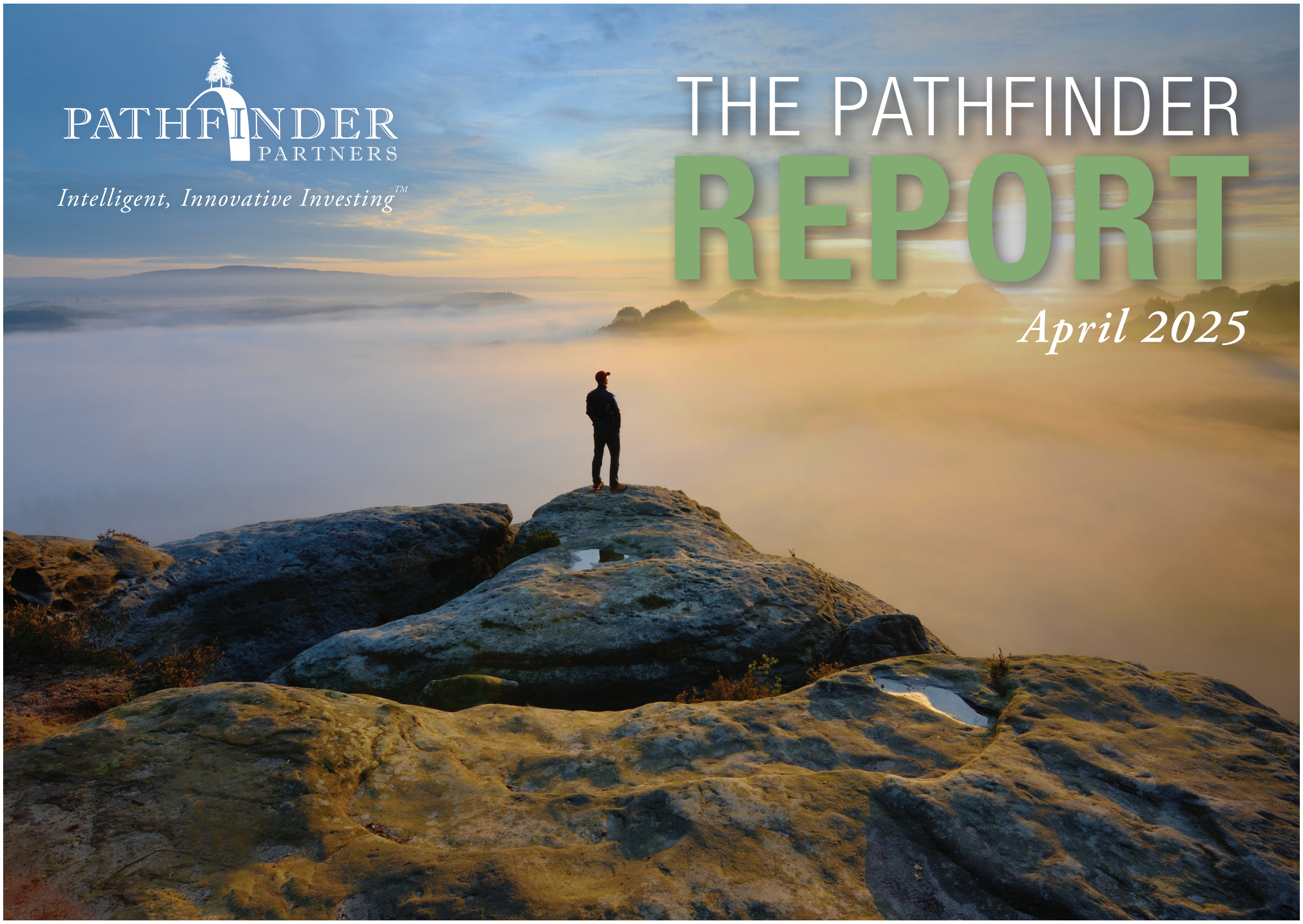


IN THIS ISSUE

CHARTING THE COURSE

On Uncertainty, Geopolitics and Own Goals

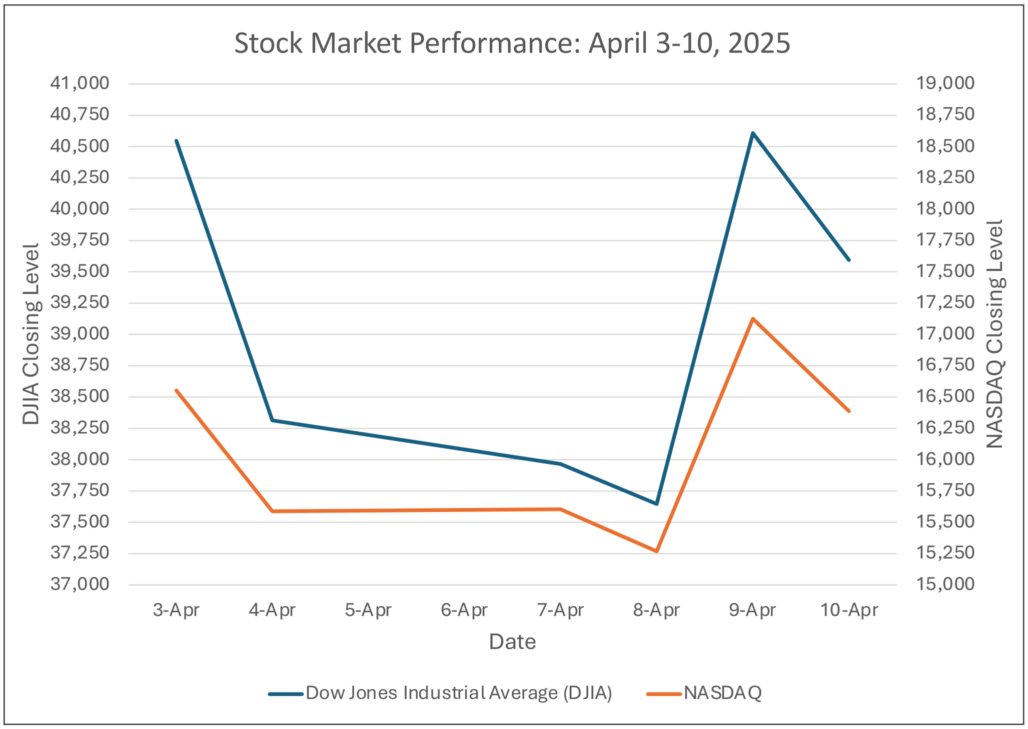
By Mitch Siegler, Senior Managing Director

It's been a topsy-turvy couple weeks of uncertainty and market gyrations, precipitated by on-again/off-again tariffs, bluster and braggadocio. Uncertainty hit a fever pitch on April 9th when President Trump announced he'd hit the pause button on most tariffs for 90 days. Whew! Doing so seems good both for the U.S. and the President's political standing. (Growing fears of a trade war may explain why 53% of Americans disapprove of the President's handling of the economy, according to RealClearPolitics' polling average.) It sure is nice to see common sense win the day from time to time.

The first day of this latest roller-coaster ride was April 3rd, the day we held our annual meetings for a couple of hundred Pathfinder investors. This not being our first rodeo, the theme of our presentations was "uncertainty", with economic headlines about tariffs, inflation and DOGE swirling in our heads. As we tried to read the tea leaves, our news feed was filled with stories about wars in Ukraine and Gaza and Chinese threats toward Taiwan along with developing challenges with Canada and Mexico – and Panama and Greenland.

While we're not in the predicting business – especially as to stock market performance – our investing radar was spinning with tariff talk in the days leading up to our meetings. We took comfort in the fact that our multifamily properties had occupancy levels above 95%, we collect 98% of rents and people need a place to rest their heads in good times and in bad. Oh, and apartments provide an outstanding hedge against inflation – should the Feds fail to slay that beast (or should tariffs or threats of them send prices spiraling). It's gratifying that multifamily real estate is not highly correlated with traditional equity and fixed income markets so turmoil there doesn't directly impact the apartment business.

Back to the markets. The day of our meetings, the Dow Jones Industrial Average (DJIA) fell 4% and the technology-heavy NASDAQ index plummeted 6%. After the markets closed, China retaliated with tariffs of its own, leading to a further bloodbath the next day – the DJIA fell another 5.5% and the NASDAQ swooned by a further 5.8% on April 4th.



The roller-coaster ride continued the following week until President Trump announced on April 9th that tariffs would be paused for 90 days on all nations but China – propelling the markets upward, recouping a considerable portion of their recent losses. Although Treasury Secretary Bessent said placing, then removing, tariffs was the grand plan all along, that didn't quite jive with the President's explanation that he downshifted on most tariffs because people were getting "yippy" (we needed to consult Merriam-Webster for that one).

It's still unclear whether the administration was playing checkers, chess, three-dimensional Vulcan chess or some other game. Maybe it's all part of *The Art of the Deal?* We think more global trade is better, especially for the U.S. and maybe trade shouldn't be viewed as a zero-sum game where the other guy must lose for us to win. People generally get the Law of Comparative Advantage, first set forth by Adam Smith in the 18th century: "If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry employed in a way in which we have some advantage." Now, for those who get their philosophy elsewhere and folks who just aren't big fans of Adam Smith, maybe this wisdom from boxer, Mike Tyson, is more your style: "Everyone has a plan until he gets punched in the face."

Any way you slice it, it's not unhealthy to see the administration respond to pressure and change course – that suggests a willingness to listen, generally a good thing.

Many analysts attribute the Trump tariff U-turn to pressure from the bond market. James Carville, political adviser to President Bill Clinton, famously said, "I used to think that if there was reincarnation, I wanted to come back as the president or the pope or a .400 baseball hitter. But now I would like to come back as the bond market – you can intimidate everybody."

Of course, a lower level of chaos isn't the same thing as calm. The 90-day pause on tariffs may have tamped down the uncertainty for a bit, but turmoil will likely return. The fundamental challenges are our trade deficits ($1.2 trillion in 2024, a record high), budget deficits ($1.3 trillion for the first half of fiscal year 2025 – with interest on the debt hitting a record) and national debt ($36.5 trillion as of March – the result of years of massive trade deficits with China and other countries, escalating entitlement spending and higher debt service costs).

These puzzle pieces – and others – fit together to tell a larger story. We couldn't finance our trade deficits without buyers for our treasury bonds – and these buyers, many foreign, wouldn't buy U.S. treasury securities unless the interest rates were sufficiently enticing. The fact that the U.S. dollar remains the world's reserve currency doesn't hurt – but that reserve currency status becomes harder to maintain when there's fear about our balance of trade and deficits. Mix

in volatile interest rates, uncertainty about economic growth rates and mixed signals from D.C. on fiscal and tax policy and it's quite a stew of uncertainty.

Every headline could bring good or bad news – depending on where you sit. Falling oil prices – around $60/barrel at press-time – mean lower pump prices but also make it more difficult for U.S. oil producers to drill profitably. They also mean economic hardship for Russia and Iran, which have economies that are highly dependent on oil exports. We could do this sort of exercise for virtually every commodity, market, nation and industry.

Imagine how complicated it could get for the White House making deals – customized, bespoke deals (not those pesky off-the-rack deals) with 75 countries which are ostensibly lining up to make deals to stop the tariff pain. And these won't be just deals about trade and tariffs. No Siree. These countries will be made to pay – for defense spending, mineral rights and more. Because the grand plan is to change the structure of the post-war order that benefits the U.S. and so many other countries in both economic and non-economic ways. Looking ahead, America will want to be paid for what it does for its allies around the world. This approach may be good, or it may be bad, time will tell on that, but if one thing's certain, it's that this approach is likely to create additional uncertainty.

Own Goals

In soccer, there's nothing more painful than an "own goal". That's when one of your own players kicks, deflects or heads the soccer ball into your own team's goal. Ouch – it's bad enough when the opponents do that!

That – an own goal – is how economists and market pundits have characterized the recent tariff wars, which have turned allies into adversaries and wiped many billions in value from the market capitalizations of Apple, Microsoft, Tesla, Meta, WalMart, Starbucks, McDonald's and more.

The U.S. can survive exports of cheap Chinese clothing and toys. China's theft of U.S. intellectual property and dumping of steel and sophisticated manufactured goods – leading to the hollowing out of entire sectors of our manufacturing sector – are much greater threats. These decades-old practices are outrageous, and the President is right to call them out.

American automobile manufacturers should have free and fair access to markets around the world. U.S. companies should be able to compete on a level playing field and without having to give away their intellectual property. Those abuses simply can't continue.

Markets rise and markets fall. Recently, the on-again/off again nature of the tariffs,the arbitrary nature of the tariff levels imposed– and the uncertainty this schizophrenia created – have been a major cause of market volatility. In periods of uncertainty, companies can't plan, and they delay hiring and capital investment decisions. That happens in spades when tariffs – geopolitical uncertainty of the highest order – are slapped on friend and foe alike in a capricious manner. Now, the tariffs are affecting many nations, including our own.

Geopolitics are highly complex and investors fear what they don't understand even more than what's staring them in the face. Tariffs can morph into trade wars, which can turn into hot wars. Nobody wants that, so let's hope this roller-coaster ride comes to an end soon.

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 Tariff Roller Coaster Ride. Hang On and Buckle Up Tight.

By Lorne Polger, Senior Managing Director

Feeling a bit unbalanced these days with the tariff roller coaster ride? How could you not? Volatility will be the norm for a while. Real estate owners and investors love predictability; that's about the last thing that we find ourselves in with the current environment, as massive swings in indexes, costs and interest rates leave me feeling like I just got off a ride at the annual San Diego County Fair (thank goodness I gave up the Fair's famous fried coffee years ago).

After the last couple of weeks, we are beginning to understand the role that tariffs can play in the equity markets. But what about their direct and indirect impacts on commercial real estate (CRE)? While we are only beginning to understand the impact, we do know that different sectors within CRE will be affected differently, depending, in part, on the scope and scale of the tariffs. Here is a breakdown of some of the ways that tariffs may influence CRE in the months and years ahead.

1. Construction Costs.

Higher prices on imported materials (like steel, aluminum, and lumber) brought about by tariffs can significantly raise the costs of construction. In turn, this could delay or cancel new CRE developments (which have already been drastically reduced as higher costs and interest rates have reduced developer margins) and potentially increase rents or selling prices to offset those higher development costs.

Tariffs on imported materials like steel, aluminum, and lumber can send construction costs soaring. Developers may face higher upfront costs on new builds or renovations, forcing many projects to slow down or go back to the drawing board.

This creates a ripple effect which can lead to:

- Fewer new developments – which can lead to...
- Tightened supply – which can result in...
- Potential upward pressure on rents, especially in high-demand markets.

But it's not just about rising costs, it's also about uncertainty. With fluctuating tariffs, budgeting becomes harder, timelines less dependable, and margins thinner.

2. Multifamily.

Apart from new developments, we believe that the multifamily sector remains largely insulated from the impact of tariffs. Absent tariffs creating a dramatic rise in unemployment rates, population trends and demographics support the continued strength of the multifamily sector. There remains a significant undersupply of housing across many markets in the country. In the past year or two, we have started to see a massive drop in new deliveries. If tariffs exacerbate that situation, we should expect that strong demand and reasonable absorption of new supply will push up rents in both the short- and mid-term.

3. Industrial and Logistics Properties.

Tariffs can disrupt global supply chains, affecting both import/export businesses and manufacturing businesses. Companies may need to rethink warehouse locations or logistics hubs, shrink or expand space depending on changes in demand. We may see a shift toward onshoring or nearshoring (think Mexico), which could boost demand for North American industrial real estate.

Industrial real estate often rides the wave of global trade. When tariffs disrupt supply chains, manufacturers and distributors may:

- Reconfigure warehouse footprints.
- Shift to domestic suppliers.
- Invest in onshoring to reduce dependence on imports.

This can be a boon for industrial space in the U.S., especially near ports, transportation corridors, or urban centers. But if trade volumes drop significantly, some logistics facilities could become underutilized or even obsolete.

4. Retail Sector Impacts.

Tariffs on consumer goods can lead to higher retail prices, reducing consumer demand. We would expect to see pressure on retailers' margins, especially if they cannot pass on costs to consumers. As a result, this could continue the years-long trend of store closures or downsizing, hurting retail CRE occupancy and lease rates. It would not be a surprise to see retailers shrink their store footprints, delay new openings, or renegotiate leases.

In a market already transformed by e-commerce and shifting consumer behavior, tariffs add yet another layer of stress to brick-and-mortar retail.

5. Office and Mixed-Use: Cautious Optimism.

While office and mixed-use properties may be less directly impacted, companies exposed to global trade (especially in logistics, manufacturing, or import/export services) may rethink expansion plans if they see changes in demand. Combined with broader economic uncertainty, this could lead to slower leasing activity or longer decision cycles. Mixed-use developments that emphasize flexibility and diversified tenant bases may weather the storm better than traditional urban office towers.

6. Investor Confidence and Market Uncertainty.

As noted above, trade tensions and tariffs introduce economic uncertainty. When investors are more risk-

averse, transaction volumes fall. Lenders might tighten conditions, making the financing of CRE deals harder. Property values could stagnate or fall in sectors seen as high risk in this environment.

Final Thoughts.

The real takeaway? Tariffs add friction – to costs, timelines, and strategic planning. But they also create opportunities for agile investors who can spot shifting trends early.

Those thinking with the windshield in front of them will reassess construction budgets with tariff risk in mind and stay close to logistics and supply chain trends – these will shape demand for years to come.

In a global economy, few things operate in a vacuum. Tariffs may seem far removed from the day-to-day operations of commercial real estate – but their ripple effects can reshape markets, from construction sites to shopping centers. At Pathfinder, we are staying informed and nimble, while keeping our eyes on the big picture.

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

From Bricks to Clicks: What We Can Learn from the History of Apartment Tech

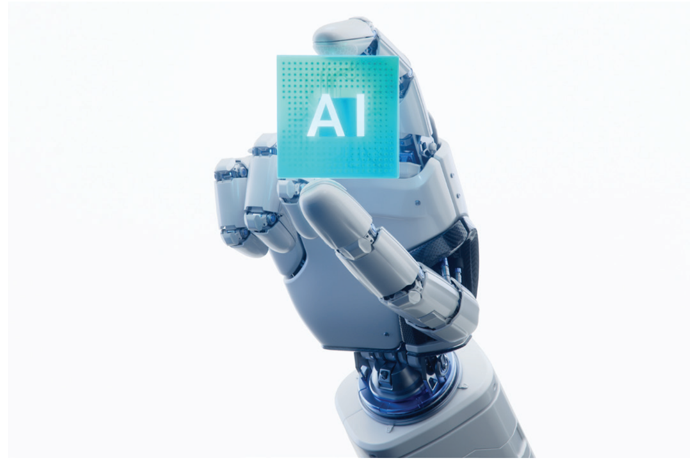
By Matt Quinn, Managing Director

At a recent property technology conference in Las Vegas, the running icebreaker was "have you heard of A.I.?". The joke garnered some chuckles because nearly every vendor was pitching A.I. and the importance of adopting it "Now!" "At your property!" One speaker – who owns a lot of real estate and employs a lot of people – said his employees who don't adopt A.I. "will be forced to do so when they update their resumes." There was talk of "agenic A.I", which is basically A.I. that is so advanced you can drop the "A". And every time I had a mini-panic attack that we hadn't yet deployed dog-walking-robots across Pathfinder's portfolio, I reminded myself that when adopting new technologies, it's best to take a measured approach. (For the record, Sony Betamax® was before my time and I'm proud that I never bought a Blu-ray® player.)

For the past 12 months, Pathfinder has been crafting an updated property technology plan and beta-testing select technologies that use A.I. We plan to do our due diligence, gather data from our residents and mangers and craft a comprehensive – and flexible – strategy. I'd categorize our approach as a happy medium between "slow and steady" and "move fast and break things".

And as we navigate this period of rapid change, I thought it could be helpful to research prior technological disruptions in the apartment space to gain perspective on today's A.I. craze. Here are a couple of the major ones of the past 200 years and how they played out:

Late 1800s: Running Water and Sewage Systems Come to U.S. Apartments – Talk about a game changer! Prior to the introduction of plumbing systems, apartments in the U.S. sourced their water from wells, rivers or public water pumps and residents used outhouses or chamber pots (which they emptied) for their bathroom needs. Following the cholera outbreak of 1866, cities



throughout the U.S. started mandating water and sewage systems and by 1920 – more than 50 years later – most urban apartment buildings had running water, private toilets and underground sewage systems.

During this 50-year period of product development, several technologies aimed at resolving the clean water issue were tested and scrapped. These included wooden pipes (they broke), lead pipes (they poisoned you) and tankless water heaters (they exploded). We can thank England's Thomas Crapper – seriously – for revolutionizing loo technology in the 1890s and helping spur worldwide adoption in the years to come.

The lesson? There will be an inevitable A.I. trial period where initial technologies fail, and newer technologies evolve. And my newfound understanding of the U.S.'s water and sewer system leads me to an important question – who is going to be the Thomas Crapper of A.I., and how do we flush out the others?

Early 1900s: Electrification of U.S. Apartments – Prior to the electrification of U.S. apartments, tenants used kerosene or piped-in gas for lighting, fireplaces for heating, wood stoves for cooking and ice boxes for refrigeration. Tenants gathered wood, coal and ice on a regular basis, heated their bathwater by fire and constantly monitored the various hazards. In the early 1920s – 40 years after Thomas Edison's dramatic electrification of New York City's Pearl Street Station, the first central power plant in the U.S. – U.S. apartments started being retrofitted with electrical wiring and landlords began marketing "modern" apartments – those with electric lights and appliances. By the 1950s, municipalities began requiring electrical systems in residential construction and electricity in apartments had become ubiquitous.

During the 70 years between Edisons's first power plant and the widespread adoption of electricity in U.S. apartments, much went wrong. The state and federal governments were slow to adopt and enforce electrical codes, which led to a mishmash of voltages and product specifications. Early retrofits were done with "knob-and-tube" wiring, which wasn't grounded and created massive fire risks. In parallel, many retrofitted buildings' initial infrastructure didn't match tenant energy needs so blackouts were common, angering residents (have you ever had to throw out all the food in your fridge?).

The lesson? As in the early days of electrification, the U.S. government is today struggling to develop and enforce regulations around A.I. Many of the apartment-related A.I. products in use today – competitor rent surveying, tenant credit screening, property security surveillance and rent collection impersonators – may see government regulation or be banned. Landlords need to use commonsense when adopting A.I. tools and be careful to avoid products that could agitate tenants or create privacy or fair housing risks. If, like knob-and-tube wiring, a new product doesn't feel "grounded", a wait-and-see approach may be better.

As the pace of A.I. technology and adoption progresses and initial technologies improve, early adopters will bear both the rewards and the consequences. Decision-makers across many industries are balancing the use of A.I to stay competitive without taking on unnecessary risks associated with unproven products. The likely winners will leverage their real-world experiences with lessons from the past and carefully source and implement A.I. technologies that create long-term business solutions. In the words of Dr. Iris Hineman, the geneticist who created the A.I. crime predication model in Stephen Spielberg's *Minority Report*, *"The system is never wrong. But it's not always right."*

Matt Quinn is Managing Director at Pathfinder Partners, focusing on asset management activities. Prior to joining Pathfinder in 2009, Matt worked with a San Diego-based firm which consulted on mergers and acquisitions and with the Wealth Management division of a California regional bank. He can be reached at mquinn@pathfinderfunds.com.

ZEITGEIST – SIGN OF THE TIMES

Inside the Mindset of Today's Renter

Zillow's *2025 Rental Consumer Housing Trends Report*, based on a nationwide survey of over 36,000 renters, reveals key insights into the priorities of today's tenants.

Affordability Tops the List
A staggering 95% of renters cite affordability as their top priority. With a median annual income of $51,300, well below the national median of $74,600, renters are highly cost-conscious. Price is the main factor influencing lease renewals and two of the top three reasons renters choose not to move, highlighting the critical role of affordability in tenant retention.

Homeownership on Hold
Fewer renters are considering buying homes. Only 58% of those who moved in 2024 considered purchasing, down from 64% in 2023. As a result, the average renter is getting older – the median age rose from 36 in 2000 to 42 in 2024. Rising home prices, interest rates and general cost-of-living concerns are keeping more Americans in the rental market.

Digital Expectations Are Rising
Technology is reshaping the rental experience. Nearly 80% of renters consider digital features essential in listings. One in five renters signed a lease without an in-person tour, 43% completed the lease approval process entirely online and online rent payments have surged from 36% to 65% over the past six years.

Looking Ahead
Based on the results of the survey, properties that balance affordability, integrate digital tools and cater to an aging renter population are best positioned for long-term success and stable occupancy.

Mitigating Rising Insurance Premiums

As extreme weather intensifies across the U.S., multifamily property owners are grappling with surging insurance premiums. Recent disasters including wildfires in California, hailstorms in Colorado and hurricanes in the Southeast have led to significant insurer losses and rate hikes. A recent survey by *Yardi* indicated a 28% rise in multifamily property insurance premiums in 2024.

In California, wildfires have grown more frequent and severe, prompting insurers to limit exposure. Many, including Farmers Insurance, AAA and CSAA, have reduced or ceased offering new policies in high-risk areas, citing increased losses. Their exit from the market has shrunk the pool of available coverage, leading to premium spikes and stricter policy terms, including mandatory fire prevention measures.

Colorado faces its own weather challenge: increasingly destructive hailstorms. In May 2024, the state experienced one of its most expensive hailstorms, causing nearly $2 billion in damage. The increasing frequency and severity of hailstorms have led to higher premiums and more stringent coverage terms and insurers are reassessing their risk exposure in the state, with some exiting the market altogether.

Many apartment owners have taken a proactive approach to reducing premiums, including investing in risk mitigation measures, restructuring and shopping insurance policies and diversifying the geography of their portfolios to balance exposure. Pathfinder experienced a relatively nominal 9% year-over-year increase in 2025, after taking a number of steps to mitigate price rises. In Colorado, Pathfinder replaced the roofs on two properties with impact-resistant shingles, protecting the properties from future hail damage and reducing the level of premium increase at renewal. Across our portfolio, we also took advantage of premium discounts related to our properties being "smoke-free" and require our tenants to hold renter's insurance.

In the near-term, insurance costs in high-risk areas are expected to rise (with increasing volatility after major disasters) and proactive property owners will continue to seek ways to reduce their exposure.

CEDARDALE APARTMENTS, FEDERAL WAY (SEATTLE), WA

"A Full-Circle Investment in the Heart of the Puget Sound"

Located between Seattle and Tacoma, Federal Way is a dynamic community offering a rare blend of natural beauty, urban accessibility and economic strength. Federal Way balances urban conveniences with views of Puget Sound, easy access to the Cascade Mountains and an abundance of parks and green spaces. These qualities – along with strong renter demand and a continued investment in local infrastructure – drew Pathfinder back to Cedardale, a 126-unit apartment community we originally owned from 2015 to 2018.

Built as condominiums in two phases between 1981 and 1983 (though units were never sold individually), Cedardale offers a mix of one- and two-bedroom apartments ranging from 608 to 905 square feet. The property is low-density and features mature landscaping, a grove of evergreens and a peaceful residential setting.

Prior to our recent acquisition, the property had not been updated for more than six years and was being self-managed by the seller, creating an excellent opportunity for Pathfinder to implement physical and operational improvements.

Since acquiring Cedardale in December, we've implemented our renovation and repositioning plan, including renovating seven apartments with new flooring, modern kitchens (shaker cabinet fronts, quartz countertops and tile backsplashes), updated bathrooms, keyless entry and the removal of popcorn ceilings. We've also refreshed the landscaping and are rolling out community-wide Wi-Fi. And this spring and summer, we're hosting resident events to further enhance community engagement.

Before and After – Renovated Kitchen at Cedardale

Community amenities at Cedardale include a central clubhouse, covered picnic area with BBQs, playground, fenced dog park, sport court with basketball and bocce, and a car vacuum station – many of which were added during our previous ownership. The property is conveniently located within walking distance to retail and three miles from the Federal Way Transit Center and the future Federal Way light-rail station, which is scheduled to open this year and provide direct access to Sea-Tac Airport and downtown Seattle.

Cedardale Amenities – BBQ/Picnic Area and Clubhouse Lounge

With proximity to major employment hubs – including the Port of Tacoma, Sea-Tac International Airport, Seattle and the Kent Valley Industrial Center – Federal Way is well-positioned for continued growth. The submarket boasts a strong renter base (average annual household income is $106,000) which further supports the demand for high-quality, renovated housing.

We're excited to once again invest in Cedardale and the Federal Way community and to reimagine this property for the next generation of residents.

Federal Way: Did You Know?

Approved by the Federal Way City Council in April 2024, the TC-3 mixed-used development will transform a long-vacant lot near the future Federal Way Link light rail station – just three miles from Cedardale – into a vibrant, mixed-use district. Led by One Trent Development, the project includes 1,600 residential units, office and retail space and a civic plaza designed to serve as a community hub. Permitting for Phase 1 (350 apartment units and the civic plaza) is expected by 2027.

Rendering of the TC-3 Mixed Use Development

NOTABLES AND QUOTABLES

"Perseverance"

"Patience and perseverance have a magical effect before which difficulties disappear, and obstacles vanish."

- John Quincy Adams, *U.S. President*

"I do not think there is any other quality so essential to success as perseverance. It overcomes almost everything, even nature."

- John D. Rockefeller, *American Businessman*

"Indomitable perseverance in a business, properly understood, always ensures ultimate success."

- Cyrus McCormick, *American Inventor*

"Men fail much oftener from want of perseverance than from want of talent."

- William Cobbett, *English Politician*

"Energy and persistence conquer all things."

- Benjamin Franklin, *American Inventor*

"Perseverance, the secret of all triumphs."

- Victor Hugo, *French Author*

"Persist and persevere, and you will find most things are attainable, possible."

- Lord Chesterfield, *Former Lord of Ireland*

"Success is not final; failure is not fatal: It is the courage to continue that counts."

- Winston Churchill, *Former English Prime Minister*

"Through perseverance, many people win success out of what seemed destined to be certain failure."

- Benjamin Disraeli, *Former English Prime Minister*

"Success is no accident. It is hard work, perseverance, learning, studying, sacrifice and most of all, love of what you are doing or learning to do."

- Pele, *Brazilian Soccer Player*

"Perseverance is not a long race; it is many short races one after the other."

- Walter Elliot, *Scottish Politician*

IMPORTANT DISCLOSURES

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