T. Wall Enterprises

Multi-Family Investment Summary

Introduction

Multi-family units are hard to come by, as the market is extremely tight. There are two reasons for this. First being the tremendous growth that the local economy is experiencing and the second is due to the difficult of securing entitlements for new developments due to neighborhood opposition, local constraints, and land constraints.

History

T. Wall's development company was founded by Terrence R. Wall in 1989, starting with acquisitions and soon thereafter development of apartments and later retail and office development (and as a component of that, land development), and a small amount of industrial space. The company then sold its multi-family and retail holdings at the peak of those markets in the later 1990's, but continued to develop and acquire office buildings, eventually owning a 2.9 million gross square feet portfolio, making T. Wall the largest portfolio of office space in Wisconsin with forty-five buildings and numerous land holdings at prime locations.

In 2011 Wall started developing multi-family again as demand has grown significantly, due to strong and consistent growth in Madison's IT sector. Wall is now focusing primarily on residential developments and is selling the office portfolio, as it has reached the end of its agreed-upon investment time horizon.

T. Wall has always taken a long-term perspective on investing, seeking out the best locations, building the best quality buildings with the right amenities, and ensuring that the buildings stay full through good management and resident services.

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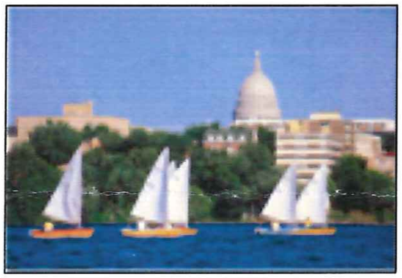
The Market (Trends, Growth Opportunities, Competition)

Madison: The market the company is invested in is metropolitan Madison, the capital of Wisconsin, the county seat, home to federal courts and the 44,000-student body of the University of Wisconsin-Madison. Madison is statistically a young, consistently growing, strong, stable market.



Demand: The Madison metropolitan statistical area ("MSA") has a population of 569,000 (with an MSA over one million in size) and is projected to grow by 27% to over 740,000 by 2042. Dane County has always maintained an unemployment rate of half the national average (3.3% as of January 2015, with a historical rate of 1.5% to 2.5%). Madison continued to grow through the Great Recession, with a decline in office rents of only ten percent and a decline of median housing prices of only about 3%, providing clear evidence of Madison's incredibly strong economic base.

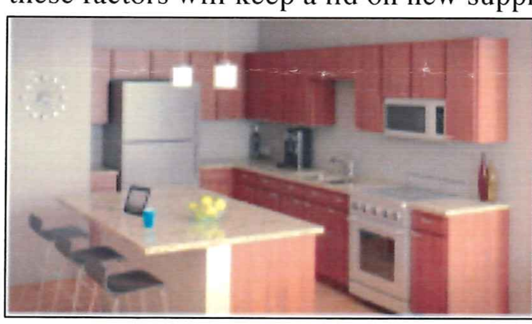
The MSA has the advantage of a four-walled economic foundation: a large government sector, a large health care sector, a fast growing tech sector, and a research sector that is #1 in the nation. This solid foundation is made up of government (25% of the employment base, which provides economic stability because these consumers never go away), as well as an unusually large insurance sector that includes dozens of national insurance headquarters, in addition to the University, which is ranked the #1 recipient of research dollars nationwide with $1 billion coming in annually. All of this makes Madison unique. The government base includes the state capitol, the county seat, the federal court and federal agencies. The health care base includes three (soon to be four) very large hospitals and clinic systems that attract patients from all over the world for their first-rate health care. The University also generates tremendous private sector growth from all the University spin-offs, including its status as one of the seven universities where the Internet started. The University also holds all the stem cell patents, meaning all stem cell research emanates from Madison. The University is the foundation for hundreds of high tech start-up companies that have grown into multi-thousand employee companies. Madison is home to Epic Systems, Tomo Therapy, and has Google, Amazon, Dell, and Microsoft offices, along with many others.

On top of this stable base are insurance and strong arts sector that generates a combination of stability and steady growth, along with high incomes. Madison is also home to the headquarters of several regional energy companies.

In addition, the retail, financial and real estate sectors add tremendous growth, given that Madison is quickly becoming the financial hub of the state. Dane County is also the retail hub of the region with new stores like Cabela's, Costco, WalMart, Marcus Theaters and more, adding thousands of new jobs over the last couple years with more stores yet to come.

In fact, the market is so tight for new construction that contractors are having difficulty hiring skilled labor, even without much demand from the office construction sector yet. Likewise, the single family housing market in Dane County has recovered and moved from an average inventory of nine months during the recession to just 3.6 months in 2015, with many census tracts having near zero inventory. The median home price is up and sales are up about 30% as compared to 2012, with homes now selling for more than asking price. Home inventories are at record lows due to numerous constraints that will continue for years to come. As result of the incredibly tight single-family housing market, many people are forced to live in apartments, in addition to those that choose apartments as a lifestyle choice.

In terms of supply, continued constraints on development from a number of sectors will lead to a permanent lack of supply going forward, like nothing ever experienced before. First, the federal government is forcing banks to curtail lending, imposing heavy rules like 50% higher equity requirements on new developments (Basel 3), in addition to prohibitions on loans to acquire land (now considered a 'four letter word') and higher down payments required for single-family home acquisitions. Added to the lending constraints are the new regulations and fees imposed by local governing authorities. All these factors will keep a lid on new supply and inventory for both single family and multi-family housing for the next decade to come.



Example: A few years back, the Capitol Area Regional Planning Commission ("RPC") passed a plan to severely curtail land available for future development. Over the last twenty years (up until a few years ago when that twenty year plan expired), 17,000 acres were developed in Dane County. The RPC's new plan allows for only 5,700 acres over the next twenty years, with most of the communities (seventeen out of twenty-two) receiving no allotment for growth at all. Dane County has also successfully acquired thousands of acres to form a green belt around the metro area that will serve as a noose to choke off new development outside the central area.

When Boulder, Colorado passed something similar, the median home price and land values tripled within five years and rents increased disproportionately compared to those in Denver. The median home in Boulder now costs three times as much as in the rest of Colorado. We can expect the same impact in Dane County as growth has kicked into high gear and housing demand has increased, while the supply of land is held in check by the RPC's plan, which is now law, thereby putting a chokehold on a lot of new development that is not already approved.

What has created the growth rate for Madison is the fast growing tech sector, bio-tech, research and development, and University spin-offs. Madison is known as the Silicon Valley of the Midwest with the Midwest offices of Google, Microsoft, Amazon, and more. There are also numerous angel investment funds and unique state programs that drive significant employment growth in the tech sector through start-ups. By one unofficial count, the city has over 4,500 new jobs coming in the next two years. Epic Systems along hires over 1,000 employees annually, and recently secured a new contract that will require their usual hiring count to double for the next few years.

The millennial generation is about 20% larger than the record breaking baby boomer generation, and is about twenty-five years in length (versus the typical twenty years in length), which means that there will be a good fifteen year or longer run of high demand for apartments and starter homes. These young adults are more likely to continue to rent instead of buy due to the constraints on home loans and their own desire to have housing maintenance taken care of by someone else. This generational growth, combined with a recovering economy and the RPC's severe limitations on land may result in severe housing limitations.

In addition, the next few years will generate continued growth in jobs in the construction sector. The local technical college has built two new schools to train students, creating more demand for multi-family on the east side. Madison had seven sky cranes in the air in the summer of 2011, probably the most of any city in the country at the time, and we are told there will be sixteen sky cranes in the air at Epic alone. There is no question that Madison is set to grow over time, except with far more restrictions on development activity and controlled growth.

<u>Overview</u>

The Wall Street Journal ranked Madison #1 in the nation for lowest multi-family vacancy rate, with only 1% vacancy. The low vacancy is not an anomaly; the city passed an inclusionary zoning ordinance about seven years ago, which virtually shut down the construction of new market rate units for five years until the law was ruled unconstitutional just in time for the Great Recession and tightening credit markets to prevent new construction.

Based on trend line and estimated demand, the metro area needs about 3,600 new units constructed annually, but over the last five years, only a fraction of that number have been built (from 400 ramping up to 1,000 to 1,800 units per year, but more than 800 of those are student units near the University). This lack of new market rate (non-student) construction, combined with steady growth in employment and population has created a severe shortage of multi-family housing (as well as single family housing).

Every market study that we have commissioned from the national accounting firm Baker Tilly demonstrates the extreme demand for apartments in this market.

<u>Summary</u>

I thought you might appreciate an update on the local housing market, focusing this time on multi-family housing.

Thank you.

Sincerely,

Terrence R. Wall, President

T. Wall Enterprises, LLC