



29 March 2020

Fund Update for Spire USA Multifamily Fund IV (AUD) (Incorporating the underlying fund, Bridge Multifamily Fund IV (BMF IV))

Spire Capital this week attended the six-monthly Limited Partner Advisory Committee (LPAC) virtual meeting of Bridge Multifamily Fund IV, in its capacity as a Member representing the interests of Spire clients invested in the fund either directly or via the Australian feeder fund 'Spire USA ROC IV Fund (AUD)'.

Our takeaways from the meeting are as follows:

Operations

- The COVID-19 crisis is unprecedented, for which there is no playbook.
- The impact of mass layoffs, as a result of many parts of the US economy being shuttered, on the number of multifamily tenants who will not be able to pay rents is at this stage unknown. This will clarify in the first week of April, when April rents are due.
- Many cities and counties in the US are enforcing 'shelter in place' policies.
- Multifamily communities remain open and staff allowed to attend on site, as they are regarded as 'essential businesses' in the provision of housing.
- Only emergency maintenance work orders are being attended to.
- Move-ins are still occurring.
- As Courts are now closed there is no ability to evict multifamily tenants.

General

- Bridge is training its on-site property management teams on how to deal with tenants who ask for a rental abatement.
- The senior members of Bridge Investment Group, from Fund CIO Jonathan Slager, CEO of Bridge (multifamily) Property Management Richard Stayner, founders Dan Stanger and Chris Young, Chairman Robert Morse and Vice-Chairman Dean Allara, have successfully navigated through multiple market crises. These include the dislocation in the multifamily market as a result of the introduction of the 1986 Tax Reform Act, the Savings and Loans Crisis of the late 1980s / early 1990s and the Global Financial Crisis. This experience shows that Bridge know how to run properties 'lean and mean' if and when they need to. In their over 30 years of operating, Bridge has never defaulted on a loan or missed an interest payment.
- Bridge's vertically integrated platform gives it a tremendous advantage in navigating the current crisis. If it relied on third-party property managers, this would be much more difficult.

The Market

- There is currently very little price discovery occurring in the multifamily investment markets, however market deals that were under contract are typically being re-traded, meaning the buyer is seeking a price reduction at closing. For those sellers who are still prepared to trade on this basis, the reduction is typically around 2%, but has been as high as 10%.
- Any newly marketed deals, that have not yet been awarded under contract, are typically being pulled from the market, due to big question marks on many buyers' ability to secure debt financing due to current dislocation in the debt markets.



Debt Finance

- The Agencies of Fannie Mae and Freddie Mac are the main lenders to the multifamily market. They rely on the securitisation market, packaging loans on multifamily assets into bonds for sale to institutional investors.
- Bridge has a longstanding relationship with the senior people at both Fannie Mae and Freddie Mac and is one of their preferred sponsors. Bridge's structured finance team, led by Brad Andrus, has regular communication with its lenders.
- The Agencies are desperately trying to stay in the market to provide financing (and meet their mandates), however the securitisation market has essentially shut down. Fannie Mae over the past week put a new securitisation offer into the market, and there were no bids.
- As a result, Fannie Mae is now requiring new borrowers to post into an escrow account, a reserve the equivalent of 12 months principal and interest, in an attempt to provide greater comfort to bond buyers. Freddie Mac is expected to shortly follow suit.
- Both Agencies have recently announced the introduction of 'forbearance' provisions. This means that existing borrowers can elect to defer principal and interest payments for 90 days (and then make up those deferred payments over the following 12 months). This is in response to the unknown of what level of tenants will not be in a position to pay their rents due to unemployment. Owners and the market will get a sense of this in early-April when April rents are due. The quid pro quo for electing into forbearance is that an owner is not allowed to evict a tenant for non-payment of rent during this period.
- There are no BMF IV multifamily assets which are due for refinancing in the next 6 months.

Impacts on the Fund

- For increased prudence, payment of the Q419 distributions by Bridge (for the period 30 September to 31 December 2019) from BMF IV to Spire USA Multifamily Fund IV, and respective direct investors, will be deferred until the breadth and depth of the impact of the COVID-19 crisis on the portfolio is better known.
- As at 31 December 2019 (i.e Q419) the following metrics applied to the portfolios:
 - Occupancy: = 88.7%
 - Loan to Value ratio (LTV): = 54.7%
 - Debt Service Coverage Ratio: MF = 1.9x
 - Breakeven Occupancy to cover expenses and debt service: = 66.4%
 - BMF IV Q4 NAVs and Partner Statements, including CIO letter, will be provided late March / early April. These will reflect pre-COVID-19 valuations. These will be reflected in the April unit price for Spire USA Multifamily Fund IV (AUD).

As all Spire Capital staff are currently working remotely, please address any queries to: info@spirecapital.com.au