"It seems the harder I work, the more luck I

have"

— Thomas Jefferson, a Great American Patriot

We Press Forward, Despite Politics and Rising Rates

It has been a wild and politically charged environment in this country for a while now, but particularly so in recent weeks as the hyper-partisan political environment gets uglier and further heated. Love him or hate him (and there is a lot of hate on both sides right now), Donald Trump is #POTUS and I have to get back to work regardless! My excellent Team and I are keeping a close eye on Macro- and Micro-economic indicators to identify any real signs of potential slowing. We will release a more extensive review of these indicators in coming weeks, but our preliminary takeaway is that Job Growth remains robust (although with slowing Growth Comps), Business Spending is still intact, Realty Prices are up, and much of the U.S. population is feeling better economically than at anytime since 2007. We have not seen substantial choppiness in Leading Economic Indicators, additional growth in Fed Balance Sheet assets, or meaningfully rising delinquencies in commercial realty debt. That said, rising interest rates do pose a somewhat substantial risk to the commercial realty market given the substantial leverage being deployed by many firms, and with a buying frenzy in the MFU Apartment business still clearly intact. Given these factors we remain careful and cautious buyers of commercial realty MFU Apartments and Hotels, while keeping a close eye on interest rates and the resulting impacts that such a move will have in coming months.

An Update on the MFU Apartment Market… Still Frothy as Heck

Hard to win deals in an overheated MFU Apartment environment. The MFU Apartment market remains frothy and overheated, in our view. In 2016, we underwrote 250-300 apartment deals, and bid on roughly 45 of these properties. Despite this, we did not buy a single apartment building in 2016 because A) None of these deals met our IRR hurdle rate at a price the Seller was willing to accept; B) Other institutional asset purchasers are willing to buy at 4-caps to 6-caps and apparently have no problem over-paying; C) We are competing with firms that offer 15 day close periods with limited due diligence, limited on-site inspections, no contingencies of any sort, and with sizable earnest money deposits that go hard on day one; and D) Good MFU Apartment properties often attract 25-35 bids from the market place. While this has been a bit frustrating, we think patience is a virtue, and that we will have more opportunities to buy better properties in 2H17 or 2018 as recent interest rate increases and additional Fed rate hikes work their way through the market. We are happy that we bought a great Hotel Asset in 2016, and we are Happy with our 2015 MFU Apartment purchases.

Key interest rates have risen by 63bps since Trump won the election, but Apartment cap-rates have NOT risen in kind. We are somewhat amused (bemoaned) by the fact that 10-year Treasury Rates have risen by 63bps since Trump won the election, and by 105bps since early July, but apartment cap-rates have not risen in kind. For example, we recently took a second look at a property that was back on the market after failing to close in late-November due to the quick upward move in interest rates. We asked the broker if the Seller was willing to take a lower price to account for this substantial upward move in interest rates and his short answer was "No, because the economy and the property continue to improve" (which may or may not even be accurate). No offense to this broker, but what a crock! Without harping on this point, we think it is only a matter of time before cap-rates do modestly rise, MFU Apartment prices decline on a per door basis (slightly), and it is easier to work into attractive MFU Apartment deals as over-leveraged investors begin to feel some of this pain.

Attractive MFU Apartment dynamics exist in Atlanta, Cincinnati, Indianapolis, Las Vegas, LA, Orlando, Phoenix, St Louis, and others. Marcus & Millichap recently published their 2017 U.S. Multifamily Investment Forecast and this document is extremely detailed and helpful for identifying attractive apartment markets. While we read a lot of broker research on this market, Marcus & Millichap does a particularly good job with its research. Included below are five tables that we find most useful. Just to reiterate, we did not do the hard work of creating this data, and we thank Marcus & Millichap for letting us refer to a few of their many tremendous graphs and insights. Some of our conclusions remain consistent with our prior views: A) Class B/C properties remain supply constrained and will be much less impacted by the substantial new supply of highly-amenitized Class A product coming to market in many cities; B) Secondary and Tertiary markets offer the best opportunity to find yield in this market; C) Overall apartment demand remains strong as home ownership rates remain at all-time lows; and D) Demand from Millennials remains robust as their earnings power increases and they recover (somewhat) from the Great Recession. **Particular cities that have seen Absorption rates greater than new Apartment supply in three of the past four years or better, including 2017 forecasts, include: Atlanta, Chicago, Cincinnati, Cleveland, Detroit, Indianapolis, Las Vegas, Las Angeles, Minneapolis-St Paul, New Haven, Orlando, Phoenix, Riverside-San Bernadino, Sacramento, Seattle, St Louis, and Tampa.** While there are some surprising cities on this list (hello Cleveland and Detroit), many of these cities are indeed our core focus markets for 2017. *All Charts Sourced from Marcus & Millichap:*

Figure 1. MFU Apartment Vacancy Rates: 2017 Forecast for Best & Worst Cities

Figure 2. MFU Apartments: 2017 Forecast for Most Undervalued Rental Rates

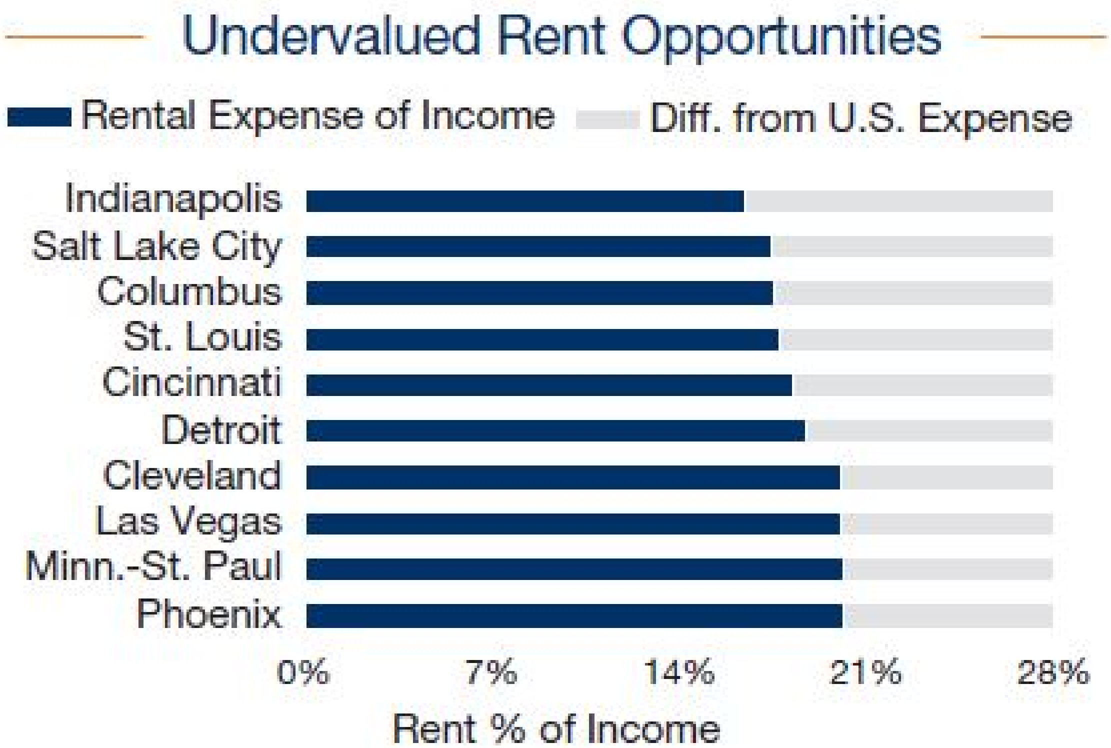

Figure 3. Employment Growth: 2017 Forecast for Best & Worst Cities

Hotel Opportunities are Currently Better than MFU Apartment Opportunities

Hotel market is an attractive place to focus. Given the competitive MFU Apartment investment environment noted above, we are currently finding better and more attractive opportunities in the Hotel market. This asset class is more thinly traded, has fewer investors believing that this is a passive business (as many falsely believe with Apartments), there are more off market deals available, and property cap rates are more attractive here even when adjusting for roughly 40% higher Equity requirements in Hotels versus Apartments. Also, the ability to rebrand/upbrand hotels is substantial; we can have bigger operational impacts through marketing, operational, and personnel management; and there are a variety of plays here like high-end boutique hotels that can generate very substantial cash flows. In short, we like this market and are actively in the process of closing on a Hotel property now, while looking for others to buy next.

Speaker Event in Manhattan on February 7 at 6:30pm

We are hosting a Speaker Event **in Manhattan on February 7 at 6:30pm** at Bounce Sporting Club (55 W 21st Street, New York, NY 10010). Augustus Moy has graciously agreed to speak with our group about the current State of the Realty Market including impacts from rising interest rates, late economic cycle investing, possible impacts from President Trump, current funding availability and trends, status of office & retail markets, and Family Office trends. Mr. Moy is a renowned Office and Retail expert, represents a very large Family Office, and is a regular speaker at Family Office events around the country. These events often times cost upwards of $1000 per day to attend, however our event is 100% Free! Sign up for our event (and please join our group) here.

We Seek Investors for 2017 and Beyond as

We Build a War Chest

We seek Accredited Investors as we build an equity war chest for 2017 and beyond. If you are an Accredited Investor interested in reviewing some of our current deals, please contact us here. We plan on further building our equity war chest for 2017 so we can be responsive to any good deals that may come our way. If more economic weakness hits then expected, we will be able to take advantage of even deeper price drops in MFU Apartments and Hotels. Unfortunately for us, because of the tremendous cash flows generated from these assets, we know others in this market feel the same way we do. Nevertheless, we still expect to find some better deals in months ahead. We are proud of the project returns we delivered in 2016, and think we can do even better in 2017!

Thank You for your time and attention and have a great week ahead.

-- Craig, Dave, Dallas, Erik, Mark, Paul, Helen Rob, and the whole team at Agile Realty Capital

Craig Berger, CFA CPA

Co-Founder, Agile Realty Capital

Delivering Outstanding Customer Experiences and strong risk-managed Investor Returns

David Cummings, CFP

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