investor with an entirely new income stream – if all goes well this cash flow can serve as protection against dips in the financial markets.

While additional cash flow also exists in stock market investing, it is becoming less common. As a way to assure shareholders of their financial standing, some companies will offer dividends. However, fewer and fewer industries in the U.S. today offer regular and significant dividends.[6] These payouts are also exposed to volatility – one of the biggest risks of the stock market.

It is true that slumps can occur as well in real estate, but those who invest in residential properties typically lease them for many years and can at times avoid experiencing falls in rent.

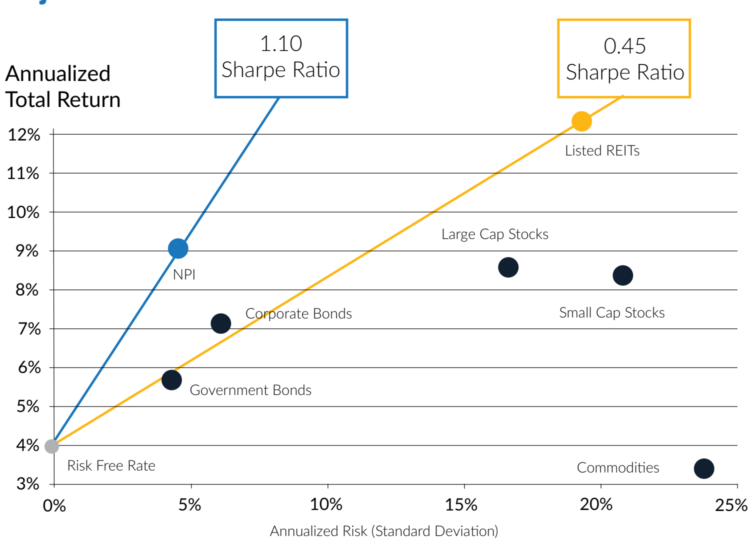
In addition to cash flow, real estate investors can profit from increases in property value when they choose to sell, thanks to its appreciation. Even the slightest upgrade to a property can significantly increase the price and enhance the return on investment.

Lastly, real estate has been dubbed the best performing asset class over the past 20 years by the National Association of Real Estate Investment Trust Index, beating out stocks, bonds, diversified portfolios, commodities and cash.

While the publicly traded real estate market delivered higher returns, it is also associated with higher volatility. That is why the Sharpe Ratio is used in Figure 2 to characterize performance. A higher Sharpe Ratio indicates a higher return per each unit of risk, which is exactly what the private real estate market delivers.[7]

6 RealtyShares, 'Real Estate Marketplaces Can Potentially Address the "Missing Dividends" Problem,' 2017
7 The Street, 'Real Estate: Best-Performing Asset Class During the Past 20 Years', 2016

Figure 2 – 20-Year Return and Risk Profile Across Major Asset Classes



Source: Thomson Reuters Datastream; www.treasury.gov

MULTIFAMILY REAL ESTATE: DEFINED

When it comes to residential property, there are two main categories that homes generally fall into: single-family and multifamily. Single-family properties are those with one unit available to rent, such as houses and condominiums, while multifamily properties are buildings with more than one rentable unit, such as apartment complexes.

While single-family properties are usually more affordable, if you plan on purchasing the entire property, there are several reasons why multifamily properties tend to be the better investment. And with the passage of new security laws, you no longer have to be an **accredited investor** to be able to invest alongside big institutions, as there are multi-family opportunities starting at $2,000.

When a tenant moves out of a single-family property, that home would become 100 percent vacant. In contrast, a tenant leaving a 100-unit property would only make it 1 percent vacant, thereby diversifying the overall risk of the investment. This diversification can provide additional protection in the event of a downturn or other factors outside of an owner's control.

One of the other major benefits of multifamily investing is the downside protection of your most important asset – your time. Most multifamily investments engage professional property management services, which can come in handy if fixing toilets is not a pastime you enjoy.

Unless you are buying a multifamily apartment complex direct, you will likely additionally have asset management services built in as well.

Asset management firms (which are typically run by the investment firm which purchases the property) typically have decades or even centuries of experience in-house. Upside Avenue's parent company The PPA Group, for example, has hundreds of years in combined experience within the multifamily market and has transacted more than $1 billion in multifamily properties over the last 15 years.

This experience creates an environment where you have deep expertise managing the health of the overall investment. Asset management firms work alongside the property management team to ensure the property is running as it should be, given economic and local market conditions. Most sophisticated investment firms are "vertically integrated", meaning they have asset management and property management in-house – increasing overall economics of scale. Upside Avenue is part of a vertically integrated organization, having a property management company, an asset management company, a construction company and a utility billing company all under one roof.

Nearly all large multifamily properties have professional asset management (if they were purchased through an investment firm). This creates a process which results in truly passive income for investors, as they often need to do little more than monitor investments with their financial advisors and collect distribution checks.

MULTIFAMILY ASSET CLASSES

In the U.S., multifamily is often broken down by “asset class”. An asset class is a categorization of the overall age, condition and area. Properties are typically labeled Class A, B, C or D.

CLASS A

Class A properties are usually new, upscale apartment buildings with high-end amenities, and are often less than 10 years old. This class is known to have high average rents and be located in desirable geographic areas. These buildings are typically home to professionals and white-collar workers, who choose to rent by choice. While very pretty to look at, however, these types of properties can be most affected by recessionary trends.

CLASS B & C

Class B and C properties, on the other hand, attract a wide demographic, from working-class individuals to Millennials entering the market to downsizing Baby Boomers. These properties often have a mix of white and blue-collar workers and tend to offer residents the most bang for their buck, attracting renters even in a down economy. Tenants can range in age from 10 to 30-year-olds and are often located in desirable buildings in well-established middle-income neighborhoods.

4.3%

Q1 2017 NATIONAL VACANCY RATE

1.7%

Q1 2017 AFFORDABLE MULTIFAMILY HOUSING VACANCY RATE

CLASS D

Class D properties are often home to tenants 35 years or older and are located in run-down or low socioeconomic areas. They often house many Section 8 (government-subsidized) tenants.

While the building’s age is a factor, it is not as important as the building’s overall condition and area. For example, you can have a beautifully renovated yet historic building in a desirable area and it will be classified as an A or B building.

In a recent op-ed in the Multifamily Executive Magazine, Upside Avenue CEO Yuen Yung shared his views on asset class selection for portfolio balance. He says as renters are priced out of Class A apartments in a down or volatile economy, vacancies will inevitably increase.

And that’s exactly what’s happening today. The national vacancy rate (which takes into account all classes of apartments) rose by 10 basis points in the first quarter of 2017 to 4.3 percent. Conversely, affordable multifamily housing vacancies clocked in at a low 1.7 percent.

Class A properties are also costly to build and often come with a high property tax price tag, making the upfront investment for these properties quite significant. Even so, Class A apartment construction is at the peak of a seven-year high, according to The Wall Street Journal.

This has led to a sudden oversupply of luxury apartments, which in turn has made Class A properties less profitable across the board. Meanwhile, Class B and C properties also allow real estate investors the opportunity to enjoy a significant lift in NOI by making small property improvements.

Examples of these value-adds include putting in communal clubhouses, adding dog parks, and offering community events. These upgrades to B and C apartments can be relatively inexpensive to implement yet can generate higher rents, leading to rapid ROI growth.

Upside Avenue has a 15-year track record of investing in A, B and C properties through its parent company, The PPA Group.

The PPA Group believes in a diversified balance of multifamily, senior living and student housing across A, B and C asset classes across the nation creates a winning strategy.

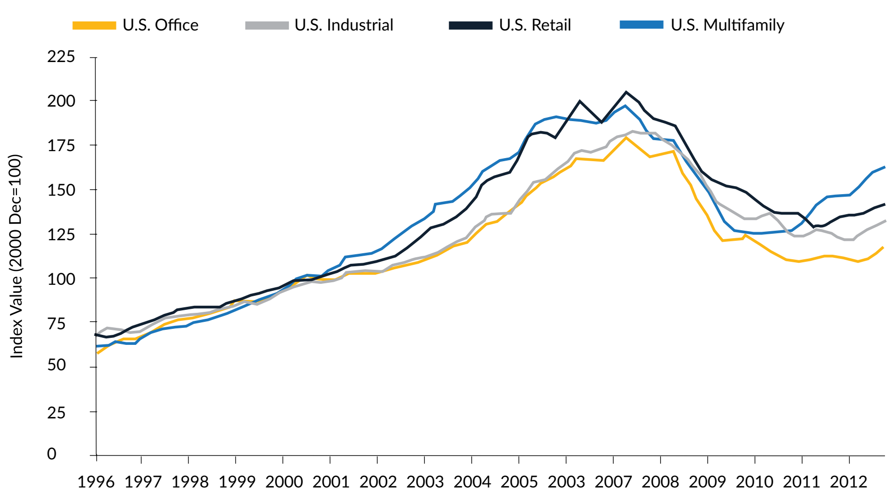
PEOPLE ALWAYS NEED A PLACE TO LIVE

WHY MULTIFAMILY REITS

The multifamily rental sector is famous for having outperformed other sectors in the housing market, especially during the global economic downturn that began in 2007.

This sector was also one of the quickest to recover from the recession. By 2013, multifamily housing starts had already returned more than 70 percent of their pre-recession peak, while single-family housing starts had only recovered a small amount of their recession low.[8]

Figure 3 - U.S. Primary Property Type Quarterly Indices - Equal Weighted, Data through December 2012



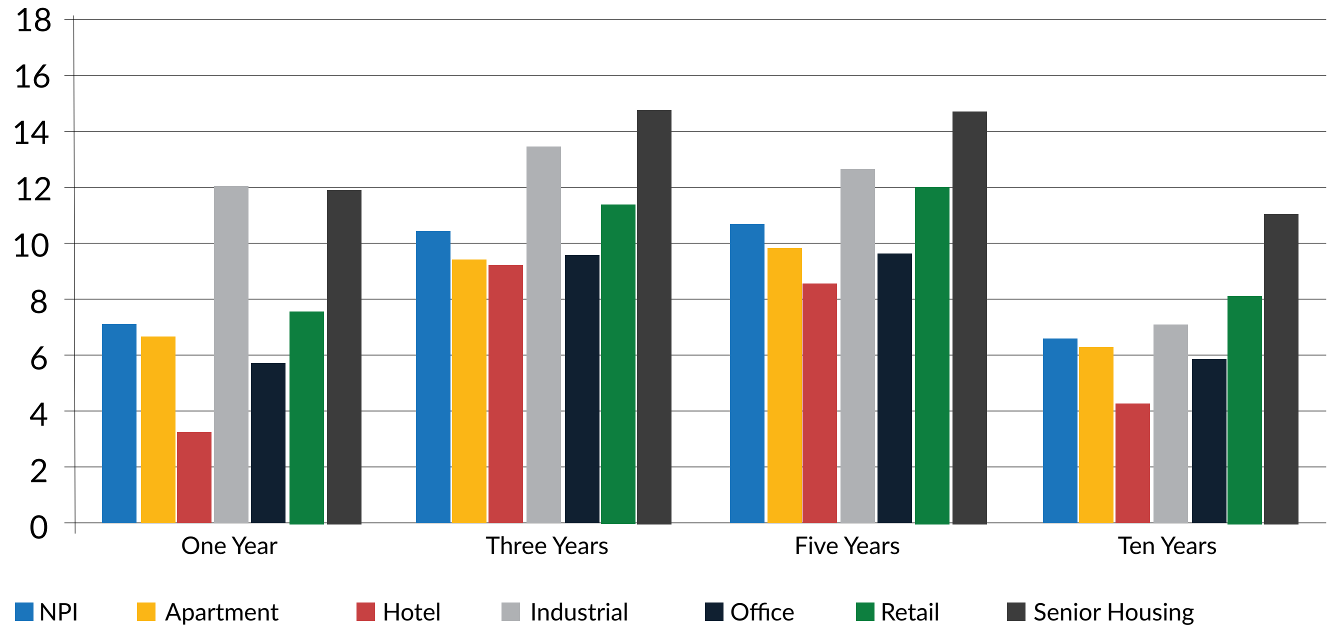
Source: CoStar, 'U.S. commercial real estate posts record gain in sales volume and broadening pricing recovery to close 2012.'

Figure 3 shows the multifamily index values compared with other primary property types—including industrial, retail and office—and demonstrates the quick recovery relative to other asset types within the sector.

Since then, growth has continued. Throughout 2016, the multifamily market kept up with its above-average performance while disproving previous predictions of higher vacancy rates. Despite moderation in rent, growth remained above the historical average in 2016.[9]

8 Economics and Statistics Administration, 'Understanding the Trend in Multifamily Housing Growth During the Recovery,' 2013
9 Freddie Mac, 'Multifamily 2017 Outlook: Positioned for Further Growth,' 2017

Figure 4 - NCREIF Annualized Total Returns by Property Type (Period Ending 3/31/17)



Source: NCREIF, NIC MAP* Data Services

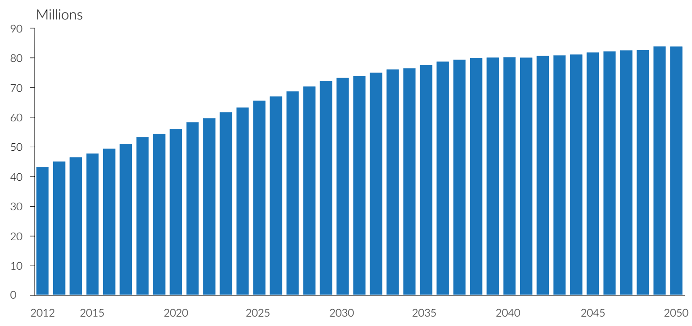
Even brighter predictions are set for 2018 and beyond, especially for such subsectors as apartments, senior living and student housing properties, which are best known for their high yields.

According to the National Multifamily Housing Council, apartments have the highest risk-adjusted investment returns compared to other property types, and have proven to be the most resilient during economic downturns. In addition, apartments have shorter leases than other property types, allowing them to more quickly adjust to changing market environments.[10]
The U.S. student housing market is also considered something of a safe haven amid global economic uncertainty, due to continued enrolment growth at four-year universities and colleges as well as more controlled supply growth.[11]

Meanwhile, the senior housing sector too has proven to be recession-resistant. While occupancy rates fell during the Great Recession, rent growth remained positive during the downturn.[12] Figure 4 shows that the annual total return through the first quarter of 2017 for senior housing properties

10 NMHC, 'Research: A Case for Investing in U.S. Apartments.'
11 NMHC, 'Investors Favor Student Housing's Economic Resiliency,' 2017
12 AEW Research, 'Seniors Housing Investment Opportunity,' 2015

Figure 5 - Population Aged 65 and Over for the United States: 2012 to 2050



Source: U.S. Census Bureau, 2012 Population Estimates and 2012 National Projections

was 12.05 percent, overshadowing the 7.27 percent result of the NCREIF Property Index (NPI).[13] This trend is expected to only continue as demographic shifts cause a greater need for senior housing. Currently, around 1 million Americans live in some type of senior living community. As illustrated in figure 5, that number is expected to double by the year 2030. By the year 2040, the 85+ population is expected to nearly triple from 5.7 million to 14.1 million.[14]

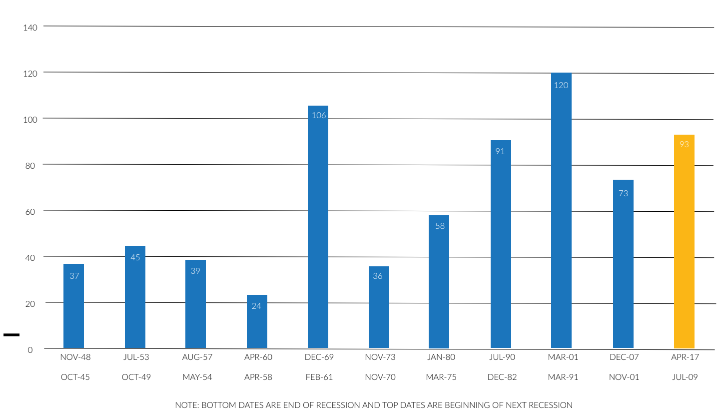
IS IT TIME TO TAKE THE MONEY AND RUN?

At the time of writing this paper, we are in the midst of an unprecedented stock market boom, but many have already begun predicting the start of the next economic decline.

MarketWatch, for example, is reporting U.S. stocks are more expensive than other closely watched markets like Europe or emerging markets—which don't look particularly cheap themselves—and based on the relative strength index, or RSI, the S&P is at its most overbought level in 22 years.

With stocks performing exceptionally well, many financial advisors are advising clients to diversify and not be complacent[15]—lest they repeat the mistakes of 1999 and 2007.

Figure 6 - Economic Expansion in Months



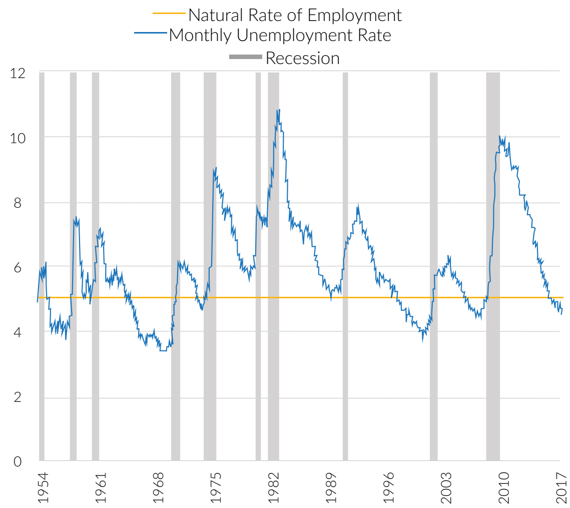
Source: Axiometrics

Many forecasts for the next recession are based on the length of the current recovery, which is now one of the longest expansions on record. A quick look at Figure 6 would suggest the end is indeed near.

Upside's sister company Casoro Capital, partners with institutional, family office and ultra-high-net-worth investors. We are hearing from a large percentage of our partners that they are looking to 'hedge their bets' by placing more money in assets that

13 NCREIF, 'Seniors housing returns moderate, but continue to outpace NPI,' 2017
14 Census Bureau, An Aging Nation: The Older Population in the United States, 2014
15 Kiplinger, 'Now more than ever it's time to diversify', December 2017

Figure 7 - Unemployment Rate as a Predictor of Recession



Source: Axiometrics

have a proven track record of real yield—in the case of a musical chairs economy no one wants to be left with all their eggs in the stock-market basket.

Additional data that our team of market experts has been examining is unemployment data. When the unemployment rate falls below 5 percent, and it has since January 2016, history shows a recession usually follows within the next two to three years. Figure 7, for instance, shows that when the unemployment rate sunk below 5 percent in December 2005, the Great Recession followed in January 2008—just 25 months later.[16]

16 AXIOMetrics, 'Is a recession near?', 2017

HOW PROFESSIONAL INVESTORS HEDGE THEIR BETS

Large institutions, like pension funds, insurance carriers, and endowments, manage market risk for a huge population of investors. A major part of their strategy is holding alternative assets, such as real estate that produce on-going real yield (aka income). In their 2017 survey Pension Real Estate Association (PREA) members reported having an average of 9 percent of their holdings in private market, non-traded real estate.[17]

Institutional and professional investors understand the importance of diversification. While the stock market may be good now, we have seen the bottom drop out with little warning.

17 Pension Real Estate Association, 'Investor Report'

As Figure 8 demonstrates, by allocating a portion of their investment portfolio, investors are able to reap a number of benefits including diversification from other asset classes, inflation hedging, and providing stable income flows.

This strategy has paid off. As of 2015, the average equity mutual fund investor earned a 30-year annual return of roughly 3.7%. By contrast, the Yale endowment generated an approximate 13% annual return over the past 30 years. While Yale is one example of superior returns, they are not alone in their overall satisfaction with commercial real estate.

Figure 8 - Why Real Estate

What are the reasons you invest in real assets outside of real estate?	
Diversification from Other Asset Classes	100.0%
Inflation Hedge	92.9%
Stable Income Flows	64.3%
Overall Higher Returns	35.7%

Source: CPension Real Estate Association

THE LIQUIDITY TRADE-OFF: COST VS REWARD

There can be some initial apprehension about investing in less liquid assets. However, the cost that many investors are paying for liquidity that they are not often using is usually not worth the price tag for many investors.

Having non-market correlated alternative assets such as private market real estate in one's portfolio is a hedge against systematic risk inflation and stock market downturns. Which, could otherwise have double digit losses across both stocks and bonds in a single day if a market adjustment occurs. These benefits only increase when compounded by diversifying across markets and assets types.

Nearly all companies start as private companies, and when they go public they rarely significantly increase the value of the underlying assets—however the price of those assets (or the stock price) often goes way up. This price is marked up to pay for increased regulatory costs, daily liquidity and is often highly correlated to the overall stock-market, meaning you could be severely over-paying just because the market is over-heated. Because public markets have heavy disclosure requirements as well as teams of analysts often covering them, there is often little potential for information arbitrage (using information to find additional value in a stock). That is not the case in the private markets like real estate, where local market expertise, economies of scale from vertical integration and other factors lead to ability to increase value without increasing price.

AS MOST INVESTORS TAKE A LONGER TERM BUY AND HOLD APPROACH AND ARE NOT IN NEED OF DAILY LIQUIDITY, A CAREFUL EXAMINATION OF THE PREMIUM BEING CHARGED FOR THIS LIQUIDITY MAY BE IN ORDER.

According to a report entitled "Private Company Valuations" published by NYU's Stern Business School, the illiquidity discount for private firms often ranges from 20-30 percent.[18] As most investors take a longer term buy and hold approach and are not in need of daily liquidity, a careful examination of the premium being charged for this liquidity may be in order. While institutional investors do invest in the stock market, they often do it as a much smaller portion of their portfolio instead investing up to 29 percent in alternative assets (such as private market real estate). They understand that most of the value is often extracted by the owners as they take a company public. Combine this with the data shown above that the market is already over-valued by 22 percent and the liquidity premium becomes even less attractive. By comparison, less than 5 percent of investors invest in alternatives –leaving major potential risks if market corrections occur.

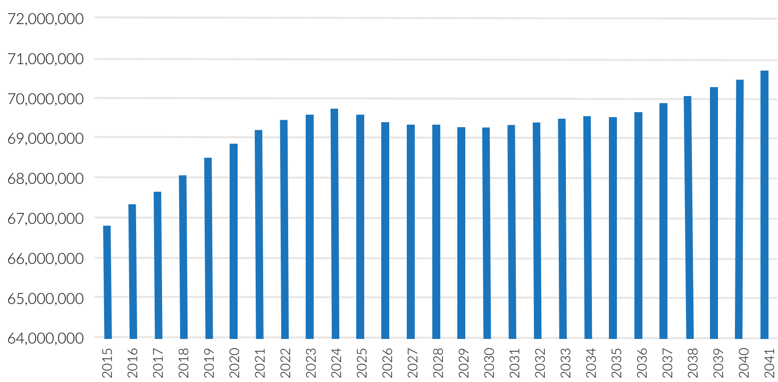
18 NYU's Stern School of Business, "Private Company Valuations", Dr. Aswath Damodaran 2017

MULTIFAMILY OUTLOOK

Despite predictions for a looming recession, the outlook for the multifamily rental market remains bright.

U.S. macroeconomic conditions are solid and generating job growth of about 200,000 jobs per month, which is enough to maintain multifamily occupancy and rent growth. Meanwhile, supply of multifamily properties is slowing, and is expected to peak in 2018.

Figure 10 - U.S. Renter Population: Age 30-34 Cohort

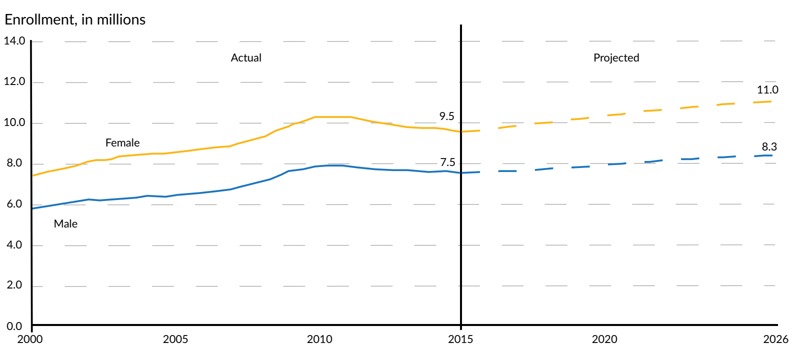


Source: U.S. Census Bureau (BOC)

At the same time, demand for multifamily homes continues to look favorable, with renter populations expected to climb from now until 2041. This is being peddled by Millennials, who are choosing to marry and start families later in life whilst brushing off homeownership.[19]

19 Yardi, 'U.S. Multifamily Investment Strategy & 2018 Outlook,' 2017

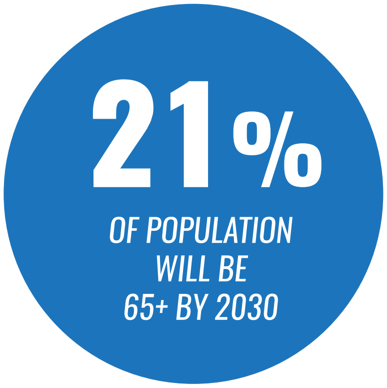
Figure 11 - Actual and Projected Undergraduate Enrollment by Sex: Fall 2000-2026



Source: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS), Spring 2001 through Spring 2016.

Other demographic trends are pointing to growth in the student housing sector, as demand swells for new, nicely-furnished alternatives to the rundown college dorms and off-campus homes. Steady increases in university enrollments have also prompted development in this sector.[20]

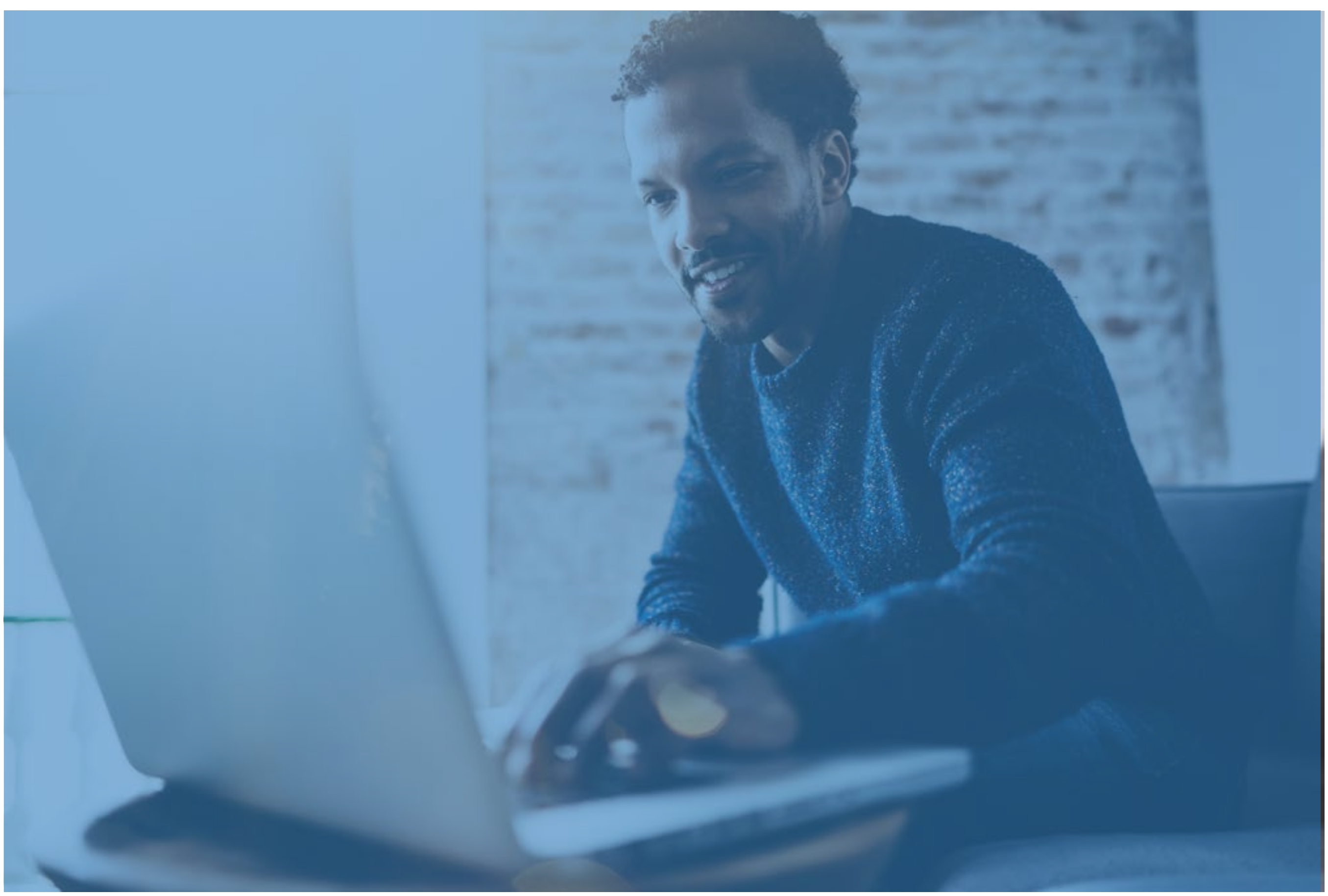
20 New York Times, 'A Rush to Meet Rising Demand, and Expectations, for Student Housing,' 2017



As for the senior living sector, the numbers are even more promising. The 65 and older population is expanding, with the aging of the Baby Boomers population and improved longevity. This is only the beginning: by 2030, 21 percent of the population, or 74 million people, will be past retirement age. As more people enter retirement, the more the labor force will shrink, impacting the number of caregivers available to support the aging population and putting a squeeze on existing housing and care options. While the seniors housing inventory is growing by 22,000 per year, there is still more in demand.[21] These factors make us very bullish on senior housing in the coming years.

At Upside Avenue, senior housing is one of our key target markets. We have been closely examining markets that have favorable State and Local Tax clients (aka SALT), favorable laws towards the aging population and overall positive migration trends. We believe in looking at not only trends in the larger market but also the best submarkets with the most favorable overall prospects of growth. A word of caution—not all submarkets are the same. Property is very local. It is very important that you have local market expertise or partner with a team that does. Far too many online-investment firms know very little about the markets and submarkets they are placing client's funds into. It is critical as an investor to do your due diligence.
While the 2017 tax bill passed in late December is highly controversial, it

21 National Investment Center for Seniors Housing & Care (NIC), 'Aging and the U.S. Economy,' 2016

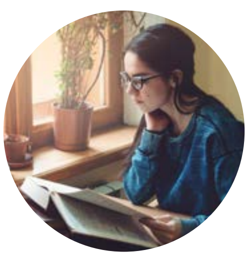


IMPLICATIONS OF THE 2017 TAX BILL ON MULTIFMILY REAL ESTATE

is widely agreed that this will have major positive implications for the commercial real estate markets.[22] The National Realtors association stated, “Congress has greatly reduced the value of the mortgage interest and property tax deductions as tax incentives for homeownership.” Congressional estimates indicate that only 5-8% of filers will now be eligible to claim these deductions by itemizing, meaning there will be no tax differential between renting and owning for more than 90% of taxpayers.[23]

While we do not believe that the bottom will fall out of the single-family housing market or that wide portions of the population will stop buying homes, we do believe that there will be an impact on occupancy rates in multifamily markets as people choose the freedom and flexibility of renting now that ownership benefits have been significantly reduced. This is especially true of higher end class B and class A apartments.
In addition to potentially increasing occupancy, the new tax laws also have a major impact on Real Estate Investment Trusts (REITs). Under the new tax laws, qualified business income paid to owners or investors of pass-through businesses is allowed up to a 20 percent exemption. This income used to be taxed at the maximum 37 percent rate but will now be taxed at a rate of 29.6 percent. While there are limitations on that 20% based on income brackets, the majority of investors making below $315,000 filing jointly or below $157,000

22 NY Times, ‘Tax Plan Crowns a Big Winner: Trump’s Industry’, December 5th, 2017
23 National Association of Realtors, Issue Brief, ‘The Tax Cuts and Jobs Act - What it Means for Homeowners and Real Estate Professionals’ December 2017





for single filers will be able to take full advantage of the new exception. The size of the 20 percent deduction falls for joint-filers until $415,000 and $207,500 for single-fillers where it is totally phased out.

This is especially promising for investors who choose to take their returns in the form of distributions—as it allows investors to add additional passive income streams with less overall tax liability.
The new tax code also preserves 1031 like-kind exchanges, which give REIT managers the ability to use the proceeds of one property sale to immediately acquire another, without paying tax on the proceeds. This is especially valuable when looking at opportunistic and value add real estate opportunities where there is opportunity for large potential returns buying an underperforming multi-housing asset, making improvement to the building and occupancy, and selling it in a relatively short period of time.

While the stock market is currently witnessing

WHAT'S NEXT?

unprecedented highs, many leading economists and investment firms are predicting major twists and turns for the years ahead.

Volatility, an over-priced stock market, promising real estate growth indicators, and the generous tax breaks given to the commercial real estate industry in the new GOP tax bill are causing many institutional investors to increase their real estate allocations in the coming year.[24]

While institutional investors are leading the way making allocations to safer assets before the market turns, you do not have to be rich to benefit from private market real estate.

THANKS TO THE 2012 JOBS ACT, INVESTORS CAN INVEST AS LITTLE AS $2,000 IN PRIVATE MARKET REAL ESTATE.

Thanks to the new technology advances and provisions in the 2012 JOBS Act which recently went into effect—investors can invest as little as $2,000 in private market real estate, investing alongside billion-dollar institutions through platforms like Upside Avenue. This gives investors the ability to benefit from both ongoing passive income through distributions as well as long term growth from appreciation and value add.

Technology and financial regulations are creating bigger opportunities for diversification in to new asset classes that most investors have not had direct access to. This is changing what and how people invest.

Is your portfolio balanced and ready for the next down turn?

24 Bloomberg, Tax Overhaul Could Be Big Win for U.S. Real Estate Investors, 2017

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