LBX Corporate Update: Rebranding LBX Retail & Introducing LBX Residential

MARKET COMMENTARY SEPTEMBER 9, 2020

We Are Pleased To Announce LBX's Formal Expansion Into The Multifamily Sector

Shopping Center Investments Will Continue And Upcoming Initiatives Will Include Fixed Income

Dear Investor,

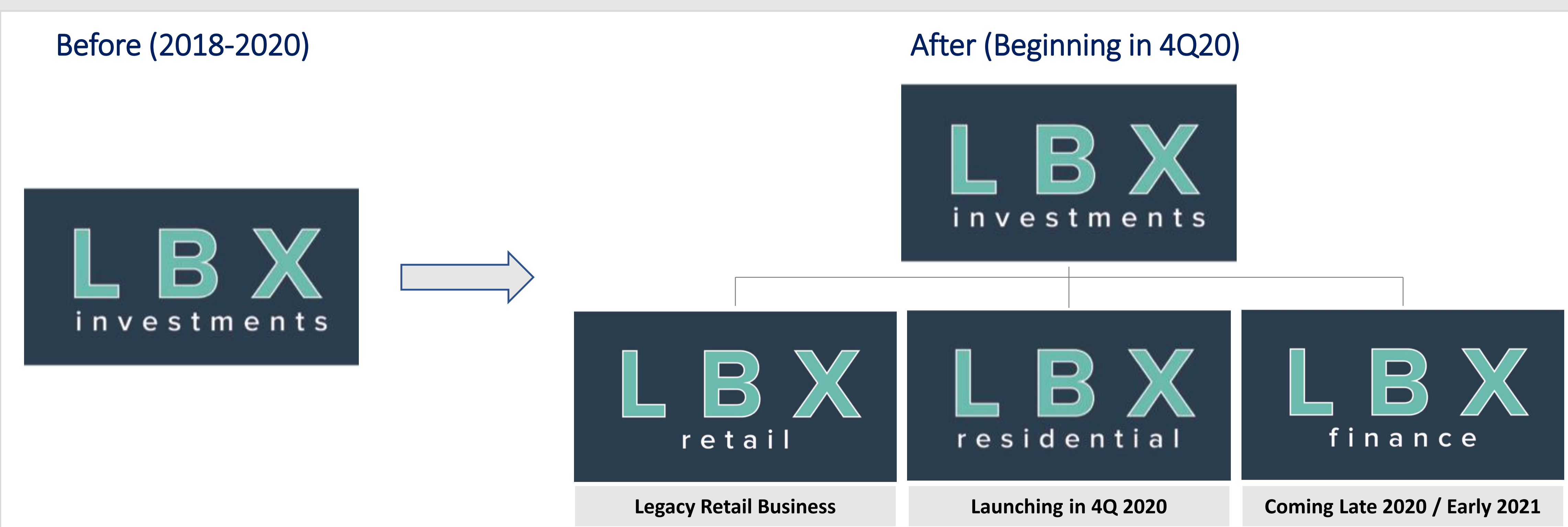
At LBX, we've been very busy over the past few months intensely managing our existing retail portfolio while simultaneously developing and moving forward on various initiatives to expand our investment and operating platform. We'd like to update you on those initiatives.

First, and most importantly, we are pleased to report that our shopping center portfolio has largely withstood the COVID-19 pandemic and collections have mostly returned to normal. We have resumed distributions at most of our properties and have seen minimal adverse effects from corporate bankruptcies and store closures (which have been much-publicized but mostly contained within the enclosed mall space, which we have avoided). In addition, we continue to execute on our property level business plans and, due to conservative management of our property balance sheets, have grown our cash position across the portfolio, providing safety for our investors and the potential for outsized distributions in the future.

Second, we are excited to announce the expansion of our business into a number of different real estate sectors. Our leadership team has a wide and deep history in a variety of real estate businesses in addition to retail, and due to the impact of the pandemic on real estate investing and the overall capital markets, we believe it is an opportunistic time to expand to take advantage of any dislocation in certain key sectors. The first we will discuss today is multifamily.

First, We Are Rebranding "LBX Retail"

We have rebranded our shopping center business as LBX Retail, which now falls under the broader umbrella of LBX Investments. The image below shows how our branding is changing.



While we are expanding into new sectors opportunistically, we want to be clear: **we remain bullish on well-located neighborhood and community shopping centers that can provide outsized returns to our investors.** When we began acquiring shopping centers in 2016, our view was that well-positioned retail assets in rapidly growing Southeastern markets offered the potential for attractive risk-adjusted returns. We felt the "Amazon Effect" was being both overplayed and misunderstood, and that negative sentiment around the sector was overshadowing the importance and durability of brick-and-mortar to both retailers and consumers. The resiliency of our existing portfolio during the pandemic is a great illustration of how a well-conceived retail portfolio, operated with a best-in-class team and financed and structured properly, can continue to provide attractive risk-adjusted returns, even in light of a pandemic that one could never have underwritten. Underscoring our ongoing commitment to the sector, we made two strategic hires for this group this summer, bringing Ryan Preston and Mike Allison on board as our heads of leasing and asset management, respectively. Both Ryan and Mike have years of experience in the shopping center world and vast capabilities that will help us optimize portfolio value.

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LBX investments

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Introducing "LBX Residential," Our Multifamily Platform

While LBX will remain active in the retail space going forward, our platform was developed and staffed to identify the best risk/reward opportunities across multiple sectors. With the direction of our leadership team, we boast significant multifamily experience: Rob was the CEO of Centerline Capital Group, a publicly traded primarily multifamily-focused lender and investment management platform with over $10 billion in equity under management, and GP positions in over 150,000 multifamily units. Phil also held senior positions at Centerline, in addition to senior roles at other financial institutions with a meaningful focus on the multifamily sector.

Additionally, LBX Residential will be a partnership between LBX Acquisitions (Rob, Phil and Jason Post) and Arliga Capital, which is run by David Dowell. David is an experienced private equity professional who has led acquisitions and dispositions of more than $2.5 billion of commercial real estate over a 20-year career, including a significant focus on the multifamily space. LBX Residential will also leverage the capabilities of our partner, Post Investment Group, which has acquired more than $1.3 billion of Multifamily since 2005 and has a tremendous track record of investing success over the past 15 years.

With this lineup in mind, we collectively believe market conditions have become more favorable for multifamily acquisitions since the dawn of the COVID-19 pandemic. In particular, we believe Class B multifamily offers an attractive risk-reward proposition. Many of the same demand drivers that have made this segment of multifamily so attractive to investors during the last several years remain intact, and the cost of capital has dropped precipitously this year. We intend to focus on sourcing off-market transactions where possible and plan to apply the same rigorous underwriting approach to multifamily that we have applied to retail. We focus on capital protection, employing moderate leverage, and investing where we can improve underperforming assets.

The Continuing Case For Multifamily

Despite significant cap rate compression over the past decade, LBX Residential sees value in Class B value add multifamily, particularly in areas that have good school districts in strong secondary markets. Rent growth and occupancy in Class B multifamily assets that fit our criteria tend to exhibit strength during good economic times and be resilient through downturns. We believe the recent economic downturn, caused by the COVID-19 pandemic, could create attractive buying opportunities as collections and incomes at target properties may be negatively impacted by reduced employment and incomes. We anticipate this economic climate will provide entry points to properties at valuations that are reduced from recent highs. The segment also benefits from a supply-demand imbalance and strong demand drivers that have remained largely unchanged since the Great Financial Crisis and have persisted, if not been amplified, throughout the pandemic. Apartments in the middle of the rental housing pack comprise ~70% of national multifamily housing stock but ~10% of newly developed supply, and this segment has failed to keep up with annual demand requirements. You simply cannot build to Class B rents with today's construction costs.

Broadly, we are expanding into multifamily for several reasons:

(1) Strong demand drivers have remained largely unchanged despite the pandemic: A growing renter population has created a constant, ongoing source of demand for Class B housing.

(2) Lifestyle changes across demographic groups have fueled apartment demand: Outmigration from gateway cities into secondary markets, shifts in consumer preferences towards rentership of everything from cars to homes, and delays in major life decisions are delaying home purchases and/or making rentals more attractive.

(3) Limited additions to new Class B supply have created a supply-demand imbalance. Newly developed Class B assets are rare, as most new multifamily product is Class A luxury product. While Class A rents have already begun to soften in the current downturn, and Class C rents are exposed to the most job losses in the economy, Class B rents tend to hold up during downturns because they provide an essential need at an attractive price point. When economic conditions recover, Class B rents historically outpace inflation, as well.

(4) Financing is readily available for multifamily and rates have dropped significantly in 2020. For example, 10-year agency debt is readily available at sub-3% rates with interest-only flexibility at LTVs up to 75%. While we tend to leverage conservatively, this debt profile will enable us to acquire assets with sufficient debt service coverage to generate attractive day-one cash flow to investors.

(5) Growth secondary markets have outperformed gateway cities. More than half of this country's fastest-growing, most dynamic metros are thriving secondary markets such as Atlanta, Austin, Nashville, and Denver. Markets with strong population growth and vibrant economic growth drive multifamily demand.

We are actively working to secure multifamily opportunities and are excited at the prospects of bringing our first deal to market on this new platform. Should you have any questions in the meantime, please feel free to reach out.

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