

Investing in the U.S. Multi-Family Real Estate Market

Capitalize on growth opportunities within the U.S. and achieve stable income and appreciation potential

A *White Paper* from GreenLite Holdings, LLC



Advantages for the International Investor

Multi-family investments offer investors an opportunity to benefit from geographic markets within the U.S. experiencing superior job growth and real estate appreciation while reducing portfolio volatility, achieving steady income and gaining the potential to benefit from leveraged appreciation. For international investors, multi-family properties also offer ownership of a U.S. dollar denominated real asset. In this paper, we provide an overview of the benefits and risks of multi-family investments as well as alternative forms of ownership for multi-family properties.



GREENLITE
— HOLDINGS —
MOMENTUM IN MULTI-FAMILY

CAPITALIZING ON THE STRENGTH OF REGIONAL ECONOMIES IN THE U.S. THROUGH INVESTMENTS IN MULTI-FAMILY HOUSING

Investing in U.S. real estate offers international investors a number of potential advantages, including participating in the rising U.S. dollar.

U.S. real estate investments have always attracted international investors. The size and diversity of the U.S. market, its liquidity and political stability, all contribute to the perception of U.S. real estate as a long-term, safe haven.

Commercial real estate markets throughout much of the U.S. are currently on an upswing relative to occupancy, rents and valuations, and the economy is displaying better growth momentum than Europe, Canada and other developed countries. While still relatively unspectacular by historical standards, the U.S.'s solid growth, stable political and legal system, and availability of long-term, fixed-rate real estate financing play a key role in the attractiveness of the market to foreign investors.

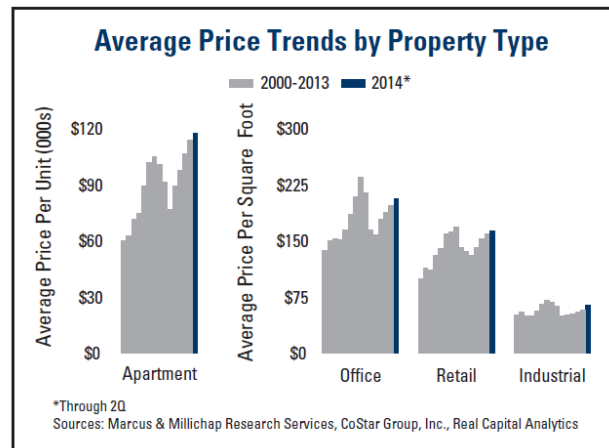
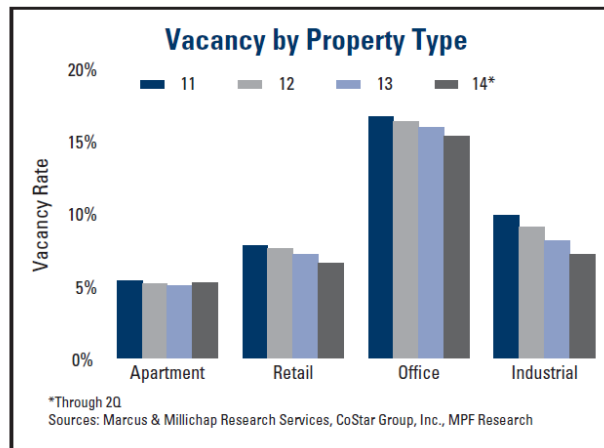
A strengthening U.S. dollar during the investment period could allow foreign investors to move back into their home country currency at a more favorable (profitable) rate. This would increase the potential return from investments in U.S. denominated assets. With the Federal Reserve indicating interest rates will begin to increase in 2015, it is anticipated that the U.S. dollar will continue to strengthen relative to major currencies. Another positive for the U.S. dollar is the increase in domestic petroleum production and the corresponding drop in the U.S. trade deficit.

Popular real estate investment choices include trophy properties, commercial office complexes and retail properties. **But the real estate class often overlooked by international investors may well be the most advantageous – multi-family residential properties.**

“Research from the National Council of Real Estate Investment Fiduciaries shows that unleveraged average returns from multi-family housing units have outpaced those of office buildings in four of the past five years — at times by more than 600 basis points.”¹

Multi-family properties have outpaced office and retail properties due to consistent demand, independent of economic trends. During periods of economic growth, household formations increase as more people are able to move into rental housing; in weak economies, people turn to rental housing for cost savings. Lower-priced, short-term leases give multi-family housing managers the flexibility to quickly adjust pricing to manage vacancy rates and minimize volatility. Another strength is widespread geographic distribution of multi-family complexes, allowing investors to target geographic markets with rapid employment growth.

¹ **The Case for Investing in Multifamily Housing, by Sean Burton, *Institutional Investor Magazine*, May 27, 2015. “**



Marcus & Millichap Fall 2014 Special Research Capital Markets Report

Graphics and data from the Marcus & Millichap Fall 2014 Special Research Capital Markets Report illustrate the lower vacancy rates and positive price trends for multi-family properties in the recent economic recovery.

Multi-family was the first sector to fully recover from real estate losses in the Great Recession. On the national level, by 2013 U.S. multi-family values had fully recovered, according to Real Capital Analytics (RCA). Office, retail and hotel sectors were still below the pre-recession peak at the start of 2015. While retail, travel and business may falter in difficult economic conditions, the need for housing remains relatively constant.

Outlook for the U.S. Multi-Family Market

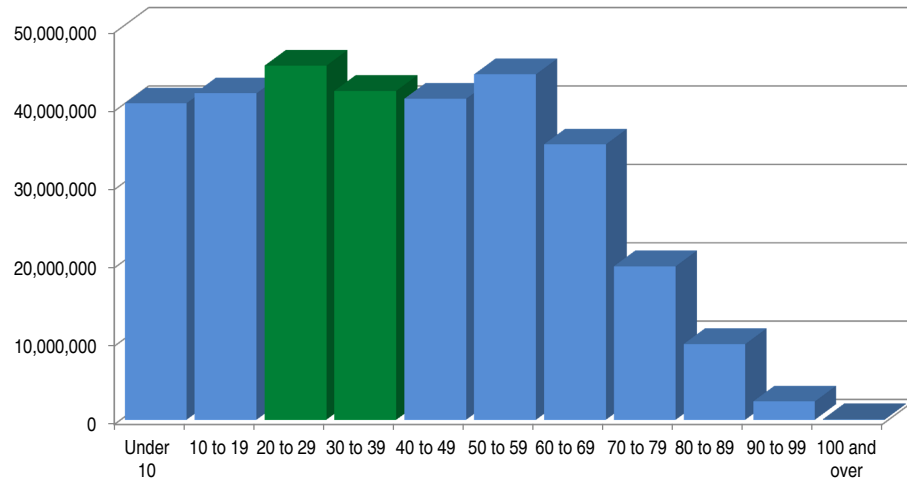
“The (U.S.) apartment market had one of its strongest years for effective rent growth in 2014 with a 4.5% increase even as new supply continued climbing. Despite an expected peak in deliveries this year, solid rent growth of 3.6% is forecast for 2015. Strong apartment demand will continue into 2015 as the economy continues to generate more higher-paying jobs, wages start climbing and consumer confidence rises. In addition, demographic trends that are generating more apartment demand from millennials, empty nester baby boomers, and lifestyle or “renters-by-choice” will continue.”²

Several factors are expected to continue to drive the demand for multi-family housing: The recent U.S. recession limited capital for new projects at the same time that former homeowners flooded the rental market, leading to a reduction in supply and historically low vacancies in both Class A and Class B/C multi-family properties. With capital for new projects more readily available, new rental supply is coming on the market, but not at a rate expected to absorb the current demand.

² Axiometrics 2015 U.S. Economy and Apartment Outlook, page 2.

Demographics will also play an important role. The 85 million 20- to 34-year-olds that make up Generation Y are entering the workforce and beginning household formation. This age group appears to prefer renting (57% of those under the age of 34 rent apartments), seeking properties close to work, shopping and entertainment. Solo households, consisting of one adult, are increasing with a marked preference for rental housing. The aging baby boomers and growing senior population are also contributing to the demand for rental housing.

U.S. Population by Age - 2015



U.S. Census Bureau 2014 National Population Projections

Strong regional economies are driving demand for rental housing in Southwest states such as Texas, Arizona, and more recently Nevada. Five of the U.S. fastest growing cities, are located in Texas - Houston, Austin, Dallas, Fort Worth and San Antonio. These and other emerging markets are experiencing strong employment growth compared to other U.S. markets.

Lower rates of home ownership, resulting in part from tighter lending requirements and a reduced supply of new homes due to the residential construction slowdown that developed during the recession, will continue to drive rental demand for the foreseeable future.

UNDERSTANDING THE MULTI-FAMILY OPPORTUNITY

A multi-family development is a building or collection of buildings designed to house several different families in separate housing units. The most common type of multi-family housing is an apartment building. Duplexes, quadruplexes, and townhomes also qualify as multifamily housing. Multi-family developments typically benefit from economies of scale in several aspects, reaching their highest yields when properties exceed 100 units. Historically, apartment construction costs have averaged 30% less per square foot per unit than comparable single family homes. Economies of scale also affect the ongoing operation of a multi-family

complex. Grouping multiple units in one location lowers the expense per unit for:

- ◆ Management
- ◆ Maintenance, repairs and upkeep
- ◆ Finishes and fixtures
- ◆ Financing costs
- Security
- Capital expenditures
- Taxes

Multiple units amplify the effect of increasing rent rates and offset the financial impact of vacancies when additional units continue to generate income to cover operating costs and provide cash flow. A \$25 per month rent increase for a 250-unit property will increase annual rental income by up to \$75,000, which in turn drives higher property valuations. Operators also tend to find it more cost-efficient to attract new tenants when offering multiple units and common amenities.

In its white paper *“Exploiting the Multi-Family Investment Opportunity,”* GreenLite Holdings expands on the classification of multi-family properties as A, B or C properties and the different levels of risk and reward presented by each.

Among the benefits of multi-family ownership is the owner’s ability to directly impact the value of the property through physical improvements, increased rents, greater operating efficiencies, reduced vacancies, etc. Properties with value-add opportunities can force appreciation. Real estate prices are also far less volatile than equities and are valued primarily on the basis of net operating income. A property well managed and fully leased that provides stable cash flow is not going to see a rapid, much less daily, change in value.

Multi-family properties, with their ability to increase rents on an annual basis, maintaining capitalization rates and property values, provide an important hedge against inflation for investors.

Tax Considerations Impact International Investors

There are a number of tax benefits from the ownership of real estate; however, the Foreign Investment in Real Property Tax Act of 1980 makes it essential that international investors structure real estate ownership carefully to avoid mandatory tax withholding on gross income produced by rental properties and the gross sales price. To avoid mandatory withholdings, experienced tax counsel is advised.

International investors can benefit from deductions available to U.S. investors, including depreciation, by electing to have passive rental income taxed as if it were “effectively connected with a U.S. trade or business.” Making rental income effectively connected with a U.S. trade or business requires a declaration to that intent attached to a timely filed U.S. income tax return (1040-NR). To file a return, the investor must obtain an Individual Taxpayer Identification Number (ITIN) from the IRS. Once made, the election is permanent and will apply for all future years, provided tax returns are filed annually on time. U.S. tax regulations

provide that if a tax return of a foreign national is not filed within 18 months of the original due date, the IRS will disallow all deductible expenses.

EMERGING MARKETS IMPACT ON MULTI-FAMILY HOUSING

The health of the multi-family market is directly related to employment opportunities and demographics, and their impact on the demand for rental housing. Areas experiencing the greatest growth in multi-family housing demand tend to be those GreenLite Holdings categorizes as Emerging Markets.

The impact of emerging markets on the demand for housing is illustrated in the following case study from the Midland Odessa area of Texas.

Emerging Market Case Study: Midland-Odessa

In 2011, drilling started exploding in the Eagle Ford Shale. Four years later, oil and condensate production continues to exceed expectations and the field has attracted more capital investments than any shale field in the United States. In the process, Eagle Ford Shale has generated 160,000 new jobs in the past six years and more than \$87 billion in economic output for Texas in 2013. Rents in the Midland-Odessa area soared with the demand for housing. Some 1,172 units were delivered in the area during 2012 and 2013, with another 1,453 units expected to come on line by the end of 2014, reflecting an 8.2% growth in inventory.

Shared characteristics of top performing markets for multi-family investments include markets with barriers to entry, sub-5% vacancy, above-average job prospects and rent growth, and households with the highest propensity to rent. Emerging demand is created in markets where the growing young adult populations and strong job gains drive rental demand. These markets include 2015 Marcus & Millichap #1 ranked Las Vegas, Nevada and #5 - Phoenix, Arizona, which are targeted for acquisitions by GreenLite Holdings. The recent decline in oil industry employment adversely affected the Emerging Market rankings of Dallas Fort Worth and Houston, Texas; but these markets are expected to regain their momentum as oil prices recover and are also on GreenLite Holding's radar.

MULTI-FAMILY INVESTMENTS WITHOUT 100% OWNERSHIP

There are a number of ways individual investors can participate in the multi-family market without acquiring 100% ownership in a property or assuming management responsibilities. Common ownership forms include real estate investment trusts, tenants in common, limited partnerships and limited liability companies, including single property LLCs and LPs. The best ownership form for foreign investors is intricately tied to taxation in the U.S. and the investors' home country.

The **Limited Liability Company (LLC)** has become a common vehicle for U.S. owners of income-producing real estate who are seeking to easily and inexpensively establish a level of personal liability protection from claims of outsiders and allow flow-through tax treatment. A LLC structure can present tax problems, however, for international investors. The Canada-U.S. tax treaty allows Canadians to avoid double taxation on certain types of income by determining which taxing jurisdiction has the right to tax that income. Because Canada does not view a LLC as being a resident for treaty purposes, the LLC's members are subject to both U.S. and Canadian taxation on the LLC's income.

A foreign investor may also be subject to withholdings on income and capital gains, as explained on page 8. These issues make it important that foreign investors have good tax counsel before entering into a multi-family project ownership.

Limited Partnerships (LPs) have become a preferred vehicle to meet the income tax requirements of international investors. Management of a limited partnership rests with the "general partner," who also bears unlimited liability for the company's debt and obligations. An experienced property manager or real estate development firm typically serves as the general partner. A limited partnership can include any number of "limited partners," whose liability is limited to the total amount of their investment in the company. Business profit and loss are "passed through" to the partners for reporting on their personal tax returns.

Single-Property LPs provide investors with the greatest discretion over their investment. These business forms are established to own a specific property allowing investor transparency as well as the ability to conduct independent due diligence on the property prior to investment. Typically, single-property investments are marketed with a established disposition plan, giving the investor a liquidity timetable. Single-property LPs also help to ensure that liability against one property is self-contained.

A drawback of the LP ownership forms can be a lack of liquidity should an investor need to terminate an investment prior to sale and disposition. There are ways to build liquidity into the investment, however. GreenLite Holdings strives to offset this disadvantage in its offerings by utilizing Canada-based TSX Private Markets, a TMX Group initiative focused on supporting capital formation and secondary trading within Canada's exempt market. TSX Private Markets permits approved private and public companies, domestic and international, to use its Platform for capital formation and secondary trading. Transactions are conducted via a dealer-to-dealer, voice-brokered service complemented by an informational website.

Regardless of the ownership form, real estate investments are considered highly speculative and involve a high degree of risk. There are inherent risks to real

estate investing, whether securitized real estate or un-securitized real estate. Please read the risk disclosure on page 12.

TAXATION OF FOREIGN-OWNED REAL ESTATE

Real estate transactions are subject to tax laws in the investor's home country and the U.S., as well as treaty agreements between the two countries. Taxation can differ based on the ownership form, type of income, length of investment, home country, etc. The following information is provided as an introduction to key concerns and is not intended to be legal advice. All investors should seek experienced tax advice prior to entering into a multi-family real estate transaction.

In 1980, the U.S. Congress passed the Foreign Investment in Real Property Tax Act (FIRPTA) to tax foreigner investors' gains on income from and sale of U.S. real estate and other real property. FIRPTA requires withholding 30% from a foreigner's gross rental income as well as 35% of a foreigner's gains (or losses) on the sale of U.S. real estate. The exception is when the foreign person or entity that owns the property is considered "engaged in a U.S. trade or business," in which case proceeds become "effectively connected income or ECI."

The objective of FIRPTA is to prevent non citizens from avoiding taxes on real estate profits. To do so, it imposes withholding requirements on U.S. source income on a "gross basis" tax. In the case of real estate, gross withholdings eliminate the benefit of deducting expenses such as real estate taxes, operating expenses, ground rent, repairs, interest and principal on any existing mortgages, depreciation, and insurance premiums paid by the lessee on behalf of the foreign owner-lessor. This potentially costly penalty makes it essential that investments in U.S. multi-family properties are carefully structured to minimize adverse tax affects. Establishing income as "effectively connected income" thus becomes critical to the success of a multi-family property.

In addition to FIRPTA, tax treaties influence tax requirements on a country-by-country basis. For example, Canada's tax treaty with the U.S. does not recognize a LLC as a resident for tax purposes. A limited partner of an LP is considered "engaged" in a U.S. trade or business, qualifying for more favorable tax treatment.

These factors and more make it critical for non-U.S. citizens to have good tax advice and make certain investment are structured properly to optimize their return on investment.

Hypothetical Financial Performance of a Multi-Family Investment

Given tax complications and the inherent risks of real estate ownership, why would one choose to invest in multi-family properties? The reason is the opportunity for stable cash flow, the potential value of real estate as an inflation hedge, and the ability to leverage return on the initial investment through advantageous, long-term financing up to 80% of the project value. There is also the intangible value of investing in real assets that one can see, feel and touch.

The following example is based on a 144-unit, Class C+ apartment complex in Tucson, Arizona. The complex was offered at \$4,200,000 with a Cap Rate of 7.30% based on Pro Forma income and T12 expenses. The average unit size is 544 square feet. The unit mix consists of three different floor plans of which 22% are studio, 44% are one bedroom, and 33% are two bedrooms.

In addition to a long and consistent cash flow history, the property offers opportunity for substantial “value-add” improvements to drive appreciation. This includes:

- ◆ Update complex appearance, apartment interiors and facilities to support rent increases - 14 units have been recently remodeled leaving 130 units in need of significant updating to enhance living spaces.
- ◆ Complete energy efficient plumbing retrofit program which begun August 2014 to reduce property’s water consumption and water expenses
- ◆ Increase the efficiency of controllable operating expenses
- ◆ Leasing office updates
- ◆ Pool area repairs and new furniture
- ◆ Exterior landscaping enhancements
- ◆ New signage

Tucson is the second-largest metropolis in the state of Arizona and the seat of Pima County with approximately 1 million inhabitants. By 2019, the Tucson region is projected to be home to nearly 1,253,000 people. First quarter 2015 saw the fastest quarter of rent growth in the Tucson metro area since 2007. If the pace is maintained throughout the year, rents will advance in the 2.5-3.0% range in 2015. The primary source for multi-family demand has been employment growth, which has been positive in each of the past four years and began 2015 with a gain of approximately 2,800 workers. Growth has been particularly strong in the education and health services sector, which expanded by 3.7% during the past year with the addition of 2,300 employees.

Within a 2.5-mile radius of the apartment complex are major employers, retail, education and medical facilities, including Davis-Monthan Air Force Base. The base is one of Southern Arizona’s top employers with approximately 9,000

employees. The apartment complex's strategic location provides exceptional visibility as well as convenient access to major arteries throughout the region including Interstate 10, Tucson's largest north-south corridor.

The table below shows the potential capital gain at disposition over a holding period of three years:

PROJECTED EQUITY RETURN AT RESALE

Exit Price	\$5,568,000
Sales Expense	2% or (\$111,360)
Initial Loan Principal	(\$3,360,000)
Principal Pay-Down	\$110,899
Owner Equity	\$2,207,539
Less Initial Basis	(\$1,305,186)
Owner Equity Creation	\$902,353
Less Managing Partner Share of Equity	20% = (\$180,470)
Owner Net Equity Share	80% = \$721,882

Naturally there can be no assurance that an actual investment would offer this level of performance. But in the right market with the right property, there is the opportunity for out-performance.

TARGETING THE RIGHT PROPERTY IN THE RIGHT MARKET

A successful multi-family investment starts with finding the right property in the right market. When seeking a potential property acquisition, GreenLite Holdings, for example, looks for the following criteria:

Minimum Financial Measures

1. 7.0%+ Cap Rate or
2. 9%+ Cash on Cash Return
3. 1.5+ Debt Service Coverage Ratio
4. Priced below replacement cost

These are measures that typically allow us to syndicate the property. There can be no guarantee that all these benchmarks will be met on a property acquisition. Meeting or exceeding these numbers provides a measure of assurance to the investor that the property will cash flow sufficiently to cover debt and operating expenses, and provide an attractive return.

Value-add components offer the potential to force appreciation. This may include

under-market rents, vacancies in excess of sub market averages, higher than normal expenses, the need for cosmetic expenditures to enhance the appeal of the property, and substandard marketing of the property to potential tenants.

Finally, market conditions must support the property. At GreenLite Holdings, we target emerging markets with solid job and population growth and economic conditions that support property upgrades and increasing rents (*please see our Emerging Markets white paper to better understand this approach*). Properties of particular interest are those that meet the needs of the 24- to 35-year-old, middle-class renter.

Multi-family investments, properly structured, have the potential to provide international investors with:

- ◆ Diversification from more traditional investments vehicles
- ◆ Passive income during the holding period
- ◆ Capital gains at disposition
- ◆ A high rate of return
- ◆ Hands-off management
- ◆ The opportunity to defer taxes on capital gains
- ◆ U.S. dollar denominated investment to benefit from a strong dollar
- ◆ An tangible investment you can see, feel and touch

The ability to invest in specific geographic regions with strong growth economies throughout the U.S. adds to the attractiveness of this investment opportunity. By acquiring interests in single property LPs, the investor is able to control precisely where his/her assets are invested, and monitor the progress of the investment without acquiring 100% ownership or management responsibilities.

These benefits truly offer international investors an opportunity to capitalize on growth opportunities within the U.S. and achieve stable income and appreciation potential.

As with all investments there is always the potential for loss as well as gain. Proper due diligence and good management are essential. Review all offering documents thoroughly and understand the risks described on the following page.

Disclosures

The value of a property and the corresponding equity of the owners of a property will fluctuate based on the value of the property and the income the property generates. Though the potential risk of investing in multi-family housing is considered moderate, there is always the potential for owners to lose some or all of their investment by investing in multi-family properties. A property's value and rental income can be affected by many factors, including, but not limited to some of the following risks presented below. You should consider the specific risks presented below before investing.

- ◆ General Risks Prior to Closing on Real Property
- ◆ General Risks of Owning Real Property
- ◆ General Risks of Property Management
- ◆ General Risks of Selling Real Estate
- ◆ Regulatory Risks
- ◆ Environmental Risks
- ◆ Uninsurable Losses
- ◆ Risks of Developing Real Estate or Buying Recently Constructed Properties
- ◆ Appraisal Risks
- ◆ General Risks of Mortgage Loans
- ◆ Use of an IRA Fund

Investors should carefully read all information relating to a potential multi-family investment and the ownership structure of the property.

The above information and risks described are for information purposes only and may not apply. GreenLite Holdings, LLC, its subsidiaries, affiliated officers, employees, and agents do not warrant or make representation as to the completeness, accuracy, or content of information and risks described.

For more information on multi-family investing through a single-property LLC, where investors gain transparency and accountability, visit the GreenLite Holdings LLC website at www.greenliteholdings.com or contact our offices at 480-567-9788 – inquiries@greenliteholdings.com.



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