SPIRE CAPITAL

26 March 2020

Fund Update for Spire USA ROC IV Fund (AUD)

(Incorporating the underlying funds, Bridge Multifamily Fund IV (BMF IV) and Bridge Office Fund (BOF))

Spire Capital has today attended the six monthly Limited Partner Advisory Committee (LPAC) virtual meetings in its capacity as a Member of each LPAC, representing the interests of Spire clients invested in Bridge Multifamily Fund IV and Bridge Office Fund, either directly or via the Australian feeder fund Spire USA ROC IV Fund (AUD).

Our takeaways from the meeting are as follows:

Operations

Multifamily

- 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 unkown. 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.

Commercial Office

- Bridge Office Fund does not have a high exposure to at risk industries of hospitality, travel and oil & gas. These industry groups represent less than 1% of the portfolio.
- All properties remain open, however common amenities such as gyms are closed. A high number of tenants are working from home.
- Bridge has a high level of communication with tenants.
- There is still new leasing interest which is being moved forward. Digital marketing and virtual tours are being pushed to a new level.
- Only 5 tenants to date have requested rent abatement, however there is an expectation of more to come.

General

- Bridge is training its on-site property management (both multifamily and office) teams on how to deal with tenants who ask for a rental abatement. The starting position is ‘no’, with requests for financial information.
- 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 Bob 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.

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- 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 very little price discovery occurring in both the multifamily and commercial office investment markets at the moment, 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 long-standing relationship with the senior people at both Fannie and Freddie 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.
- There is are five BOF office asset with a loan maturities in the next 6 months. Four will automatically qualify for extensions as they meet the qualifying covenants. One asset with a loan maturing in August falls just short of the debt yield covenenat required for an automatic extension. However, BOF CIO John Ward is confident that an extension will be negotiated with the lender, Wells Fargo, with whom Bridge has a strong and longstanding relationship.

Impacts on the Fund(s)

- For increased prudence, payment of the Q4 distributions by Bridge (for the period 30 Sept to 31 Dec 2019) from BMF IV and BOF I to Spire USA ROC IV Fund, and respective direct investors, will be deferred until the breadth and depth of the impact of the COVID-19 crisis on the portfolios is better known.
- As at 31 December 2019 (i.e Q4) the following metrics applied to the portfolios:
  - Occupancy: MF = 88.7%, Office = 82.5%
  - Loan to Value ratio (LTV): MF = 54.7%, Office = 62.8%
  - Debt Service Coverage Ratio: MF = 1.9x, Office = 2.35x
  - Breakeven Occupancy to cover expenses and debt service: MF = 66.4%, Office = 68.1%

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- BMF III Q4 NAVs and Partner Statements, including CIO letters, 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 ROC IV Fund (AUD).

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

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