


BREAKFORM | RE

REIMAGINE YOUR INVESTMENTS[®]

RESIDENTIAL PROPERTIES

The “Big Wave” Investment Opportunity



WE SEE RESIDENTIAL INVESTMENTS AS an asset class with incredible opportunity and visibility for successful returns over a sustainable and long time frame. This is the result of a myriad of factors colliding at the same time. What are these factors? Let's explore.

Why Residential?

EXISTING HOUSING CRISIS & DRAMATICALLY LOW INVENTORY

We are facing a massive shortage of inventory within this asset class. To illustrate the gravity of this situation, let's use Los Angeles as an example. According to LA Mayor Eric Garcetti, we are seeing that there would need to be roughly 100,000 units each year built in Los Angeles for nearly a decade in order to catch up to existing demand. For many who are ready to buy, there is nothing available that they can afford. Most properties are expensive and out of reach. And while usual suspects like San Francisco are thought to have the highest shortages, Trulia notes that "the city has actually increased its available housing inventory by 12.3% in comparison to Greater Los Angeles, which grew by only 8.6%."

HIGH MEDIAN HOME PRICES IN COASTAL SOUTHERN CALIFORNIA

This shortage of residential inventory is also the main reason why home prices have been outpacing people's income growth for the past five consecutive years. From 2011 to 2016, the median home price rose by 42% compared to the median household income gain of only 17%. Such disparity negatively affects affordability

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and is unsustainable in the long term.

The only way to alleviate this and meet demand is to increase inventory.

Huffington Post estimates that the number of "trade-up" homes on the

market is also down about 40%. This creates a situation where homeowners who want to move from a starter home to something better can't afford the next tier

or cannot find the supply to fulfill their wants. Therefore, they stay in these starter homes, making it difficult for those looking to buy an entry home to find one. Meanwhile, mortgage lenders, despite record-low rates, are still reluctant to extend credit to borrowers with less than perfect credit. As investors look for places to earn whatever return on capital they can generate, the low end of the housing market has almost ceased to exist as the investor class has bought up homes with the plan to flip them later to take the portfolio public as a REIT like Colony Capital has done with Invitation Homes. This institutionalization of the asset class has become a significant hurdle for real entry level owner occupiers.

TOUGH DEVELOPMENT CONDITIONS

Other factors that contribute to the shortage of affordable inventory include constraints to building in many coastal regions due to tough development conditions. California is earthquake country. Therefore, not only are there restrictions on where we can build, but also on how high we can build in zones above fault lines or in areas at risk of liquefaction, for example, the majority of Los Angeles County, which rests on top of sediment basins. This dramatically limits the ability to increase density from zoning changes, an act which in itself is under heavy pressure from neighbors and the community at large and with pending regulations such as Measure S.



LOWERED INTEREST RATES AND A RECOVERING ECONOMY

First time home buyers and owners looking to upgrade are finally returning to the market, encouraged by lower interest rates and the 2014 bounce back from the 2008 housing collapse that halted nearly all development. Unfortunately, these lower interest rates and favorable economic climate are not enough to solve the problem. There are still not enough units for those ready to buy their first home or those eager to upgrade into the next tier.

CHANGE IN RELATIVE IMPORTANCE OF ASSET CLASS

Another factor contributing to this great wave of opportunity is the change in relative importance of asset classes. With less people going out to brick and mortar locations to do their shopping, businesses are forced to shrink the size of their physical locations and sell more online, and the need for such commercial

Today more people are working from home as well, with 24% of the workforce reportedly working from home...

spaces is further limited by the reduced needs to hold in store inventory due to same day drop shipping options. This is happening everywhere and highlights the fact that commercial real estate investment isn't what it used to be. Today more people are working from home as well, with 24%

of the workforce reportedly working from home according to the Bureau of Labor Statistics. This is telling of the nomadic, untethered nature of work in the 21st century. One thing that will not change, however, is the need for a place to call home. And with same day delivery of everything from groceries, to meals, and to general consumer goods, there seems no place more important than the home.



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MILLENNIALS SHOWING UP TO THE MARKET

Millennials are finally starting to buy. Considering that millennials will soon be between the ages of 30-38, this essentially gives investors a 10 year runway based on their buying needs, after having waited longer to start families and after waiting for fears of ownership to subside from the 2008 crisis. Complementing this is the fact that an estimated \$30 trillion in assets will be passed down from baby boomer parents and grandparents and is slated to be one of the largest driving factors that will allow the next generation to put down payments on homes or buy them outright and achieve what their parents were able to create as the wealthiest generation.

Either way, millennials, America's largest generation, are growing older. They'll likely make more money and increase their spending. Add that to historically low interest rates, low down payment programs and various mortgage loan options, and it's possible we'll see millennials expedite their path from renting and living with their parents to owning their own home in the coming years.

INSTITUTIONAL INVESTMENT THINKING

Given the convergence of all of these factors, we started applying proper institutional investment thinking within this asset class in the market where opportunity is the greatest. We are fine with other institutions still focusing on the "commercial" asset class. We see the trend and as they say "The Trend is Your Friend." If you are similarly interested in this asset class, or share our view, come take a walk with us. We are residential specialists, and this squarely fits our niche and what we do best. Who else to do this with but us?



BREAKFORM | RE is a fully integrated real estate investment, design & build practice that focuses on core Coastal California markets and in providing residential investment opportunities which take advantage of this “Big Wave”. We see this opportunity and work to identify prime opportunities for private investment, not only with investors, but also through our design and construction capabilities that provide site specific, modern, and affordable turnkey housing to residents looking for property to buy in a recovering economy. Our work is eco-friendly, architecturally designed, and expertly acquired. Our ability to provide such comprehensive value to our clients and investors is unparalleled. Talk to us by emailing info@breakformre.com.