August 2022

Go Midwest: How Multifamily Investors Are Finding Untapped Value in the "I-70 Triangle"

While the Sunbelt is a popular geographic focus for multifamily investors, key regions of the Midwest are also experiencing promising demographic and employment growth trends. Multifamily housing assets in this region — and the "I-70 triangle" in particular — have significant potential to create long-term value and returns for investors.

KEY POINTS

- The COVID-19 pandemic accelerated Americans' migration out of coastal cities in the Northeast and West towards the middle and Southern parts of the country.
- While migration to the Sunbelt is widely noted, a region in the Midwest intersected by Interstate-70 has also seen a steady influx of new residents and employers.
- The growth is driven by the area's affordable cost of living and an expanding base of new jobs, both of which have contributed to a steady demand for multifamily housing.
- Large institutional investors have yet to fully recognize the opportunity throughout this region, creating attractive multifamily investment opportunities for other investors.

CHRIS MARSH
General Partner
Revitate Cherry Tree

JOHN BOSCO
Principal
Revitate Cherry Tree

AUSTIN MALEKI
Principal
Revitate Cherry Tree

MICHAEL WU
Principal
Revitate Cherry Tree

Americans are on the move. In 2021, the United States' largest urban counties - defined as those with more than 250,000 people - experienced a net loss of 863,000 residents, marking the first time in 40 years that this group of counties experienced negative growth. For the year, 68% of the country's largest counties experienced population losses, an exceptionally high percentage by historical standards.[1]

While the impacts of the COVID-19 pandemic explain a substantial portion of movement in 2021, the broader migration trends pre-date the pandemic and continue to the present day. From 2016 to 2020, several large metropolitan areas in the South and Southwest experienced a major influx of new residents.[2] At the same time, New York City, San Diego, Los Angeles, and other coastal cities all experienced significant declines in their populations.[3]

Migration to the 'I-70 Triangle'

The migration patterns to the Sunbelt tend to be well-known and well-documented across general and financial media. But often overlooked is another set of cities in America's heartland. This area of the Midwest is attracting an influx of new residents, drawn by good job prospects, attainable housing, and a diverse array of living amenities.

Revitate Cherry Tree calls this region the "I-70 Triangle." Key markets in the Triangle include **Kansas City, Louisville, Indianapolis, Cincinnati, and Columbus.** (Figure 1)

Figure 1: The I-70 Triangle.

An additional set of cities in the immediate vicinity of I-70 Triangle also provide opportunity, serving as "spokes" to the key "hubs" within the Triangle. These additional markets include **Lincoln, Omaha, Des Moines, Dayton, Lexington, Topeka, and Wichita**, and are following growth in the Triangle by specializing in developments like business centers, distribution centers, and logistics hubs. In total, the Triangle and supporting markets span about 800 miles in the Midwestern U.S.

Figure 2: I-70 Triangle Population Growth (2010-2022)

MSA	5-Year Trend	12-Year Trend
Des Moines, IA	6.3%	19.0%
Columbus, OH	4.5%	14.2%
Lincoln, NE	4.0%	13.6%
Indianapolis, IN	5.6%	13.1%
Omaha, NE	4.6%	12.4%
Kansas City, MO	3.4%	9.2%
US Average	**2.6%**	**8.7%**
Louisville, KY	1.2%	5.8%
Cincinnati, OH	2.1%	5.1%
St. Louis, MO	-0.2%	0.4%

Source: Bureau of Labor Statistics, 2022

While the major cities on the West Coast and in the Northeast have been losing residents, several I-70 Triangle primary and supporting cities have observed steady and often substantial rises in population for more than a decade. (Figure 2)

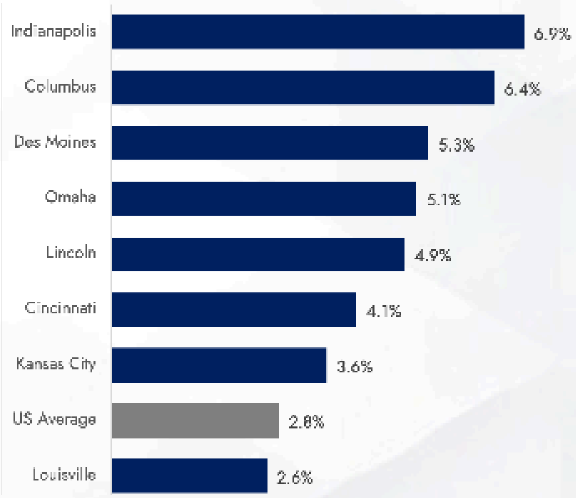
Key Growth Trends in the I-70 Triangle

What is driving population growth in these markets? Working in this region's favor are several demographic and economic trends that will likely keep rental housing in high demand for the foreseeable future. We see two specific trends in particular as driving migration activity.

Trend 1: Strong Employment Growth

Business-friendly environments in the I-70 Triangle are attracting more and more employers. Historically, manufacturing and agriculture dominated the Midwest, but today, companies in an array of sectors including health care, financial services, government, education, and technology are major employers.

Figure 3: I-70 Triangle Employment Growth Trends (2017 – 2022).



Source: Bureau of Labor Statistics, 2022

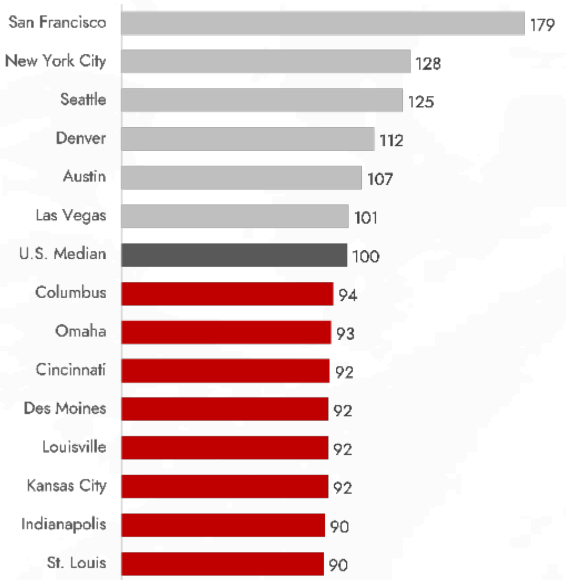
Figure 3 illustrates the improving job prospects in this region, with several I-70 markets outpacing the national average for employment growth by significant margins.

Trend 2: Relative Affordability

Residents also enjoy a lower cost of living and greater purchasing power in the I-70 Triangle. As an example, an individual considering a move from New York City to Cincinnati would experience a 19% decrease in salary, but 51% decrease in cost of living. Similarly, while currently the average cost of renting an apartment in Los Angeles is $3,200, a similar place in Kansas City, Missouri runs about $1,220.[4]

Moreover, as shown in Figure 4, all the key I-70 Triangle cities rank below the national median for cost of living. The cost of living in the Midwest is materially lower relative to coastal cities and has been a large catalyst for new residents and employers alike.

Figure 4: Cost of Living Index Comparison between I-70 Triangle Cities and Other U.S. Cities.



Source: AdvisorSmith Cost of Living Index, 2021.

As families continue to get priced out of these high cost-of-living coastal cities, we believe the Midwest will be a significant beneficiary of continued housing demand over the long term.

Limited Investor Attention to Date

While the I-70 Triangle has been busy attracting new residents, institutional multifamily investors have been slower to follow. A recent capital markets report on multifamily sales volumes underscores the point: among the top 30 markets by sales activity between 2021Q2 and 2022Q1, only one — Indianapolis — resides in the I-70 Triangle.[5]

We observe similar trends among Real Estate Investment Trusts (REITs). As shown in Figure 5, nearly all of the 15 largest apartment-focused REITs have recently had little to no net operating income (NOI) originating from assets in the Midwest (especially outside of Chicago).

The main exception is the Centerspace, a multifamily-focused REIT that primarily invests in the northern and central Midwest states of Montana, North and South Dakota, Minnesota, Kansas, and Nebraska.

Figure 5: Geographic Breakdown of NOI for Top 15 Publicly-Traded REITs.[6]

Company	% NOI - Other	% NOI - Midwest
Essex Property Trust (ESS)	100%	0%
Apartment Income REIT (AIRC)	100%	0%
Veris Residential (VRE)	100%	0%
Camden Property Trust (CPT)	100%	0%
Mid-America Apartment Communities (MAA)	100%	0%
NexPoint Residential Trust (NXRT)	100%	0%
Preferred Apartment Communities (APTS)	100%	0%
Bluerock Residential Growth (BRG)	100%	0%
Equity Residential (EQR)	99%	1%
Avalon Bay (AVB)	98%	2%
Washington REIT (WRE)	98%	0%
UDR (UDR)	95%	5%
Independence Realty Trust (IRT)	82%	18%
AIM Co (AIV)	61%	39%
Centerspace (CSR)	17%	83%

Source: Seeking Alpha, Hoya Capital, 2022. "Other" includes assets located in the Northeast, Sunbelt, and the West.

Investing in the I-70 Triangle: Potential Benefits and Early Indicators

In this context, investors willing to take a closer look at the I-70 Triangle may find a path to significant and overlooked value:

- **Portfolio diversification:** The intense interest in the Sunbelt risks overconcentration. Allocation to the Midwest offers a path to geographic diversification in an area with potentially strong long-term growth fundamentals.
- **Strong positioning in the event of a recession:** Potential recessionary pressures stand to disproportionately disadvantage higher-cost metros where residents strained by higher prices and labor market disruptions may have a harder time making rent.
- **Easier access to attractively-priced deals:** Lower transaction volume means less competition for deals and higher odds that fund managers will be able to negotiate favorable terms for investors.

Figure 6: Performance of Recent Revitate Cherry Tree Acquisitions.

	RevCT Property 1	RevCT Property 2	RevCT Property 3
Occupancy Trend			
Current	97.3%	93.8%	97.6%
30-Day Trend	97.3%	98.2%	98.2%
Renewals			
Life to Date (LTD)*	85%	61.5%	74.1%
Average Rent (LTD)			
Actual (In-Place)	$924	$907	$1,252
Pro Forma	$878	$850	$1,179
Delta	5.3%	6.7%	6.2%
Cash Yield **			
Life to Date (LTD)	7.4%	7.3%	8.3%

Source: Company data.

*Life to Date (LTD) is a metric to assess initial trends for acquisitions held less than 12 months.

**Cash Yield is defined as Year-to-Date Cash Yield after Debt Services as of 6/30/2022.

Revitate Cherry Tree is already executing on an I-70 Triangle strategy, and early results are promising.

As outlined in Figure 6, two recent I-70 Triangle acquisitions by Revitate Cherry Tree are experiencing high occupancy and renewal rates, with attractive cash yields —especially relative to the "risk-free" yield of the 10-year Treasury (at about 3% as of August 23, 2022).

Conclusion: Go Midwest

Long-term migration, job growth, and affordability trends offer a compelling case for multifamily investors to take a closer look at the Midwest, and I-70 Triangle in particular.

While large institutional players remain overwhelmingly focused on the Sunbelt and coastal cities, savvy investors willing to "look around the corner" will discover promising pathways to diversification, economic resilience, and favorable deal terms in the I-70 Triangle.

With everything this region has going for it, the "secret" of the I-70 Triangle may not remain one for much longer.

References

[1] "Exodus from Urban Counties Hit a Record in 2021," Economic Innovation Group, 3/31/22. Conclusions drawn based on analysis of U.S. Census data.

[2] Marcus & Millichap Multifamily Investment Forecast 2021; Moody's Analytics.

[3] Ibid.

[4] "Zumper National Rent Report," as of July 8, 2022.

[5] Newmark Multifamily Capital Markets Report, 2022.

[6] "Apartment REITs: Roaring Rents and Record Inflation," prepared by Hoya Capital Real Estate, published in Seeking Alpha, 5/6/22.

Important Information

The contents of this presentation are provided to you on a confidential basis. You should only disclose the contents of this presentation to your advisors on a need-to-know basis. All rights, title and interest in and to the information contained in this presentation is the sole and exclusive property of Revitate CRE Holdings, LLC ("RevCRE"). The information contained in this presentation is not intended to provide professional, investment, legal or tax advice and should not be relied upon in that regard. The contents of this presentation are for general information only and are not provided with regard to your specific investment objectives, financial situation, tax exposure or particular needs. The contents hereof are not a recommendation of, or solicitation for, the subscription, purchase or sale of any security, including the fund mentioned herein. Nothing contained herein should be used as the basis for making any specific investment, business or commercial decision. You should read the final Confidential Private Placement Memorandum, the Limited Partnership Agreement and Subscription Agreement for Revitate Cherry Tree Multifamily Fund I, LP (the "Fund"), which will be provided to you once you complete the potential investor registration process, which will provide more particulars of the investment and its risks, before making an investment decision regarding any particular security carefully before investing in any security.

Investments, including interests in real estate and private equity funds, are subject to investment, tax, regulatory, market, macro-economic and other risks, including loss of the principal amount invested. As a direct and/or indirect owner of real property, the Fund will be subject to the risks generally incident to the ownership of real estate, including the lack of liquidity associated with real estate, uninsured casualty losses from wars, terrorism, earthquakes, floods and other catastrophes, adverse changes in general or local economic conditions, pandemics, changes in the investment climate for real estate, changes in supply of or demand for competing properties in the area, changes in the interest rates and availability of financing that may render the sale or refinancing of any property difficult or unattractive, changes in governmental rules in real estate and zoning laws, and increases in real property tax rates and federal economic controls. There can be no assurance that the value of any Investment will exceed its cost or that any Investment will be able to maintain its value. In addition, there can be no assurance that the sale or refinancing of any Investment property will result in a profit. Past performance as well as any projection ment property will result in a profit. Past performance as well as any projection or forecast used or discussed in this presentation are not indicative of future or likely performance of any investment product. Statements may be forward looking and are not intended as specific investment advice or guarantees of future performance. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such statements.

The contents of this presentation are subject to change and may be modified, deleted or replaced at any time in RevCRE's sole discretion. In particular, RevCRE assumes no responsibility for, nor make any representations, endorsements, or warranties whatsoever in relation to the timeliness, accuracy and completeness of any content contained in the presentation. While care has been taken in preparing the contents of this presentation, such contents are provided to you "as is" and "as available" without warranty of any kind either express or implied. In particular, no warranty regarding suitability, accuracy, or fitness for a particular purpose is given in conjunction with such contents. RevCRE shall not be liable for any loss, damage, costs, charges and/or expenses incurred as a result of or in connection with this presentation or any reliance on the contents of this presentation.

While RevCRE is in negotiations with a view toward making investments in the assets described in this presentation, RevCRE makes no representation that it will be able to make investments in any of such assets, as the availability and desirability of such investments are dependent upon a variety of factors, many of which are outside of the control of the Fund, including performance by potential partners, the current owners of such assets and lenders, the results of further due diligence investigation of such assets, and final investment terms offered by potential partners. The provision of any services or products provided by RevCRE and/or its affiliates shall be expressly subject to the particular terms and conditions as contained in a separate written agreement between you and RevCRE and/or its affiliate as applicable. RevCRE will not provide any individualized advice or consulting unless agreed to by a separate written agreement.

The Interests have not been registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), the securities laws of any state, or the securities laws of any other jurisdiction, nor is such registration contemplated. The Interests will be offered and sold under the exemption provided by Section 4(a)(2) of the Securities Act and Regulation D promulgated thereunder and other exemptions of similar import in the laws of the states and jurisdictions where the offering will be made. The Partnership will not be registered as an investment company under the U.S. Investment Company Act of 1940, as amended (the "Investment Company Act"). Revitate Cherry Tree Holdings, LLC, an affiliate of the General Partner and investment manager to the Partnership (the "Manager"), as a private fund adviser, is not registered with the SEC as an investment adviser under the U.S. Investment Advisers Act of 1940 (the "Advisers Act") pursuant to Section 203(m)-1 of the Advisers Act. As such, the Partnership's activities will not be subject to the protections and restrictions of such regulatory regime (including position reporting and SEC inspection of the Partnership's books and records). There is no public market for the Interests and no such market is expected to develop in the future. The Interests may not be sold or transferred except as permitted under the Partnership's First Amended and Restated Agreement of Limited Partnership, and related governing documents, and as permitted under the Securities Act and applicable securities laws. Investors should be aware that they may be required to bear the financial risks of this investment for an indefinite period of time.

Registered Representative services offered through Foreside Funds Services, LLC.