Some say a recession is one of the best times to start a business. It was 2008 and the real estate market was crashing. While others were looking to get out, I was looking to get in. Forum seized its first big opportunity with a multifamily development opportunity in Boulder, CO. Needless to say, it wasn’t easy asking people to trust me and invest their capital during this time period - widely perceived to have been the greatest downturn since the Great Depression. But with vision and determination, we were able to successfully complete that development and deliver a great return to our investors. The success of that project helped lead to many more opportunities for both Forum and our investor partners.

Leading into 2008, my partner at the time and I owned around 2,500 units together in a handful of secondary and tertiary Midwest markets. Our properties were moderately leveraged with a very high debt service coverage. We were focused on properties that had renters by necessity. Cash flow was our mantra then, and remains our highest investment priority today.

But when the whole world started melting in 2008, my first reaction was like everyone else: “what is going to happen? Is our portfolio going to survive or would we need to infuse cash?” As the dust settled over the next few quarters, we realized that being in stable markets, with renters by necessity who didn’t have another option for housing, we were rock solid with our investments. Today we call these renters the “Missing Middle,” and they are growing exponentially.

While many during this difficult time struggled, we benefited from having few problems which, therefore, allowed us to play offense. As quickly as we could buy and build apartments we did, and it paid off handsomely for all involved. Fast forward to 2020, and a lot has transpired, besides time and growing older and wiser.

Building a business while simultaneously raising three children, coaching their sports, being a father, husband, son and friend is a tremendous amount of work, yet all extremely gratifying. Even though there are a lot of playbooks for building a company and raising kids, nothing can prepare you for the inevitable change and growth in both a business and a family. As I like to say, “even grass likes to grow through cracks in concrete.” It’s going to happen, so embrace change and try to be ahead of it. Others are just along for the ride – not me! It just so happens that “Blaze the Future” is one of our Core Values, and is something we live by everyday at Forum.

One major difference between 2008 and now, is the pace with which change, and growth is happening. This is largely attributable to technology and the efficiency it brings. We’re living in a global investment world – not just a local, regional, or even national one.

Over the past 10 years global investment in the U.S. has nearly doubled. With the influx of that kind of capital, in the United States we are seeing tremendous competition.
More than ever, competition for investment opportunities in the United States is greater. While we strongly believe investing in the U.S. is still a good idea, the environment has changed. Competition has accelerated and it is predicted that returns going forward will inevitably moderate. These historical high teen returns are unsustainable. Many economic factors, such as stagnant GDP, too much capital chasing attractive opportunities and loose monetary policy have resulted in perennially low interest rates.

There will be limited higher-yielding alternative investments over the next 10 years as demonstrated in the graph, below.
Capital investment in the U.S. has more than doubled over the past 10 years making the investment dollar in the United States even more competitive.

Globally the United States remains a strong place to invest. As of the date of this report, the 10-year Treasury is 1.40%!
Continued innovations in technology are causing inflation to fall below targets.

As technology advances, it’s relative price drops, suppressing prices and lowering production costs across industries. Continuously cheaper and better technology resonates through the economy and produces a drag on the Consumer Price Index (CPI) and inflation.

Interest rates continue to push lower than we have ever seen and the yield curve recently flatlined. This has resulted in a slowdown, and suggests continued slow growth and moderated returns ahead.
WHAT DOES THIS MEAN FOR THE MULTIFAMILY SPACE?

We remain resolute in our strategy of investing in hard assets like real estate and believe multifamily is one of the most stable real estate investment classes with historically low volatility. Multifamily is less impacted by cyclical downturns than other property types; is not correlated to the broader, equity markets - as people need a roof over their head; and, was the first sector to recover from the last recession achieving superior returns through the expansion phase.

But what does the future look like?

Understanding that cap rates continue to lower (average cap rates graph, below), we know that total returns moving forward will come primarily from income (cash flow) not appreciation (annual multifamily returns (second graph below)).

Stable, consistent and growing cash flow has, and will continue to be our focus. Even on developments, once stabilized, we want consistent growing cash flow. This is why we are focused on markets with higher growth potential - not just yield.

Unlike 2009 where we were getting 20% amortizing cash-on-cash returns with 80% leverage, today we are seeing year one cash-on-cash returns of 6%-8% using 65% leverage, with returns predicted to go lower given the lack of other, alternative investment options.
INVESTMENT FOCUS: MIDDLE-MARKET MULTIFAMILY

Why Middle-Market Multifamily?
Our primary investment focus is aimed at middle-market multifamily acquisition, development, and debt opportunities.

Among the 22.8 million renter households in the U.S. with annual incomes over $35k, 59% (13.5 million) have incomes below $75k per year, leaving this segment – the Missing Middle – with very limited new product options as most new multifamily supply has been in the urban core luxury segment this cycle.

While the cost to rent has grown in this cycle, the cost to own has grown at a faster pace due to substantial home value appreciation. At the same time, inflation-adjusted incomes have seen very modest growth for all but the top quartile. Continued housing cost escalation at a rate faster than household income growth will increase the demand for middle-market housing alternatives as more renters will be priced out of the top of the market and seek high quality new apartment alternatives at a lower monthly rent.

Additionally, we are in the Fannie Mae borrower channel and a Freddie Mac preferred borrower, so we get lower spreads on our loans. When we focus on the Missing Middle, we can get 30-50 bps lower spreads on our loans which can improve returns.

Portion of U.S. Renter Households by Income

- 21% $75K+ INCOME
- 32% $35K-$75K INCOME
- 18% $20K-$35K INCOME

Source: CBRE Research, U.S. Census Bureau, American Community Survey, 2017 data released Q3 2018. Households based on renter housing units. Includes both single family and multifamily units. The Census reported a total of 43.4 million renter households in 2017.

Cumulative and Annual Growth of Cost to Own and Cost to Rent

Source: Freddie Mac, Census Bureau, Moody’s Analytics, REIS Note: Last data point as of 3Q. To provide annual growth rates, calculated from 3Q to 3Q. Forecasts for 2019 apply annual growth projections onto 2018 Q3 data and use 2019 30 year mortgage rate forecast.
Long-Term Housing Undersupply
In the early post-recession years, household formations significantly outpaced new housing starts creating a long-term, pent-up demand nationally that continues to drive absorption of new units.

Cumulative deficit in supply from:
- 2000-2018: 164,100 units
- 2010-2018: 2,498,300 units

Absorption
In 2019, multifamily absorption and supply moderated. Strong demographic trends in the U.S. will drive renter household growth in the future and is expected to outpace completions of residential units in the future.
Stronger rent growth in the lower priced suburban markets.

Since much of the new supply has been focused on the luxury segment at top rents in core submarkets, the more limited supply at the middle-market segment has resulted in stable rent growth and lower vacancy for the “renter by necessity”. Suburban locations that offer value compared to the urban core submarkets have outperformed in rent growth since 2015.

Source: Yardi Matrix: 2019 Multifamily Market Update

Canyon Club Apartments – Plainfield, IN
Despite the uniformly positive consensus on the outlook for tertiary markets and our past successes in those regions, we have intentionally slowed our acquisition activity in those markets over the last 18 months. These tertiary markets rarely have new product being built since there isn’t the job or population growth to support it. Additionally, as more buyers come into these markets searching for yield, they are going to be hit by higher property taxes, insurance costs, labor shortages, and wage increases (just to name a few). We, too, are experiencing those challenges at our properties but have great basis and cash-on-cash returns to support our investment. Our non-mainstream, cautionary perspective is a result of what we see as continued, disappointing market performance relative to expectations and our concern that this is a “value trap” - relatively cheap pricing getting even cheaper. It is hard to drive rents and occupancy when population growth is stagnant or declining, even with a lack of new supply coming online.

Finally, for owners to exit these tertiary markets the stars need to align with an abundance of buyers. Today that abundance exists, so we will sell where and when appropriate; however, there typically isn’t the type of liquidity and demand from buyers in these tertiary markets as there is in higher growth markets.

As it stands today, these are the year one cash-on-cash returns we are seeing in the tiered markets listed below:

**Tertiary:** 9%–11%
(defined by markets with a population of less than 100K)

**Secondary:** 6%–8%
(defined by markets with a population over 500K)

**Primary:** 4.75%–6%
(defined by markets with a population in excess of 1M)

Although the tertiary markets look attractive from a yield standpoint, the risk we see today outweighs the lack of ongoing growth coupled with the lack of value appreciation that will be experienced in these ill-liquid markets.

We remain committed to focusing on housing for the *Missing Middle*, putting our efforts into identifying opportunities in more attractive secondary and primary higher-growth markets. These higher-cost and higher-growth markets have more liquidity allowing for a sale, if necessary. They can also provide more upside in value creation and rental growth giving us the opportunity to create solid, growing, stable cash-on-cash returns with lower risk. While our transaction volume has declined over the past few years, Forum is dedicated to finding opportunities that meet our investment goal of providing stable cash flow for our partners.
In parallel with our acquisition strategy of focusing on housing for the Missing Middle, our development projects are focused on attainable rents at the middle range of the regional rent spectrum. We avoid competing at the top of the luxury market with rents that are unaffordable to a wide market segment. We are staying away from the concentration of new supply in the urban cores.

Development strategies to control costs and offer moderate rents include:

- **Lower land costs in suburban locations.** We’re targeting stable, mid-priced sub-markets that offer value in monthly rent compared to the most expensive sub-markets in the same region. These locations are generally suburban and land values are lower than core locations, which contributes to reduction of total development costs.

- **Lower hard costs through design.**
  - **Three-story wood construction without elevators**
    The least expensive construction typology and least amount of conditioned common area among multifamily products.
  - **Surface parking** – The least costly way to provide parking, which may include uncovered spaces, car ports, external garages, or tuck-unders in the building. We are staying away from structured parking.

- **Smaller units allowing for lower monthly rents while still offering attractive finishes and amenities.** Unit mix to include offerings from studios to three bedrooms in order to provide a lower cost of entry with the smaller unit types as well as roommate options with the larger units.

- **Lower soft costs with replicable prototype design.** We are working with design professionals and a general contractor who have experience in our chosen type of product. The group will work to create a building prototype that will be transferable from site-to-site and limit the high costs of custom design in more expensive and complicated buildings.

**New Forum Developments**

Looking ahead into 2020, we are focusing more attainable, middle-market multifamily developments in high-growth markets characterized by strong economies that are poised for ongoing job and population growth. The Colorado market is a primary focus for development, in order to take advantage of the conditions that keep attracting new residents to our hometown. We are currently working on four development projects in the greater Denver Metro:

- **Monaco & Evans.** In 2019, we closed on this 13-acre former Kmart site, which is well located in a built-out Denver neighborhood. We are currently working with the City and neighbors to obtain an approval for a multifamily community that will transform the intersection.

- **104th & Landmark.** We are under contract and in due diligence on a nine-acre site in northeastern Commerce City. The property is surrounded by high-quality master-planned communities along the fast growing 104th Street corridor, just minutes to E-470 and I-85.

- **Stapleton-Northfield.** This 28-acre site has a general development plan for 800 – 1,000 residential units, that will be designed and approved in several phases. This site is one of the last remaining large parcels in Denver’s nationally-acclaimed Stapleton master-planned community. The site offers walkability to an outdoor lifestyle shopping center, miles of trails and open space, and will be designed with its own unique amenity package to differentiate it in the market.

- **Trax at Ward Station.** We are excited to be under contract and in due diligence on a 2.8-acre transit oriented development (TOD) site in Wheat Ridge, CO, directly across from the last stop on the brand-new commuter rail line. We are working with the City to obtain approval for both the site development plan and a tax increment financing agreement. This capitalization plan which will help offset the cost of structured parking while providing middle-market rents in a high quality urban building at the station.

We look forward to progressing these developments and will unveil the investment opportunities as we near construction over the next year.
CONCLUSION

Forum will continue to grow and evolve, but what won’t change is our commitment to our Core Beliefs: Cash Flow, Partnership, Transparency, Community-Building, and Risk Mitigation, and our never-ending zest as a strategic investor to find solid investments in the multifamily sector.

Given our long-standing expertise in multifamily real estate, we will continue to launch other verticals in multifamily that are natural extensions of our existing offerings.

SAVE THE DATE

2020 ANNUAL INVESTOR CONFERENCE

As a reminder, we will be holding our 2020 Forum Investor Conference on May 12, 2020 at The Cable Center in Denver, Colorado. Please be on the lookout for a formal invite and more details about the event, coming from the Investor Relations Team.

WE’D LOVE TO HEAR FROM YOU.

What would you like from our upcoming conference?
Send your thoughts and suggestions to InvestorRelations@forumre.com

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Remember, you can login in to the Investor Portal 24/7 to access and update all of your investments online at: forumre.com

As always, we welcome your feedback and value your partnership.

Thank you.

Darren Fisk | Founder & CEO