



April 13, 2020

Dear Partners and Friends,

We hope that you and your families are doing well and remain healthy during this challenging time. We wanted to write to provide you with an update on our progress on the MID with particular emphasis on the potential impacts of the COVID-19 situation.

COVID-19 Impacts:

As you may already be aware, on April 1st Florida Governor Ron Desantis issued a state-wide stay at home order that severely limits non-essential movements and business activity. While this order has and will continue to have a profound impact on our economy in the short term, and perhaps longer, we have been fortunate that the governor's order specifically exempted construction works, deeming it an essential activity.

As such, construction progress on the MID has been unaffected by the stay at home order and work is currently continuing on schedule and on budget, albeit with a new level of health diligence. Subcontracted workers are typically individuals who rely on a bi-weekly paycheck, so we are seeing little impact on labor availability. Workers are currently reporting to the job site and completing required tasks on schedule.

While we are pleased to communicate that construction activity is currently ongoing, we are proactively looking ahead to identify and mitigate potential issues. We see four primary areas of risk that we are evaluating and working to manage:

- 1. Supply Chain Interruption and Delay** – Some of the specified finish materials (for ex: fixtures / flooring) were sourced from international suppliers. We are working with our contractor, Moss Construction, to specifically identify these “at risk” items and are in the process of sourcing alternatives from US based suppliers. We do not currently anticipate an impact on schedule or budget.
- 2. Operational Considerations** – While construction is deemed essential, many municipalities, including the City of Lake Worth Beach, have closed their offices and employees are working remotely with a directive to “stay at home”. The closure impacts required periodic municipal inspections; however, the City of Lake Worth Beach is currently allowing inspections to be conducted by 3rd party contractors and via video. We do not currently anticipate an impact on schedule or budget.
- 3. Financing** – Our construction lender continues to process our draw requests in a “business as usual” fashion and we are currently in compliance with all loan covenants. Our construction loan closed on December 16th, 2019 and carries an initial 3-year term with two 1-year options to extend and so there is no immediate refinancing risk. Looking further out, our business plan is to refinance the construction loan post lease up to long term agency or HUD financing. Our target refinancing date is June 2022. We continue to see liquidity in the debt markets from agency lenders, and HUD financing seems to be accelerating. Given this and the fact that our target refinancing date is more than 2 years out, we do not currently anticipate an impact on our underwritten financing assumptions.

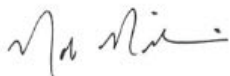
- 4. Rents / Lease Up** – Unemployment numbers have skyrocketed with nearly 10 million new initial unemployment claims in March and an additional 6 million in the first week of April. The impact of the crisis on multi-family rent collections in April have been mixed. Older properties serving lower class renters in secondary locations appear to have been most impacted with collections averaging around 70%. Newer properties in good locations with strong proactive management have seen little impact. While the US government is moving quickly to provide relief to renters via the \$2.2 trillion CARES ACT and other programs, it is difficult to predict today what the long-term impact of the crisis will be on renter demand.

Our view of how the above reality will impact the MID is that we are fortunate to be in the early phases of construction for the project. We are targeting achieving certificate of occupancy in February of 2021 and therefor do not have immediate rent or lease up exposure to the crisis. Additionally, the business plan has always been to deliver a class A quality project at class B rents and so we feel well positioned were the economic impacts to be long term. In this scenario, we expect significant demand from renters trading down from class A properties in surrounding metros (West Palm Beach and Boynton) where rents are 30% to 40% higher than what we have underwritten for the MID.

Overall, despite these challenging times, we are very pleased with the overall progress on the project. Please find attached the most recent project photos (dated April 9th). Moss Construction has been excellent to work with and our partners at Affiliated are doing everything possible to manage through the crisis. We cannot predict the speed at which the economy will recover but the underlying fundamentals in South Florida have been strong and will continue to be over the long term. We cannot rule out future impacts and fallout at this time, but the project is currently well positioned for success.

Please do not hesitate to contact us anytime with any questions or concerns. We wish you continued good health and thank you for your continued support and confidence.

Best Regards,



Rob Reiskin
Senior Managing Director, Round Hill Capital



