BERKADIA®

Varia Shareholder's Meeting

US Multifamily Financing Overview

Presented by Steve Comly

May 2018

RELATIONSHIPS

"PEOPLE DO BUSINESS WITH PEOPLE THEY KNOW, LIKE, TRUST, AND VALUE"

VARIA US PROPERTIES

BERKADIA®

Freddie Mac

Fannie Mae®

Topics for Today

1. Who is Berkadia? What do we do?

2. Financing Markets in the US – Freddie Mac and Fannie Mae's Role

3. Varia's Investment Strategy and how Financing Plays an Integral Role

Who is Berkadia?

An Industry Leader in Commercial Real Estate

Berkadia is a joint venture of Berkshire Hathaway and Leucadia National Corporation, both of which are renowned for their capital strength and sophisticated investment strategies.

Berkshire Hathaway Inc. (NYSE: BRK.A and BRK.B) is a holding company owning subsidiaries engaged in a number of diverse business activities including property and casualty insurance and reinsurance, utilities and energy, retailing and services.

Leucadia National Corporation (NYSE: LUK) is a diversified holding company. Leucadia's largest business is Jefferies, a global, full-service investment banking firm. Leucadia also owns and holds investments in a range of other businesses, including manufacturing, telecommunications, real estate and energy.

Who is Berkadia?

- Industry-leading real estate company
- Privately held, non bank regulated
- Comprehensive debt and equity capital solutions, investment sales advisory and research services for multifamily and commercial properties
- Largest, highest-rated and most respected primary, master and special servicer in the industry
- Special focus on multifamily
- Deep relationships with Fannie Mae, Freddie Mac, HUD and life companies
- Flexible, customized lending and servicing solutions

National Reach, Local Expertise

Berkadia by the Numbers

2017 Lender Rankings

#1 Ranked FHA/HUD

#2 Ranked Fannie Mae

#2 Ranked Freddie Mac

#4 Ranked Life Company

Berkadia by the Numbers

MORTGAGE BANKING

2017

$24.6B In total loan production

$16.8B Agency production

1,323 Loans closed

INVESTMENT SALES

2017

$7.8B In sales transactions

438 2016 total transactions

543 Listings taken

SERVICING

PORTFOLIO

$205.9B
Servicing portfolio volume
as of 12/31/2017

16,769
Number of loans serviced
as of 12/31/2017

RATINGS

FITCH	STANDARD & POOR'S	MORNINGSTAR
Primary CPS1	Primary Strong	Primary MOR CS1
Master CMS2	Master Strong	Master MOR CS1
	Special Above Average	Special MOR CS3

What does Berkadia do for you?

- Assist Stoneweg in the underwriting, valuation, and financing of each property.
- Provide financing terms via competitive bidding process with Freddie Mac, Fannie Mae and other lending institutions.
- Work with Stoneweg on acquisition due diligence, 3rd party reports, and underwriting materials for review and presentation to Lender.
- Berkadia funds the loan at closing with GSE takeout within 60 days.
- Berkadia remains the Servicer for the life of the loan.

Philadelphia Mortgage Banking Team

Steve Comly

- 15 years of lending experience
- $3.5 Billion loan origination volume

2017 BY THE NUMBERS

$3.0 BILLION
New loan originations

145
Loans closed

$2.3 BILLION
GSE loan originations

$292 MILLION
Life Co. loan originations

Freddie Mac & Fannie Mae

The Government Sponsored Entities (GSEs)

Government Sponsored Entity

- The United States multifamily market is unique in that it has a liquidity function that does not exist in other countries.
- Fannie Mae and Freddie Mac are Government Sponsored Entities designed to promote liquidity in the US housing market and to assist in the preservation of affordable housing.

Freddie Mac and Fannie Mae

- Taken into Conservatorship in September 2008 and now overseen by the FHFA
- Freddie Mac and Fannie Mae cannot lend directly, must lend through their approved Seller Servicer / DUS Network
- Freddie Mac and Fannie Mae provided the best combination of leverage, long term fixed rate, and interest only in the market today
- FHFA restricts Freddie and Fannie to a lending limit each year, with certain exclusions for specialty products that support their mission.

Freddie Mac and Fannie Mae

2017 Production Numbers

Freddie Mac Production: $73.2 B

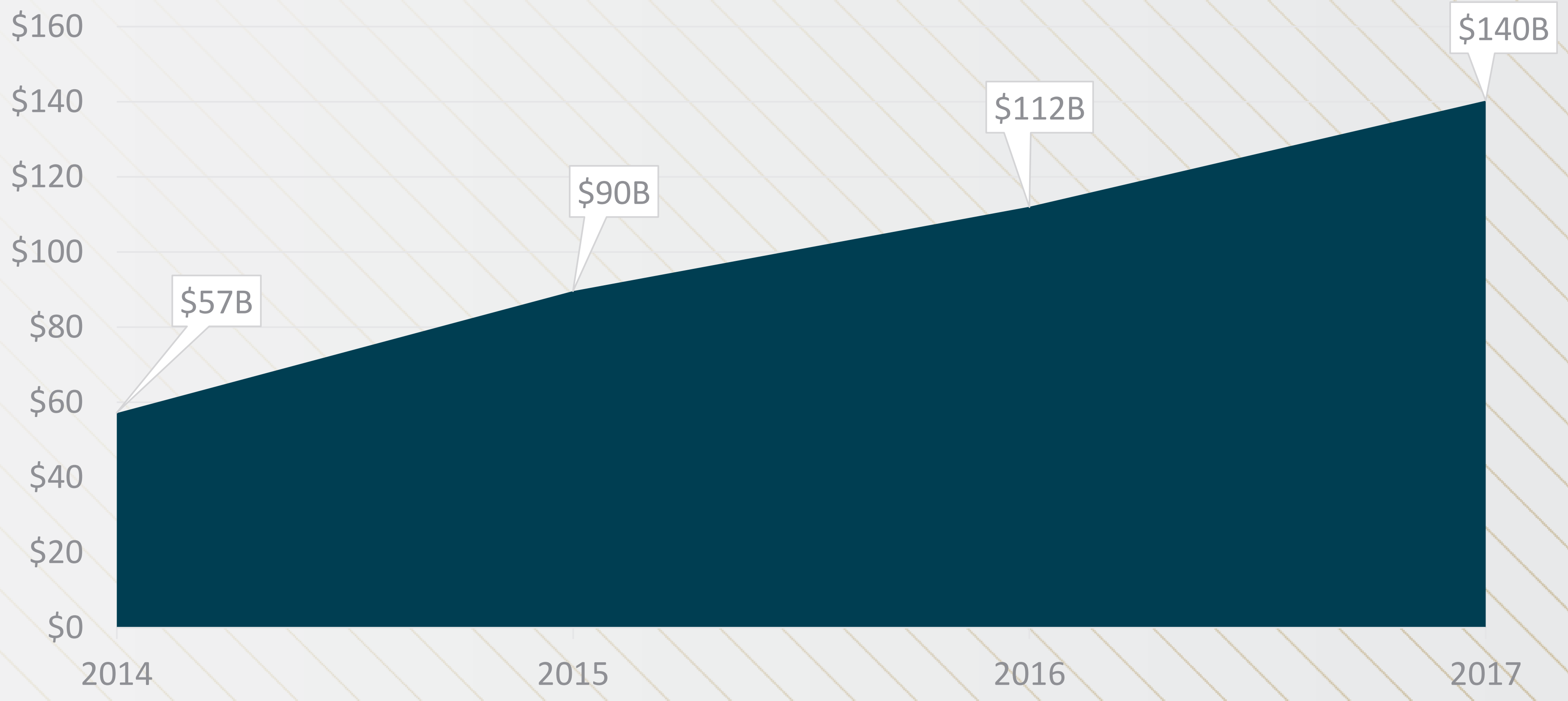
- Capped Production - $33.8 B
- Green Production - $19 B
- Uncapped (Affordable) - $20.4 B

Fannie Mae Production: $67.1 B

- Capped Production - $30.5 B
- Green Production - $21.5 B
- Uncapped (Affordable) - $15.1 B

Combined $140.3 B in loan production accounts for 60% of the entire multifamily loan originations in 2017.

Freddie Mac and Fannie Mae Combined Production
(in $ Billions)



Freddie Mac and Fannie Mae

2018 Lending Cap of $35 Billion each

- Freddie Mac $13 B in 1Q 2018
- Fannie Mae $11.3 B in 1Q 2018

Reasons:

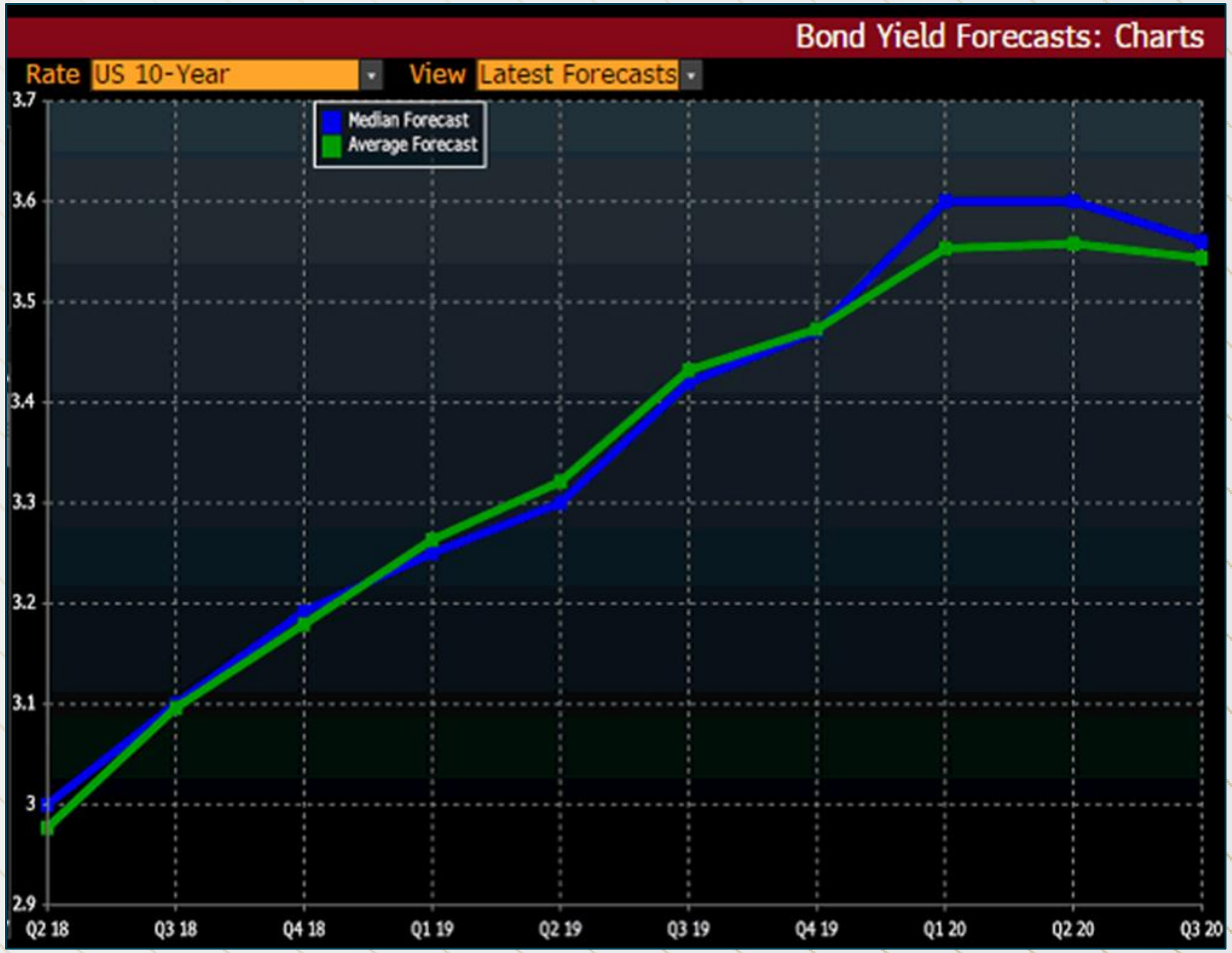
- Increased competition on lending side – especially luxury Class A space
- Higher Borrowing Costs with the increased Treasury
- Tax code uncertainty early in 2018

Historical 10-year Treasury Rates

Forecasted 10-year Treasury Rates

<u>Insights:</u>

- Treasury Market should increase but at gradual pace
- Average GSE Spread over 15 years is 165 bps
- Current Average Spread today is 180 bps



Capital Markets and Financing for Multifamily

The ability to finance multifamily real estate has never been better. The following elements contribute to the current robust market conditions.

- Increase of debt capital entering the market in various forms; GSE and other lending sources
- Historically low treasury rates with competitive spreads
- Fundamentals of multifamily (low vacancy, increasing rents) attribute to a stable asset class vs. alternatives

Green Financing

Ability for owner to invest in Green improvements to their property and gain benefit of better financing terms

Requirements:

- Conduct a Green assessment of the property
- Replace devices that will allow the property to achieve a 25% reduction in electric or water
- Report utility usage on a go forward basis for analysis

Benefits:

- Lower utility costs for landlord and tenant – **improved quality of living** and **better return** for investors
- **Lower interest rate** by 20-25 bps – better return for investors
- Qualify as “Uncapped” business for the GSE’s
- Increase the property’s **sustainability**

Affordable Financing / Workforce Housing

Not just for properties that restrict rents through a Governmental Program

Requirements:

- Property must be under a LURA, OR
- Rents are equal or lesser than the equivalent rent supported by a tenant making 60% of area median income or less (workforce housing)

Benefits:

- **Lower interest rate** by 20-25 bps – better return for investors
- Qualify as "Uncapped" business for the GSE's
- Older apartment stock in need of renovations – improving the **quality** of housing and **sustainability** of the property

Financing Plays a Key Role in Varia’s Investment Strategy

Attractiveness of the Multifamily Housing Market

The U.S. is expected to need 4.6 million net new apartments by 2030 with needs driven by:

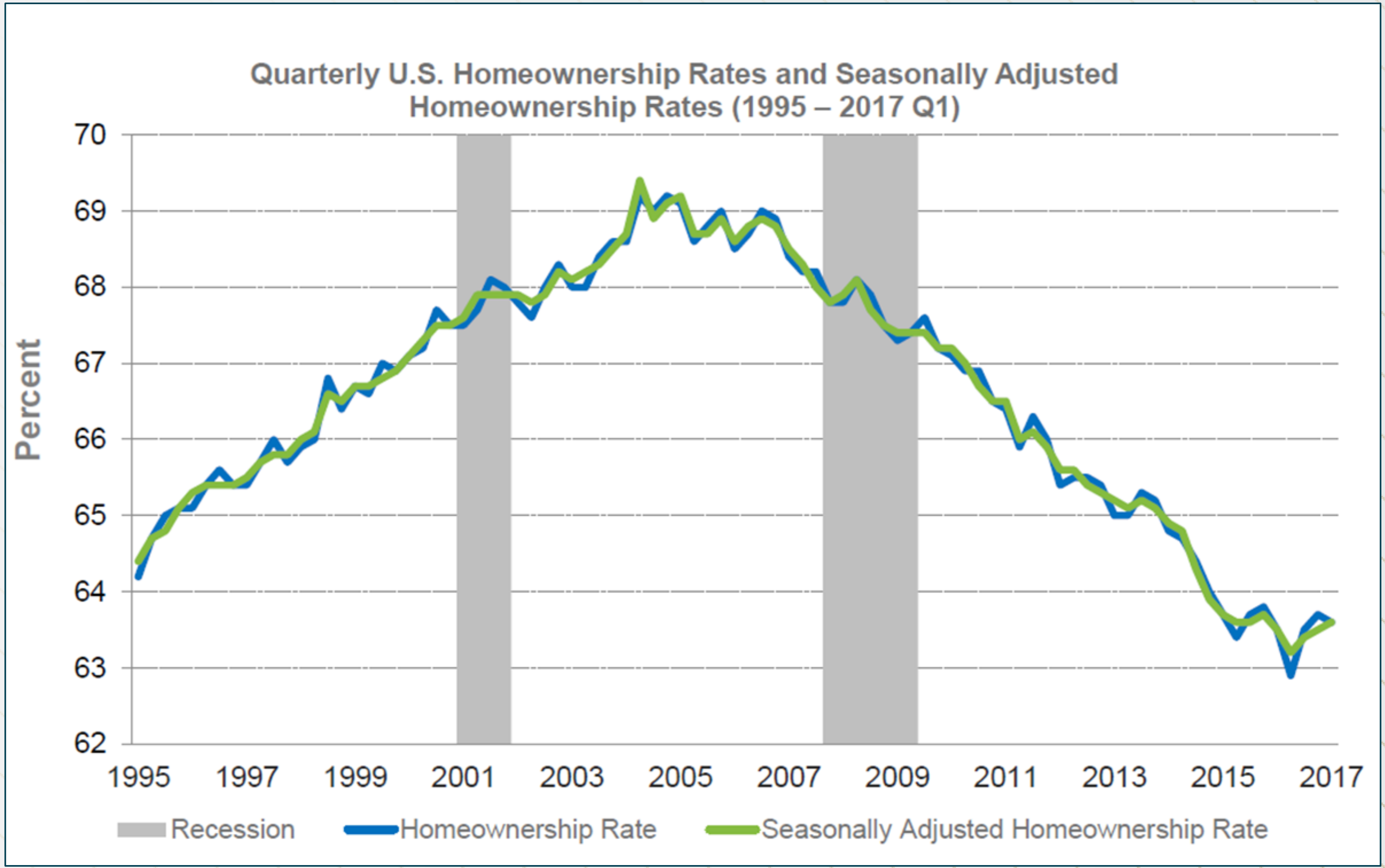
- Millennial school debt and lifestyle choices such as delayed marriage
- An aging, empty-nest population seeking less space and lower maintenance
- International immigration, which is expected to represent 51% of all new population growth

At the height of the market in 2006, the homeownership rate was 69%. It is currently 63% Meaning that there are 6% more households renting versus owning today; every percentage point is approximately 1,500,000 American households. It is expected the trend toward renting vs owning will continue.

Attractiveness of the Multifamily Housing market

- Approximately one million new renter households were formed in each of the last five years
- Shortfall in housing stock vs. demand benefits Varia’s value-add approach
  - U.S. needs an average of 325,000 new units per year
  - However, only 244,000 were delivered on average 2012-2016
- In addition, 51% of existing housing stock, or 11.7 million units, were built before 1980 and will need upgrading. This is the typical acquisition strategy for Varia.

A Shift Toward Home Rental Vs Ownership



Multifamily Workforce Housing

- The largest underserved market segment is defined as workforce housing – typically pre-1990 construction and rented to those making 60% - 100% of area median income.
- Current workforce housing stock is aging and will benefit from capital investment and strong sponsorship that will support its growth and sustainability.
- Workforce housing is a major endeavor politically, which is backed by government subsidized financing from the U.S. Government (GSEs)

Source: National Multifamily Housing Council

Varia’s Investment Strategy

“Varia’s main focus lies on secondary and tertiary areas that are characterized by strong population and employment growth and limited housing offering. These regions are typically within a 45 to 60 minute drive of city or employment centres. The housing offering targets the low to medium income population in these regions.”

- Acquire
- Add Value
- Optimize & Stabilize
- Divest

GSE Mission and Varia's Investment Strategy: Common Alignment

- Provide Stability and Liquidity in the MF Housing Space
- Provide quality affordable housing for low to middle income households
- Enhance and improve the current again housing stock:
  - Unit Renovations
  - Deferred Maintenance
  - Green Improvements
- Common alignment of goals leads to better financing terms…
  Better Returns for Investor's $$$

Typical Varia Financing Structure

- 7 – 10 year fixed rate term
- 65% of Purchase Price
- Non Recourse
- Interest Only

Benefits of this Financing Structure

- 65% LTV provides attractive financing note rates – currently +/- 150 bps over corresponding treasury
- Interest Only provides better cash on cash returns
- Loans can be transferred and assumed by a new buyer

The What If Scenario:
A Different Investment Strategy

Strategy: Class-A properties, 10-years-old or newer, primary markets

Pros

- Unit Improvements not needed
- Estimated property life is longer
- Rental growth can be stronger
- Market demographics more robust

Cons

- Command lower cap rates, which equals lower returns
- Greater competition for acquisitions
- Financing terms are less desirable – typically lower leverage and higher spread – not "Mission Rich"

The What If Scenario:
A Different Investment Strategy

Class A / Luxury Property	
Net Operating Income	$2,000,000
Cap Rate	5.25%
Value	$38,095,238
Loan	$24,761,905
Note Rate	4.65%
Annual Debt Service	$1,151,429
Cash Flow	$848,571
Year 1 Cash Yield	5.71%
Average Cash Yield	8.41%
Assumptions:	
2% closing costs	
2% capital improvement budget	
4% NOI growth in years 2 - 10	

Class B / Workforce Housing	
Net Operating Income	$2,000,000
Cap Rate	6.25%
Value	$32,000,000
Loan	$20,800,000
Note Rate	4.50%
Annual Debt Service	$936,000
Cash Flow	$1,064,000
Year 1 Cash Yield	7.73%
Average Cash Yield	10.18%
Assumptions:	
2% closing costs	
6% capital improvement budget	
5% NOI growth in years 2 – 3	
2.5% NOI growth in years 4 - 10	

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Questions?