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WE ARE PLEASED TO ANNOUNCE THE CLOSING OF FUND IX'S SECOND ACQUISITION, CEDARDALE

Pathfinder Fund IX purchased Cedardale, a 126-unit, value-add multifamily apartment community, located in the high demand rental submarket of Federal Way (Seattle Metro Area), WA in December 2024.

PATHFINDER FUND IX

$43,000,000

IN COMMITMENTS TO DATE

PATHFINDER FUND IX REMAINS OPEN TO NEW INVESTORS

ANY OFFERS TO BUY SECURITIES WILL BE MADE ONLY PURSUANT TO A CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM, WHICH WILL DESCRIBE IN DETAIL THE SECURITIES, INVESTMENT STRATEGY, AND RELATED RISKS.

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CHARTING THE COURSE

Our Crystal Ball for Interest Rates Now More Opaque

By Mitch Siegler, Senior Managing Director

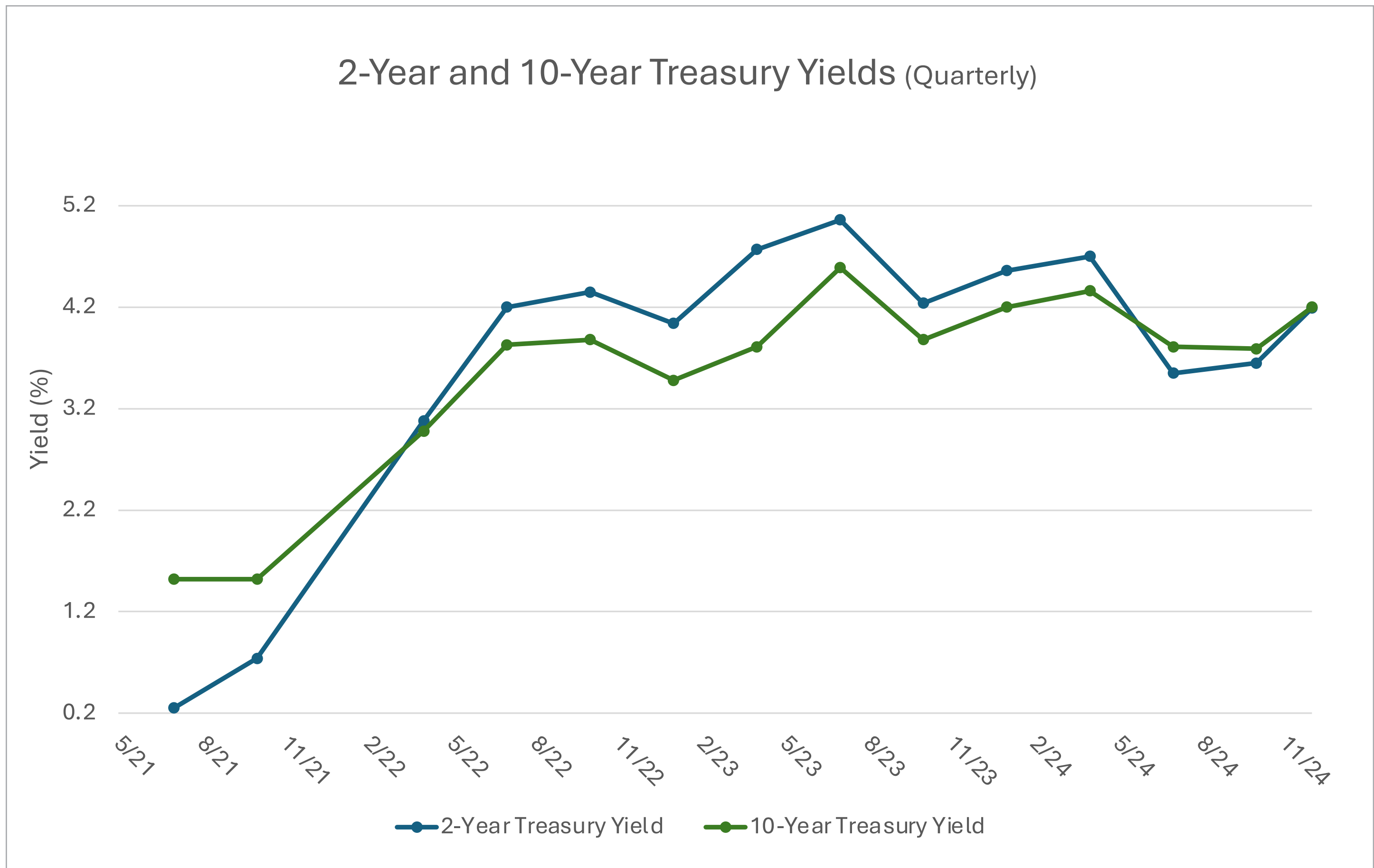
As the year winds down, we often find ourselves taking stock of the economy. What seemed crystal clear this fall is a bit murkier today, so we turn to our old friend – perspective. Like a hiker in the forest who only sees trees, we need to scope out for a wider-angle view to see the forest and gauge how far we've come and assess what may lie ahead.

Interest rates are one of the most significant economic metrics affecting real estate, since borrowing costs have important implications for capitalization ("cap") rates, a key determinant of property values. Interest rates also send important signals about inflation, a key determinant of future apartment rent growth. If these factors are healthy, there is likely to be meaningful property transaction (purchase and sale) activity. If they're not, not so much.

Only in the past few months has Pathfinder begun acquiring properties again, after a more than two-year hiatus. Nothing made much sense to us from spring-2022 to summer-2024, so our acquisitions team took a breather. Overall real estate transaction volumes during this period were also down dramatically, around 75% from peak levels. The root cause: the rapid and dramatic rise in interest rates.

Three years ago, short-term interest rates (measured by the 2-year treasury rate) were well below long-term interest rates (measured by the 10-year treasury rate). In early November 2021, the "10-year/2-year spread" was 1.24% (the 10-year was 1.65% and the 2-year was 0.41%). That dynamic – where investors demand a duration premium in the form of higher interest rates for tying up their money for longer – is the typical state of markets. (Today, the spread is only about 0.05%.)

The past few years, though, have been anything but typical. As interest rates rose from late 2021 through late 2022, rates on both 2-year and 10-year bonds jumped.



The rate on the 2-year treasury jumped from 0.41% to around 4.0% in 2022 (hovering around this level for much of 2022). The 2-year has held steady since – it's around 4.15% at press-time.

During the same period, the 10-year treasury also rose to around 4.0%. But since its starting level was four times that of the 2-year treasury, its rise was less in both relative and absolute terms. And, during 2022, the rate for the 2-year treasury exceeded the rate for the 10-year, obliterating that typical duration premium for investors who hold longer-term bonds. This phenomenon – an "inverted" yield curve – signaled that longer-term rates were likely to fall over time, suggesting lower inflation. (An inverted yield curve is also associated with a slowing economy.)

The fall 2024 interest rate "inflection point"

Since the Federal Reserve's (Fed's) first rate cut in two-and-a-half years this September, a 50- basis point decline, investors have been focused on the futures markets, which have been signaling meaningful declines in the Federal Funds rate (the key benchmark interest rate set by the Fed) through 2025. The CME Fedwatch Tool, based on futures market data, had been projecting that the Fed could reduce the Fed Funds rate by 1.75% from September 2024 to December 2025. This suggested that the Fed Funds rate *before* the September rate cut (5.25%) could fall to around 3.50% by late 2025. The Fed's second rate cut, 25 basis points in November, continued this downward trend. (A basis point is 1/100 of a percentage point.)

That's around the time things began to go cattywampus. The presidential election results surprised a couple of people and a few more took notice when the Senate flipped from blue to red and the House stayed in Republican hands, signaling a strong hand for the incoming administration and the President-elect's party.

That's about where any clarity ends. Already, economists, investors and market pundits are questioning whether the new administration's proposed tariffs could trigger another bout of inflation, whether increased federal spending could propel deficits and what higher levels of government borrowing could mean for interest rates. (Spoiler alert: there's a lot more chatter around rates remaining higher or not falling as quickly as the consensus believed even a few weeks earlier.)

The election has clouded Fed watchers' crystal balls

Many political pundits peg the impact from high inflation following the Biden administration's spending after the pandemic as a primary driver of the 2024 presidential election results. While it's true that inflation has fallen dramatically from its peak of 9% in 2022 to around 2.5% today, the damage – in the form of higher prices – was done to consumer pocketbooks. That contributed to a majority of American voters sending the party in power packing because of high grocery and gas prices and higher borrowing costs on mortgage, auto and credit card loans.

The next chapter in the inflation story will be told based on whether inflation can wend its way to the Fed's 2.0% target. That will largely be a function of economic growth, labor market trends (including the supply of labor – driven, in part, by immigration), housing costs (including mortgage rates and rent growth (expected to rebound in 12-18 months because of falling supply of new apartments). Many other factors – like the impact of Artificial Intelligence on productivity and demand for labor – are also in the mix and the number of people with great conviction about where everything will shake out are few and far between.

Investor expectations

Since markets look ahead in anticipation, investor inflation expectations – driven by concerns about deficit spending and the rates the U.S. government will need to pay to borrow ever increasing sums – will also play an important role in the inflation/interest rate story. Related questions – like "How much of the Biden administration's Inflation Reduction Act will survive past Inauguration Day?", "What will be the impact of tax cuts?" and "What happens if there is a resurgence in inflation?" – will also play a part.

Current projections from Fed officials suggest a more moderate glidepath for interest rates, with Fed governors signaling that they expect rates will fall 0.75 to 1.25 percentage points during the next year (from 4.50% now to 3.25% to 3.75% by late 2025.

Today, even this more cautious bet is not for the faint of heart. In mid-November, Fed chair Powell said, "The

economy is not sending any signals that we need to be in a hurry to lower rates." Accompanying September retail sales data, which came in stronger than analysts' expectations, provided further support for an economy that may not need more Fed stimulus. (September's retail sales growth was revised sharply upward from expectations of 0.4% to 0.8%.) The same day, data on auto purchases climbed at the fastest rate in three months and restaurant sales have now risen for seven straight months, suggesting that household discretionary spending is plenty strong.

Remember that CME Fedwatch Tool, which predicts the future of interest rates? A month ago, it was pegging the odds of a December rate cut at 86%. After Fed Chair Powell's mid-November statement and the stronger than expected consumer spending data, those odds had fallen to 58%.

The lessons of the pandemic, the 2024 elections and the geopolitical turmoil we've seen the past few years have cemented for many of us the sense that there's no knowing what tomorrow will bring. The future course of interest rates is no different. We're reminded of Mark Twain's famous quote: "It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so."

Mitch Siegler is Senior Managing Director of Pathfinder Partners. Prior to co-founding Pathfinder in 2006, Mitch founded and served as CEO of several companies and was a partner with an investment banking and venture capital firm. He can be reached at msiegler@pathfinderfunds.com.

FINDING YOUR PATH

The Insurance Dilemma

By Lorne Polger, Senior Managing Director

Rising insurance costs for apartment owners have become a growing concern in recent years. Several factors contribute to this trend, which impacts both property owners and tenants.

Magnitude of Price Increases.

On average, commercial property insurance rates have increased by **5% to 15%** per year over the last five years. A recent article in *Bloomberg* noted that insurance rates have risen for 23 consecutive quarters. Areas prone to hurricanes or wildfires have seen annual increases of **15% to 25%**, with some carriers restricting coverage in extremely high-risk zones.

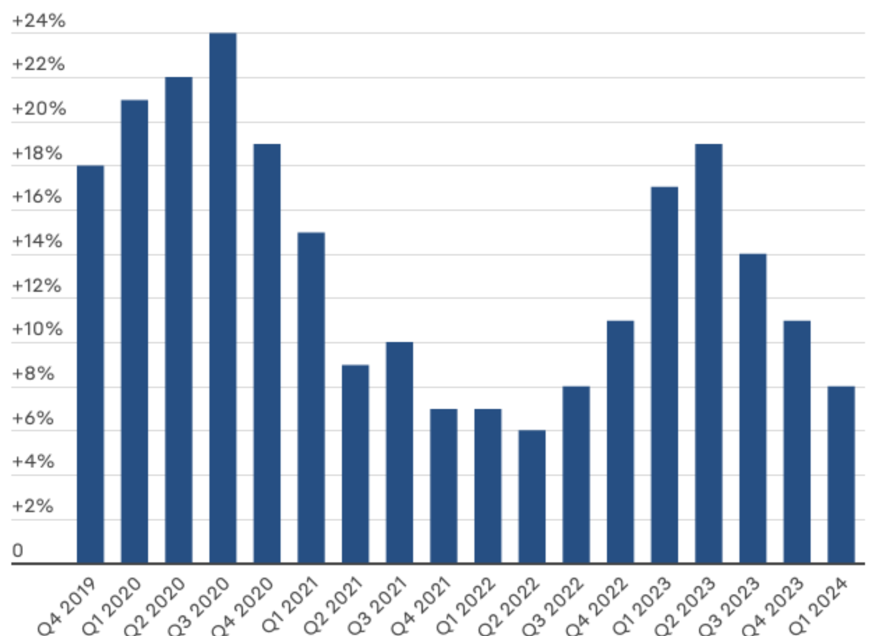
The COVID-19 pandemic and the resulting economic shifts led to significant premium increases from 2020 to 2021, especially as insurers faced uncertainties about business interruptions, claims, and future risks. By 2021, some industries saw premiums rise by **10% to 30%**. In 2022, the commercial property insurance market remained tight, with rates climbing between **5% to 20%** depending on the property's risk profile. In 2023, the average increase slowed in some sectors but continued to rise for higher-risk properties. In that year, there were 28 natural disaster events in the U.S., each of which resulted in over $1 billion of direct costs to insurance carriers. Most recently, *Globe Street* reported that property insurance costs per unit rose an average of 27.7% year over year, and 129% nationally since 2018, according to a survey by *Yardi Matrix*.

There have been regional variations to the increases. Coastal properties, especially in states like Florida, Texas, and Louisiana, have seen dramatic increases, sometimes over **30%** annually, due to the high frequency of catastrophic weather events. In areas prone to wildfires, such as California and parts of the Pacific Northwest, commercial property insurance premiums have increased by **20% to 40%** or more in recent years. Finally, properties in flood zones have seen increased premiums as insurers tighten their coverage terms, reflecting the growing threat from climate change. Flood insurance premiums have risen by **15% to 25%** annually.

Impact on Apartment Owners

For apartment owners and developers, these rising insurance premiums have had a significant impact on both short-term cash flow and long-term property values. Below are the key effects:

Increased Operating Costs. As insurance rates increase, the premiums that property owners must pay for coverage (such as property, liability, and casualty insurance) rise accordingly. This increases operating expenses and reduces cash flow. This is especially impactful for properties with thin profit margins or those not generating sufficient rent increases to offset the added expenses. Finally, higher insurance premiums reduce the Net Operating Income (NOI) –a key metric used to evaluate a property's financial performance. A lower NOI can result in reduced property



Source: Marsh Specialty and Global Placement

values and investor returns, making the investment less attractive to potential buyers or lenders.

Decreased Property Valuations. Commercial real estate investors typically use discounted cash flow (DCF) analysis or capitalization rate (cap rate) models to determine a property's value. Higher insurance costs reduce cash flow, which can lead to a lower valuation of the property, since lower income reduces future investor returns. As insurance premiums rise, investors may become more cautious in their valuation assumptions, potentially offering lower prices for properties with higher insurance costs or located in high-risk areas (e.g., flood zones, wildfire zones, etc.). This leads to downward pressure on property values in the market.

Effect on Financing. Lenders assess a property's ability to meet its debt obligations through the Debt Service Coverage Ratio (DSCR), which compares income to debt payments. Rising insurance premiums increase operating costs, lowering the DSCR and making it harder to secure financing. This could result in more stringent lending conditions or higher interest rates for borrowers. Insurers may also require higher coverage levels for higher-risk properties, leading to higher insurance premiums, which can affect the Loan-to-Value (LTV) ratios that lenders are willing to accept. This may reduce the amount of financing available for investors, especially for properties in riskier locations. Developers may have received insurance quotes during the pre-development stage of a project that differ vastly from final quotes when they are ready to break ground. Those increases can have a dramatic impact on construction loan proceeds and ultimate project returns.

Changes in Rent and Lease Agreements. Property owners may attempt to pass increased insurance costs on to tenants by raising rents or incorporating pass-through clauses in leases. This strategy may be more feasible for properties in higher demand locations or where such pass throughs have become more commercially acceptable. However, tenants may be unwilling to accept rent increases if the market is soft or if there is a high supply of comparable properties. This could lead to higher vacancy rates or tenant turnover, particularly in less desirable locations.

Impact on Risk Management and Development Strategies. Rising insurance costs reflect higher perceived risks, such as those related to natural disasters, climate change, and geopolitical instability. As a result, property owners and developers may need to invest in risk mitigation strategies (e.g., improving structural resilience, flood defenses, or fireproofing). While these measures can reduce insurance premiums in the long run, they represent additional upfront costs. Developers may scale back or delay new projects due to concerns over the rising costs of construction and insurance premiums. In some cases, the financial feasibility of certain developments may be negatively impacted if anticipated insurance costs significantly increase.

Increased Focus on Environmental, Social, and Governance (ESG) Factors. As insurers increasingly assess properties for their exposure to climate risks (e.g., flooding, wildfires, extreme temperatures), commercial real estate investors may need to place greater emphasis on sustainable building practices. Properties that are not built or retrofitted to meet climate resilience standards may face higher premiums, which could impact their long-term viability and profitability. Investors may turn to green building certifications (e.g., LEED, BREEAM) and seek sustainability-focused property upgrades to reduce risks and potentially lower insurance premiums. Some insurance providers offer discounts for buildings with high sustainability ratings.

Long-Term Implications for Real Estate. If rising insurance premiums continue to increase due to factors like climate change and geopolitical risks, the commercial real estate market may experience long-term shifts. Investors might prioritize risk-mitigated, lower-exposure properties, leading to changing demand across different regions and sectors. Areas

historically prone to natural disasters (e.g., coastal regions vulnerable to hurricanes or flood zones) may see a slowdown in investment due to the increasing cost of insurance. Conversely, markets that are seen as lower risk might attract more attention, especially if they have a combination of favorable insurance rates and strong economic fundamentals.

Pathfinder's Risk Mitigation Strategies.

Given the rapid increases in insurance rates over the last few years, Pathfinder has used a multifaceted risk mitigation strategy. Some examples are noted below.

We conducted a request for proposals with several insurance brokerage firms in 2022 requesting creative strategies to help us reduce our premiums. The winning firm developed the best strategy and reduced our premiums, while maintaining similar coverage.

We also consolidated our insurance outside of higher risk Colorado from two carriers to one carrier and achieved economies of scale. Due to our larger size post-consolidation, we became a "key client" of the carrier, which helped our pricing. Following that consolidation, our asset management team met personally with the CEO of our primary carrier and created a relationship, which we leverage as needed. We are very careful about submitting claims – only when necessary for economic reasons – and work hard to promote a long-term relationship.

In Colorado, which is prone to wind/hail damage claims, we utilize a specialty carrier with a very competitive wind/hail deductible. We also installed impact resistant roof shingles at two of our Colorado properties.

In terms of other physical changes, we replaced aged Zinsco electrical subpanels at applicable properties due to their higher risk for fire, leveraged discounts at properties with central fire monitoring and utilize a live monitored A.I. security system at certain properties to deter crime and reduce corresponding claims.

When Can We Expect Insurance Costs to Decline?

Over the short-term, most analysts predict that commercial insurance rates will remain high for the next 12-18 months due to stubborn inflation, increased catastrophic risk and lack of competition. Over the long term, rates may begin to soften once the economic situation stabilizes (e.g., inflation slows, reinsurance costs normalize, and fewer major natural disasters occur). However, a rapid decline is unlikely, and any reductions are expected to be gradual.

Conclusions

Over the past five years, commercial property insurance rates have soared, with certain high-risk regions or sectors seeing annual increases of 30% or more. These increases reflect a combination of climate-related risks, higher construction costs, inflation, and shifts in the global insurance market. Rising insurance rates add significant pressure to the financial performance of commercial real estate investments. Higher premiums reduce profitability, devalue properties, and complicate financing. While investors may pass on some of these costs to tenants, market conditions may not always support such increases, leading to potentially higher vacancy rates. In the long term, the need for risk management strategies, increased sustainability, and smarter investment in resilient properties may become key strategies for coping with rising insurance costs.

While commercial insurance rates may stabilize or slightly decrease in certain locations over the next few years, significant reductions are not expected soon. Owners should monitor market trends closely and work with brokers to ensure they are getting the best value for their coverage.

Lorne Polger is Senior Managing Director of Pathfinder Partners. Prior to co-founding Pathfinder in 2006, Lorne was a partner with a leading San Diego law firm, where he headed the Real Estate, Land Use and Environmental Law group. He can be reached at lpolger@pathfinderfunds.com.

GUEST FEATURE

Are we on the Brink of a Rebound in the Multifamily Market?

By Scot Eisendrath, Managing Director

The apartment market has been bumpy over the past couple of years, facing many challenges, including rising interest rates, fluctuating capitalization rates and values, increasing operating costs due to supply chain disruption and inflation, and a wave of unprecedented deliveries of new apartments. These factors led to increasing vacancy rates, flat to negative rent growth in some markets and the widespread use of concessions to fill empty units. As we look to 2025 and beyond there is a growing feeling that the apartment market is on the brink of a robust recovery. Here are five factors that support that thesis:

1. Increasing demand coupled with reduced supply leads to stabilizing market fundamentals:

New apartment supply peaked in the third quarter of 2024 with 162,000 units delivered (3Q24 Newmark Unites States Multifamily Capital Markets Report). Apartment demand in the third quarter of 2024 reached 193,000 units, representing six quarters of accelerating growth and a 135% year-over-year increase, which more than offset the new deliveries. New apartment deliveries are expected to significantly slow in 2025 with quarterly deliveries expected to be below 50,000 units starting in 2026. Demand outstripping supply is a strong reversal from 2023 conditions and has led to strengthening market fundamentals, including a reduction in vacancies, strong projected future market rent growth and tightening of concessions (used as an incentive to lease vacant apartments).

2. High cost of homeownership:

In today's environment, renters don't have many options. Nationally, the cost of homeownership (as of the third quarter of 2024) is 65% higher than the cost of renting, which is one of the highest differentials on record. The high cost of homes and rapid rise in mortgage interest

rates are fueling renter demand. The average rate on all outstanding home mortgage debt in the U.S. as of the third quarter of 2024 was approximately 4.0%, while a new mortgage would be about 7.0%. This causes fewer existing homeowners to move, resulting in fewer resale homes on the market. In fact, home sales remain 35% below the fourth quarter of 2020 peak, and 19% off the long-term average. Additionally, there are fewer new homes being built to add to existing supply. This restricted supply of for-sale homes has left the typical move-up renter with very limited options, besides continuing to rent.

3. Stable economic conditions:

Inflation hurts. I picked up a Greek salad at my favorite quick service restaurant last week, and it was $22. Sure, I went for a side order of pita bread and added chicken, but I could've sworn it was $12 last week (not quite, but it amazes me how expensive some things have gotten). Notwithstanding the issues with inflation, the economy appears to be on solid footing. The unemployment rate is 4.1%, real gross domestic product (GDP) increased at an annual rate of 2.8% in the third quarter of 2024 and the S&P 500 index is up roughly 25% year-to-date. While fears of a recession threatened in 2023, the economy has shown its resilience with consistent job growth and steady consumer spending – maybe the elusive "soft landing" is within reach. Important to note for apartment owners, wages have been growing faster than rents. Nationwide year-to-date wage growth through October was 4.6%, while apartment rents have only grown 1.1% (CoStar). More money in renters' pockets, coupled with constrained new apartment supply over the next few years, and a challenging for-sale housing market, may all be setting the stage for significant future apartment rent growth.

4. Regulatory environment:

No political commentary, just the facts. One of the items that Biden, and then Harris, campaigned on was national rent control, which would have been enforced by eliminating the deduction of interest expense for owners of apartment properties not in compliance. Not a real threat because it never would have passed but an unhealthy and divisive issue on which to campaign. For the third time in six years, rent control failed miserably in California, and with the passage of Proposition 34 it hopefully will not be seen on the ballot in any near-term elections. (Rent control was not on any other states' ballots this election cycle.) John Q. Public seems to understand what all the experts, economists, and studies have long said and shown, which is that the road to more affordable housing runs through increased supply, not through caps on rents (which discourages owners from investing in the upkeep and maintenance of existing properties and developers from building new housing, exacerbating the affordable housing problem.) Enough said.

5. Capital markets:

The capital markets for multifamily have remained healthy and resilient. Interest rates have bumped around, but lenders have remained active providing liquidity to owners, with the Government Sponsored Entities (Fannie Mae and Freddie Mac) leading the charge. Multifamily debt originations through September are up 8.5% over the same period in 2023. There is also plenty of equity to take advantage of market conditions – there is roughly $326 billion in "dry powder" in private equity closed-end funds on the sidelines, which helps provide a floor for apartment values. Some of the "smart money" has already been put to work, with notable transactions like private equity firm KKR acquiring a $2.1 billion multifamily portfolio from Quarterra (Lennar) at a shockingly low 4% capitalization ("cap") rate and Blackstone's $10 billion acquisition of the apartment REIT AIR (formerly Aimco).

The apartment market feels like it is at an inflection point. It took a couple of good punches in 2023 and 2024 and should come out swinging (and strong) in 2025. The groundwork has been laid with limited new supply ahead, strong continued renter demand and stable economic conditions, which should lead to more of a landlord's market over the next few years.

Scot Eisendrath is Managing Director of Pathfinder Partners. He is actively involved with the firm's financial analysis and underwriting and has spent more than 20 years in the commercial real estate industry with leading firms. He can be reached at seisendrath@pathfinderfunds.com.

ZEITGEIST – SIGN OF THE TIMES

Three Strikes and You're Out – California's Rent Control Battle

In 1995, California enacted the Costa-Hawkins Rental Housing Act with an aim of balancing tenant protections with property owner rights. Costa-Hawkins restricted rent control on apartments built after 1995, single-family homes and condos and allowed landlords to adjust rents to market rates after a tenant moves out. The act has been under siege in recent years by the AIDS Healthcare Foundation (AHF) – a global nonprofit focused on medical care and advocacy for people living with HIV/AIDS – which funded failed California ballot propositions in 2018 and 2020 seeking to modify the Act.

2024's Proposition 33 – also funded by AHF – intended to repeal Costa-Hawkins entirely, allowing municipalities to implement rent control on all residential properties and restrict rent increases after a tenant moves out. California voters decisively rejected Prop 33, with approximately 60% of voters opposed to the measure.

Prop 34, which was designed by the California Apartment Association to strip AHF of its ability to fund future rent control propositions, requires healthcare providers to spend 98% of net revenues directly on patient care (as opposed to rent control initiatives) or risk losing their tax-exempt status or licenses. Prop 34 passed by 51%, a slim majority, providing housing advocates with a second victory against rent control this November.

While Californians spoke out against rent control at the ballot box in 2024, the state's rent control battle is likely to continue, although funding such initiatives has become significantly more challenging.

Beyond Late Fees – Rewarding Tenants Who Pay Rent on Time

A recent study by Havard University reported that about 12 million U.S. renters spend more than half of their income on housing. And in an inflationary environment where housing costs are growing faster than income, innovative landlords are both penalizing tenants who pay late while rewarding tenants who pay on time.

Late fees, common in the industry, are often regulated by local governments and range widely (from a flat fee of $25-$50 to 5%-10% of the monthly rent). In contrast, tenant reward programs provide points to tenants who pay rent on time and renew their leases and these points can be redeemed for prizes or gift cards (like credit card reward programs). Some incentive programs also provide positive reporting to credit agencies allowing on-time payers to improve their credit scores. This proactive approach can increase tenant retention rates, as renters are incentivized to renew their leases and feel more valued for exhibiting responsible financial behavior. Pathfinder recently rolled out a similar rewards program at several properties – with the goal of increasing tenant retention – and initial feedback has been positive.

Incentive programs are more than just a trend – they're a smart investment in tenant satisfaction and property management efficiency. By fostering a positive rental experience, landlords and property managers can create loyal tenants who prioritize timely payments and contribute to a constructive rental community.

TRAILBLAZING: THE AI REVOLUTION IN APARTMENTS

"How AI is Transforming Property Management and the Resident Experience"

Artificial intelligence (AI) is quickly becoming ubiquitous in the apartment industry with the technology now playing a significant role in leasing, tenant screening, collections, maintenance and security. According to a recent survey by *AppFolio*, nearly half of property management firms are using AI or plan to adopt it soon. Here's a look at some of the trends and benefits that AI is bringing to the apartment industry:

Virtual Leasing Assistants: AI-powered virtual leasing assistants can handle inquiries 24/7 and answer questions, schedule tours and follow-up with prospective residents. By automating these tasks, leasing teams can focus on personalized service during in-person interactions.

Tenant Screening: AI streamlines tenant screening by rapidly analyzing applications, credit histories and background checks to detect fraud and assess risk. The technology reduces human error and ensures compliance with fair housing regulations, helping landlords find trustworthy tenants while minimizing legal and financial risks.

Rent Collections: AI is improving rent collections by automating tenant payment reminders and identifying patterns with late payers. Recognizing these patterns helps management anticipate payment issues, reducing delinquencies and smoothing out cash flow.

Maintenance Management: AI-powered maintenance software automates work orders and helps schedule preventative maintenance, improving an owner's ability to quickly resolve workorders and enhancing tenant satisfaction.

AI-Powered Security: AI-powered surveillance cameras can detect unusual activity, respond in real-time – via live, remote guards – and alert management and the authorities to potential security issues. Furthermore, utilizing facial recognition software at properties with secured entrances (often in urban environments), helps keep non-residents out while ensuring a safer environment for residents.

Pathfinder is proud to be at the forefront of the AI revolution by utilizing technology throughout our communities while recognizing the importance of maintaining a balanced, personal relationship with our residents. By leveraging the benefits of AI and prioritizing personal touches, property managers can provide a well-rounded and efficient approach to management while maintaining a competitive edge.

(Note – this article was written without the use of ChatGPT or other AI tools!)

NOTABLES AND QUOTABLES

"Adaptation"

"Every success story is a tale of constant adaptation, revision and change."

- Richard Branson, *English Entrepreneur*

"An organization which just perpetuates today's level of vision, excellence and accomplishment has lost the capacity to adapt."

- Peter Drucker, *Austian-American Management Consultant*

"The world is constantly changing, and smart people change with it."

- Steven Magee, *English Author*

"Success is directly proportional to the degree of positive adaptation to change."

- Vishwas Chavan, *Indian Scientist*

"We should be in constant evolution and adapt to the new without ever losing our essence or our integrity."

- Pedro Capo, *Puerto Rican Musician*

"Adaptation is repetition, but repetition without replication."

- Benjamin Disraeli, *Canadian Academic*

"Rigidity can lead to vulnerability; flexibility allows for adaption to life-changing circumstances."

- Aloo Denish Obiero, *Kenyan Biochemist*

"Action and adaptability create opportunity."

- Garrison Wynn, *American Author*

"Intelligence is the ability to adapt to change."

- Stephen Hawking, *English Physicist*

IMPORTANT DISCLOSURES

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Investing involves risk of loss and you should be prepared to bear investment loss, including loss of original investment. Real estate investments are subject to the risks generally inherent to the ownership of real property and loans, including: uncertainty of cash flow to meet fixed and other obligations; uncertainty in capital markets as it relates to both procurements of equity and debt; adverse changes in local market conditions, population trends, neighborhood values, community conditions, general economic conditions, local employment conditions, interest rates, and real estate tax rates; changes in fiscal policies; changes in applicable laws and regulations (including tax laws); uninsured losses; delays in foreclosure; borrower bankruptcy and related legal expenses; and other risks that are beyond the control of Pathfinder or the General Partner. There can be no assurance of profitable operations because the cost of owning the properties may exceed the income produced, particularly since certain expenses related to real estate and its ownership, such as property taxes, utility costs, maintenance costs and insurance, tend to increase over time and are largely beyond the control of the owner. Moreover, although insurance is expected to be obtained to cover most casualty losses and general liability arising from the properties, no insurance will be available to cover cash deficits from ongoing operations.

Please add msiegler@pathfinderfunds.com to your address book to ensure you keep receiving our notifications.