February 28, 2024

Dear Investors,

We are pleased to provide you with our 2023-2024 investor letter.

Below we deliver our annual overview of the marketplace, specifics about the properties in our current portfolio, and projections and strategies for the year ahead.

We made some predictions in last year's update and thought we'd start with a recap.

2023 Predictions

- We expect to sell a few assets in 2023. ❌
- Preserving occupancy will maintain critical cash flow. ✔
- Bond rallies that create 5-5.5% senior debt will bring investors off the sidelines and create more liquidity in the marketplace in every part of the capital stack. ❌
- The terminal rate will likely rise above 5%. ✔

Market Overview

2023 was the worst year in commercial real estate and multifamily since the global financial crisis ended in 2012.

Both debt and equity financing remained extremely tight as recession fears held capital out of the market, except for highly compelling opportunities. The Federal Reserve (Fed) continued its rate tightening campaign into the summer, when the final hike brought the Federal Funds Rate to a target range of 5.25-5.5%.

We saw the first high-profile bank failures since the global financial crisis, starting with Silicon Valley Bank and ending with the esteemed First Republic Bank, Trion's preferred bank since we purchased our first property in 2005, a 12-unit building in the San Fernando Valley in Los Angeles. The bank failures led to a bond rally. The five- and ten-year Treasury notes bottomed out at approximately 3.3% as market participants assumed the Fed would start cutting rates in 2023 to save the banking industry—but the Fed proved the bond market incorrect. With the bond rally running counter to the Fed's goal of restrictive rates, Chairman Powell delivered a "higher for longer" message in his press conferences, spurring the most significant bond sell-off of our career. Five- and ten-year bonds ran from 3.3% in May to 5% in October. The market still hasn't fully recovered from the 170 basis point rate increase over a five-month period.

The general sentiment in the current market is driven by a flight to quality. What little capital remains in the market is chasing newer vintage properties in high-quality locations. We are seeing properties built in 2000 or later trade at strong values with multiple offers.

The crowded trade provides limited opportunity for outsize returns—more details on our approach in the next section.

We may enter new markets in 2024, but this isn't a high-priority internal goal. There are markets we love over the long term, such as Austin, but these locations are too negatively impacted by the rate hike cycle and high supply to enter in the short term. The desert duo of Phoenix and Las Vegas has strong growth prospects, but with values falling the last two years, the bid-ask spread will likely remain too wide to bridge this year. Hopefully, developers and operators in severely negatively impacted markets will get tailwinds from rate cuts and will preserve some investor capital.

Portfolio Specifics

Trion was relatively active in 2023 with three acquisitions and one disposition. We closed on an acquisition in Sacramento in January 2023, with a 20% discount to where offers came in before the rate shock. We purchased 198 units in a strong submarket of Denver for a 5.7% cap rate and approximately $207,000 per unit. Before the rate hike cycle, the property would have traded at a 4% cap rate and $300,000 per unit. We also made our first acquisition in Dallas, Texas. In 2023, we underwrote 106 opportunities in Dallas before coming across a feasible investment in the Lancaster submarket. We acquired a 471-unit asset for a 5.7% in-place cap rate, solving to a 7% pro forma yield on cost by the end of the business plan. We ended the year by placing a property in Orlando into contract at a 7% in-place cap rate and $150,000 per unit.

The following table compares our 2023 acquisition price versus peak value in 2022 using a conservative 4.5% cap. We used 3.81% for Courtyard because of previous offers based on assumable debt.

Property	Market	Acquisition Date	Vintage	Units	Purchase Price	Going-in NOI	Going-in Cap Rate	Peak Pricing	Peak Cap Rate*
Courtyard at Artisan Square	Sacramento, CA	January 2023	1970	104	$24,000,000	$1,096,800	4.57%*	$28,800,000	3.81%
Trailpoint on Highline	Aurora, CO	July 2023	1980/1984	198	$41,400,000	$2,401,200	5.80%	$53,360,000	4.50%
Riverbend	Dallas, TX	September 2023	1983	471	$55,000,000	$2,997,500	5.45%	$66,611,111	4.50%
Bridgewater Apartments	Orlando, FL	January 2024	1973	344	$51,000,000	$3,631,200	7.12%	$80,693,333	4.50%
				1,117	**$171,400,000**	**$10,126,700**	**5.91%**	**$229,464,444**	**4.41%**

**Courtyard at Artisan Square peak pricing and cap rate are based on bids from before the rate shock. All others are estimated at a conservative 4.5%*

*Courtyard at Artisan Square has attractive debt in-place that was assumed from buyer leading to better economics despite lower entry cap.

Given the poor market conditions, we sold only one property in 2023. We sold York apartments, the third sale of a three-property portfolio in Portland, Oregon. The other two properties did exceptionally well, generating average IRRs above 30%, so selling York at a 10% IRR to close out the investment was a sound decision.

We expect to sell three to four properties throughout 2024. The properties are all in the black given years of NOI lift and are sale-ready.

2024 Projections and Strategies

The Fed started a historic rate-hiking campaign in 2022. It increased the federal funds rate by 500 basis points in 14 months, representing the second most aggressive inflation-fighting cycle in US history and the most aggressive in 40 years. The rate hike cycle flipped the market (and values) upside down and caused one of the quickest retreats of capital we have witnessed.

Unfortunately, multifamily fundamentals have deteriorated, albeit temporarily. The inflation of goods has pinched the consumer, leaving less income to spend on rent. Furthermore, supply delivery continues and will likely peak this year. The good news: Challenging times create opportunities. We are seeing several opportunities with huge vacancies as well as opportunities with less distress, but they are from sellers who need to sell to create liquidity or pay off maturing loans.

We have seen occupancy drop industrywide. We continue to focus on occupancy through aggressive leasing and maintaining existing tenancy through renewals. Increasing occupancy is the surest way of increasing NOI during a period of flat or negative rent growth. Preserving cash flow is critical as we navigate the downturn and look to the future to refinance or sell properties in the portfolio. 2024 will likely be a choppy year for cash flows and fundamentals, but 2025 may prove more resilient as new deliveries taper off due to high interest rates and an increase in cap rates.

We have grown our portfolio to 6,635 units across 32 properties. Twenty-three properties span California, Oregon, Texas, and Colorado and are run out of our LA office. Nine properties are in Florida, Georgia, and the Carolinas and are run out of our Miami office. As noted above, we entered Texas after two years of effort with our acquisition of a 471-unit property in Dallas.

We continue to add talent to our operating platform and grow our technology stack. The following are just a few examples:

- RealPage's Artificial Intelligence Revenue Management (AIRM) – The newest and most cutting-edge revenue management system. Features include dynamic pricing based on renovations and views, statistical likelihood of a resident renewing based on length of residency and delta between current and market rent, and pricing based on online reputation.
- Snappt – The industry leader in fraud prevention through paystub verification.

- Guarantors – A rent payment guarantor for lower credit score residents.
- Boom (onboarding May 2024) – Provides credit reporting for residents who would like to establish credit history through rent payments. Holds non-payers accountable by reporting non-payments and adding to negative history.
- Perq – An industry leader for chat and appointment scheduling with prospective residents. Offers a seamless experience with Perq's chatbot, which answers questions about the property and schedules the leasing appointment. We have used chatbots for many years and find Perq to be the most intuitive and fastest to respond.
- Colleen – An AI-powered collections chatbot. After testing several competitors, we identified Colleen as the best product. It connects to our property management software via API to get information on delinquent tenants, then starts texting in a natural conversation to follow up on rent payment.

We expect a bumpy year because of the volatility in the capital markets but we are optimistic about the opportunities that the challenging market will bring.

As always, we are available to you and welcome your input.

Sincerely,

Max Sharkansky & Mitch Paskover

Managing Partners, Trion Properties