Interview with Management

FG Communities

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On The Call

Jake Hoffberg
Publisher, Equifund

Michael Anise
CEO, FG Communities

The Big Idea in 60 Seconds

As housing prices rise faster than wage growth in 80% of U.S. markets, the affordability crisis in America is only getting worse.

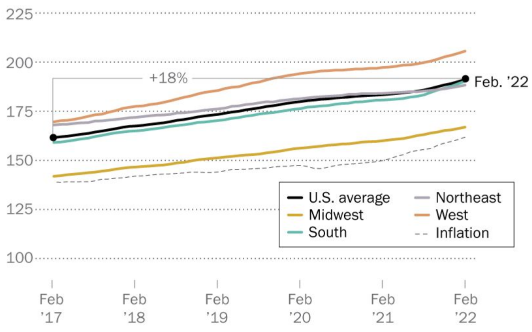
Today, 38 million households – over a quarter of all U.S. households – spent ***more than 30% of their annual income*** on housing costs in 2018 (called "cost burdened"). This represents an opportunity of $400B - $889B in annual rent roll in need of a better solution.

But for investors seeking to capitalize on this trend, there's one major problem: ***There's simply no economic way to "build" affordable housing*** when the cost to build and operate new homes exceeds what low-income renters can afford, without government subsidies…

Except for manufactured housing!

The average U.S. rent has risen 18% over the last five years

Consumer price index for rent of primary residence in ...



Source: Federal Reserve Bank of St. Louis.

PEW RESEARCH CENTER

Today's presentation is dedicated to the economic opportunity of manufactured housing, and why they may be able to solve the single biggest problem in America today… ***the dream of homeownership and upward mobility WITHOUT government subsidies, handouts, and unfunded liabilities.***

What's Driving The Affordability Crisis?

[No State Has an Adequate Supply of Affordable Rental Housing for the Lowest Income Renters]

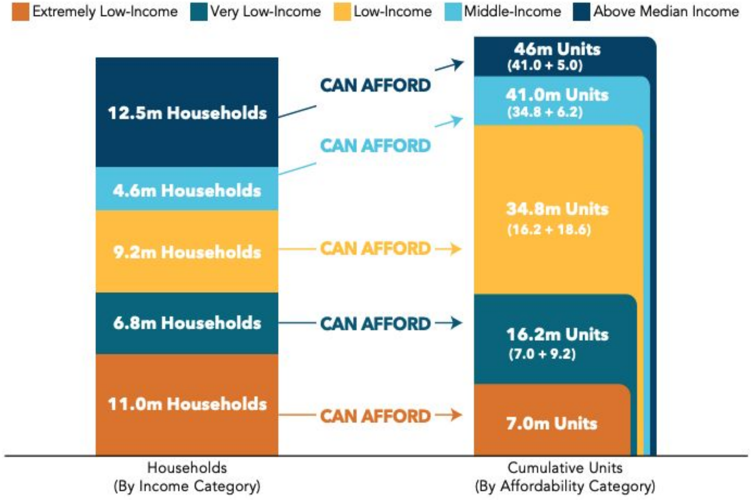
On the surface, the solution to the U.S. housing crisis may seem obvious – just build more affordable housing. However, this solution isn't as practical as it may seem.

Here's why…

The United States **is not** experiencing a shortage of available housing stock; there's plenty of inventory around the country.

The ***real problem*** is the economics of affordable housing in desirable places to live; There's simply no economic way to "build" affordable housing when the cost to build and operate new homes exceeds what low-income renters can afford.

FIGURE 1: RENTAL UNITS AND RENTERS IN THE US, MATCHED BY AFFORDABILITY AND INCOME CATEGORIES (IN MILLIONS)



Source: NLIHC tabulations of 2021 ACS PUMS data.

What's Driving The Affordability Crisis?

Older Inventory doesn't "trickle down"

In reality, what actually happens is something called ***"Upcycling" (or "gentrification")***

- **In stronger markets, *owners have the incentive to <u>redevelop</u> their properties*** to justify asking for higher rents from higher-income households.
- **In weaker markets, *owners have the incentive to <u>abandon</u> their rental properties* –** or convert them to other uses when rental income is too low – to cover basic operating costs and maintenance.

In aggregate, this means that properties that were once affordable become unaffordable for one simple reason; properties tend to get *upcycled* in the pursuit of the ***"highest and best use" (HBU).***

As this "Upcycle" process continues – and new inventory is built for wealthier tenants willing to pay higher rens – what we inevitably see is the hollowing out of the more affordable housing stock, referred to today as the ***"Missing Middle Housing."***

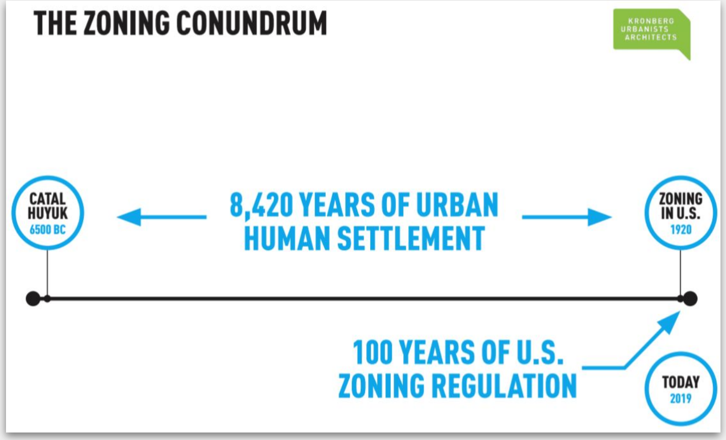
What's Driving The Affordability Crisis?

Exclusionary Zoning Laws + NIMBYism

In many cases, developing this ***"Missing Middle"*** is blocked by the status quo of special interest groups seeking to protect property values and tax revenues by keeping the "unwanted" out.

While zoning remains invisible to many people, the problems it's connected to increasingly are not. Cities have typically prioritized single-family homeowners above other groups, with ***the old belief that dense housing hurts their property values.***

Prior to the 1920s, the way in which real estate was used to build wealth was fundamentally different than it is today. Because there weren't any zoning laws to "protect" the value of the property, **the only real value in real estate was the *income* the property generates.**



All of that changed thanks to zoning's ability to artificially restrict supply, and therefore artificially boost asset prices. Property owners now have real economic incentives to force exclusion through regulations.

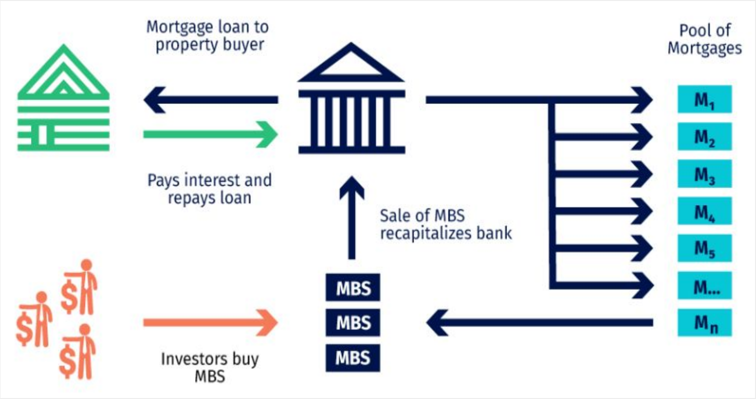
Why This is a Hard Problem to Solve…

A lack of liquidity to securitize and syndicate multifamily loans

Even if we could make a massive push to build more *Missing Middle Housing,* **it's often not economically viable for small developers to build**, especially with significant on-site parking burdens and building code requirements.

In addition, **there is no equivalent to the $12T Mortgage Backed Securities market for mixed-use loans.**

Because land-use regulation restricts the vast majority of urban land in the U.S. to single-use structures – and in the case of residential areas, typically 80% or more to single-family homes – banks don't find it worthwhile to create loan products for building types that are uncommon.



Ironically, recent research indicates ***that single-use projects may actually be riskier than ones with higher shares of non-residential uses.***

This means long-term affordability has little to do with what we build this year or next, but rather, the decisions we make with our existing supply of homes, in which the vast majority of people live.

- The most important thing we can do is ***protect the existing supply of affordable housing*** through professional management…

- And we need a way to significantly ***reduce the cost of building new homes*** to meet the growing demand WITHOUT the need for expansive government subsidies.

The $20 Billion Manufactured Housing Community (MHC) Market

- **43,000+** Land-Lease Communities
- **4.3 Million** Estimated Homesites in Communities
- **4.2%** Average Annual Site Rent Increase
- **51% of New Homes** are Placed in Communities

Source: Manufactured Housing.org

Market Size: 4.3M Homesites		
Monthly Rent	**Rent Roll/Month ($B)**	**Rent Roll/Year ($B)**
$300	$1.290	$15.480
$400	$1.720	$20.640
$500	$2.150	$25.800

According to Inland Venture Partners, the average occupancy rate across these communities is 94%, the highest occupancy rates across any real estate format today — and demand is rising.

Introducing: Michael Anise

25 Years of Experience

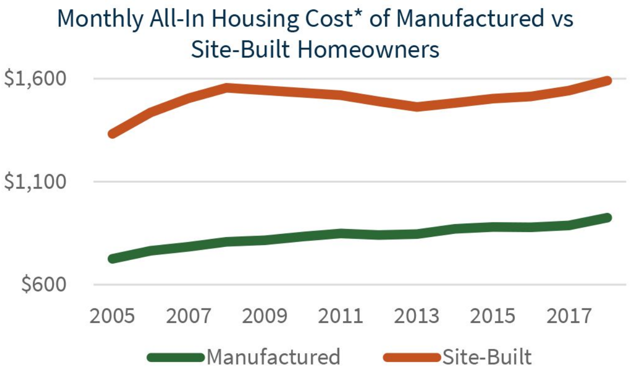
- Michael was CFO for Maryland asset manager, Comprehensive Financial Solutions. He also served as CFO for Boca Raton, Florida based Crossroads Financial, LLC, which specializes in inventory financing, and revolving lines of credit for retail and e-commerce businesses.

- In 2017, Michael got his start working with, and investing in manufactured housing communities.

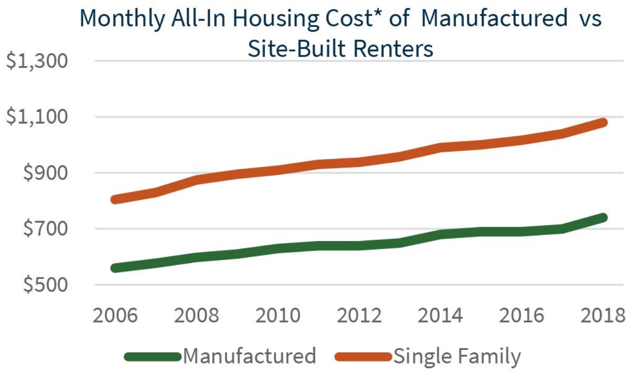
- *“Having my family is by far the most important thing in my life. I’m a father, son, and husband before I’m an entrepreneur.”*

What Are Manufactured Homes?

An affordable option for middle- and lower-income households



Source: 2018 American Community Survey,
* Note: Excludes owners without mortgages



Source: 2018 American Community Survey,
* Note: Excludes non-cash renters who may contribute services in place of rent or may not pay rent.

No matter how you look at the data, the median monthly all-in cost (MAIC) to own or rent a ***manufactured home*** is lower than for a ***site-built home.***

According to Fannie Mae, MAIC for owners was **$675 per month less** than that paid by owners of site-built homes; MAIC for renters was ***$350 per month less*** than renting site-built homes.

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The Opportunity

The Setup is Simple: Structurally high demand with constrained supply…

ELS also notes that there's a shortage of 3.8 million single family homes in the U.S.

The **average price** of a single family home stands at **$526,025**, as of January 31, 2023.

The **comparable MH home** was at $123,867 – ***a 76% drop!***

The Opportunity

But most of the supply is in the lower-middle market

Many newer investors are looking at communities that would not be considered institutional-grade investments, such as an 80-home property in a secondary market.

According to Michael Callaghan, managing partner with Four Leaf Properties:

> *"Around 80 percent of the activity in manufactured housing fits that category. That's the product the big guys don't want.*
>
> *We need to get people to realize there are no more 300- to 400-home communities out there, we need to build them from scratch."*

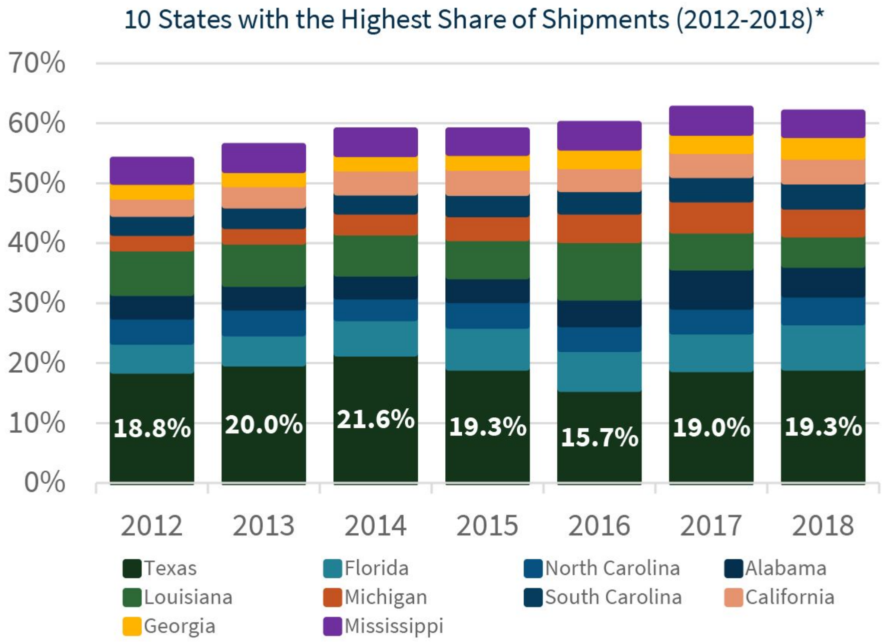
FOUR LEAF PROPERTIES

Due to the size of the PE funds, it often requires them to target only the largest MHCs in the nation.

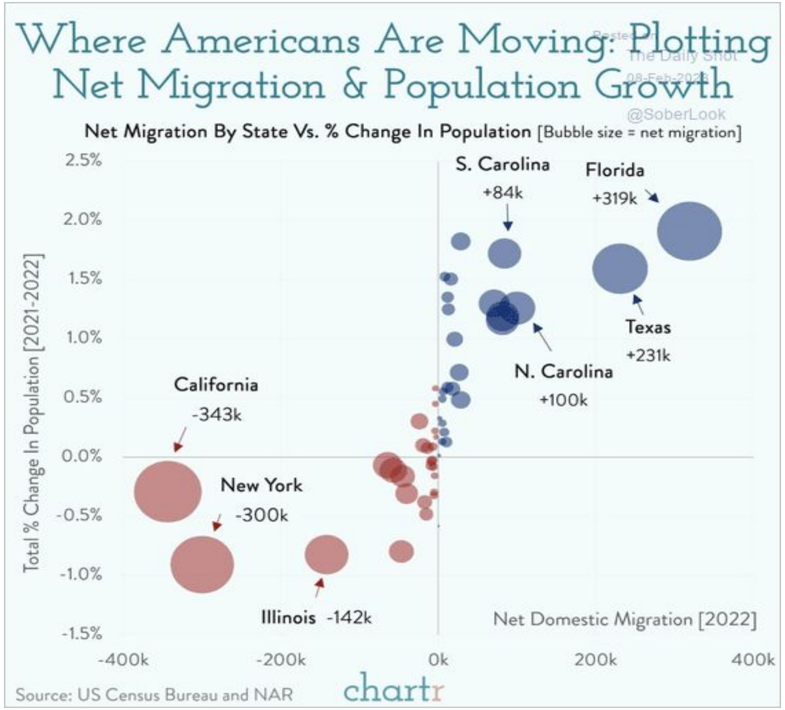
This means there is a tremendous amount of capital chasing a limited supply of larger format MHCs…

And limited competition for smaller format MHCs (25 - 75 pads).

Why The Southeast?



Source: U.S. Census Bureau Manufactured Housing Survey



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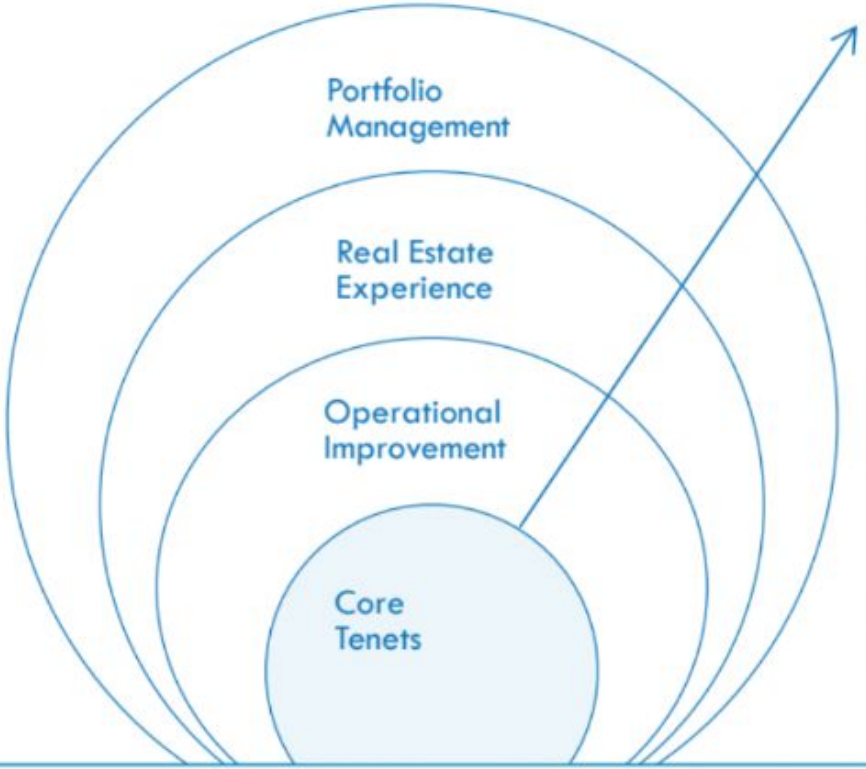
FGC CORE TENETS



Seeking to Generate an Above-Market Yield while being an Affordable Housing Solution

Geographic and risk diversification – Our acquisitions are in the Southeast US, which is the fastest growing part of the country

Confirm risk/reward profile matches what is expected

Seek out communities where we can add value and improve lives

To maintain sustainable dividends through multiple years, events, and industry and market cycles

FGC's Chairman and President, Kyle Ceraminara, notes:

> *"MHCs are really the last frontier of home affordability.*
>
> *Our mission is to preserve that. And at the same time, we're producing very significant cash flows by owning them - a win-win by most any estimation.*
>
> *And by building a portfolio, the reliability of cash flows becomes more consistent. Over time, we believe that along with our investors, we'll have a major stream of appreciating land-backed capital."*

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Q&A

What questions do you have?

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Considering an Investment?

Please visit their offering page for more information

https://invest.equifund.com/offering/fgcommunities/