

Bay Area



Impact Investing Initiative

BAIII Real Estate Strategy

March 2018 Update

The BAIII Multi-Manager Real Estate strategy invests with real estate managers who are building in the Bay Area, creating jobs, using sustainable environmental practices in housing and commercial buildings, while delivering strong investment returns.

As in the other model asset class portfolios, the BAIII Real Estate fund would include a variety of strategies representing ranges of liquidity and purpose, from residential to commercial to industrial, with a local presence and to include sustainable building practices.

Performance 2011-2017 (est'd)	Annualized	Comments or examples
Northern California Community Loan Fund <i>CDFI makes real estate loans to nonprofits</i>	3.0% for a 2- 5 yr CD	Very high local impact, smaller allocation
American Realty Advisors <i>LEED Commercial and industrial properties</i>	14.64% 5 year annualized (gross)	Office/Retail: 601 Marshall, Redwood City Industrial: Hayward 92
Private Developer example <i>sustainable multi-family + mixed housing</i>	Private, not disclosed	Sustainable residential developer with Bay Area LEED examples
HIP Sustainable REIT -(gross)	10.27%	Fund of liquid sustainable REITS and real estate stocks; targets 4% yield plus appreciation
I-shares for REIT ETF	9.48%	Benchmark, annualized

A multi-manager real estate portfolio using these types of managers would have returned approximately **10-12%** or more to investors.

Bay Area Impact Investing real estate examples:

The CDFI: The Northern California Community Loan Fund www.nccf.org

- Founded 1985, a 501(c)(3), AAA1 CARS rating
- Provides loans to non-profit organizations that develop affordable housing , community facilities, job training programs and vital human services in Northern California
- Loaned \$216,000 to a Contra Costa homeless services provider to build a catering kitchen that now distributes 60 tons of groceries annually from 8 locations
- Used New Market Tax Credits to collaborate with other public/private partners to build an 80,000 square foot complex for physically disabled, community meeting rooms, child development center, non-profit offices and vocational training services in Berkeley
- Loan losses – virtually nil
- Short term returns: 2-5 year notes yielding 3%

HIP Sustainable Real Estate Portfolio: www.hipinvestor.com

- HIP Investor (Human Impact + Profit) : a Registered Investment Advisor with active approach to valuing investment factors;
- Proprietary HIP fundamental analysis: quantifiable results in Health, Wealth, Earth, Equality and Trust, as well as Management Practices that can drive profit and shareholder value
- Weights a basket of US listed Real Estate Stocks and REITS using a rigorous, data-driven analysis of quantifiable human, environmental and social results.
- Seek to outperform traditional investment benchmarks via this strategy, striving to achieve more positive human impact, lower risk and increased financial returns

The **HIP Sustainable Real Estate Portfolio** selects from a universe of approximately 200 Real Estate Investment Trusts (REITs), and also includes natural resources, forestry, and timber companies, as categorized by Morningstar.

- This real estate portfolio is scored for sustainability, including results from LEED-certified properties, which can generate savings from consuming less water and reducing energy usage.
- Properties pursuing sustainability approaches tend to realize higher rents and lower turnover from tenants. Some tenants even experience higher productivity and attendance, along with fewer health problems for staff.
- We have created this HIP Sustainable Real Estate portfolio of 50 securities **designed to yield about 4% annually**. Investors may find this portfolio useful for the goals of diversification, income generation and higher sustainability.

Actual HIP REIT vs. I-shares	Current YIELD (as of 12/31/17)	2017	2016	2015	2014	Annualized since inception	Cumu Return 2/23/2012 to 2/31/2017
HIP Real Estate	+ 4.50%	+ 7.05%	+ 11.58%	+ 0.04%	+29.52%	+ 10.27%	

(Client Gross)							+ 78.32%
I-shares US Real Estate	+4/16%	+ 9.34%	+ 7.03%	+ 1.63%	+26.69%	+ 9.48%	+ 70.92%

American Realty Advisors ARA

www.aracapital.com

ARA is a national institutional real estate investment manager focused on core and value add private real estate transactions on behalf of retirement systems throughout the US, primarily investing through commingled funds.

ARA has made a number of development/value-add investments in the Bay Area over the years. Our strategy is to focus on opportunities where entitlements are in place, we are working with a reputable and established partner, and we can identify value-creation opportunity that will allow us to translate active management and involvement by ARA into value realized for our clients. We generally do not hold stabilized assets once the value creation strategy is completed but exit through a sale to an institutional buyer.

ARA Strategic Value Fund	Q4 2017	1 year	3 year	5 year	7 year	Since Inception
Income	1.31	6.09	5.27	5.03	5.22	4.76
Appreciation	1.05	5.20	10.09	9.26	8.74	10.63
Total Portfolio (gross)	2.36	11.52	15.76	14.64	14.32	15.81
Total Portfolio (net)	2.03	9.65	13.10	12.29	12.08	13.26

ARA value-add expertise targets assets in key locations with strong potential that need active management to realize their full potential. We create value in well-located assets that can benefit from our decades of hands-on experience in acquisitions and asset management at all stages of the market cycle. Strategies include rehabilitating undermanaged and capital constrained assets, lease-up opportunities, renovation and repositioning, and ground-up development to create stabilized assets that can be sold to longer-term investors. An open-end value-added real estate commingled fund that invests in office, retail, industrial, multi-family and other select property types located in primary markets across the United States.

- Construction of Cherry Logistics Center, a 574,000 square foot warehouse distribution facility in the San Francisco Bay Area was delivered in 2014. The property was the first of its kind and size to be built in the Bay Area in 20 years, employed hundreds of people in its construction and as a logistics and distribution center. A 29 acre LEED distribution facility developed with 100% union labor, built at the crossroads of the Silicon Valley and the Port of Oakland, in Fremont.

In 2017, ARA completed two investments in the Bay Area in its Strategic Value Fund.



601 Marshall, Redwood City, CA

- 134,435 sq ft Office Building
- 100% pre-leased at 15% premium, LEED Platinum
- Located at transit, shops, parks, restaurants



Highway 92 Industrial Center, Hayward, CA

- 2014: acquired 31.5 acres. Build to suit
- Built 236,976 sq ft distribution warehouse located in the I-880 industrial corridor
- Major transit distribution hub for freeways in and out of Bay Area
- Completed 2017, 100% leased, projected returns IRR 21%+

Sustainable Multi-Family Redevelopment examples

The BAIII multi-manager real estate strategy would include one or more value-add, opportunistic funds that are focused on the redevelopment of mixed-use, multi-family and retail properties in high growth urban markets in the US. Capturing the green premium to outperform the market, these managers would have deep expertise and a proven success rate in the complex business of developing, retrofitting, and managing real estate assets with the goal of creating sustainable efficiencies in energy, water and waste and building stronger communities.

	<ul style="list-style-type: none"> • Downtown San Francisco example: • 107-unit LEED (Gold) Mixed Use apartment, 9,750 square feet of ground floor retail • Located adjacent to Pacific Heights/ Nob Hill, energy savings, one-, two-, three bedroom units
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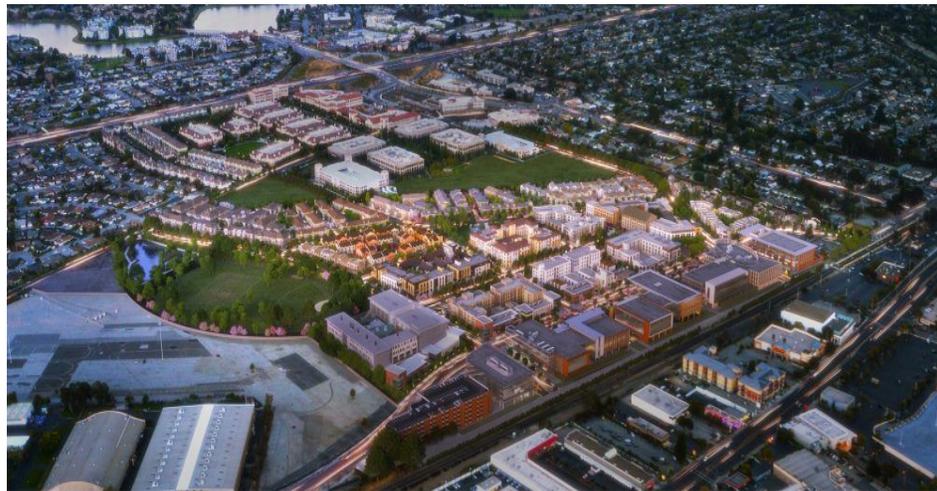
	<ul style="list-style-type: none"> • San Francisco, CA in the Dogpatch neighborhood • Near light rail and trolley • 71 residential unites and 1800 sf of retail space
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	<ul style="list-style-type: none"> • Oakland, CA near Lake Merritt and downtown Oakland • 206-UNIT LEED Gold mixed use apartment building • 23 story, 206 units, + 4300 sf of retail.
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Bay Meadows, San Mateo, CA

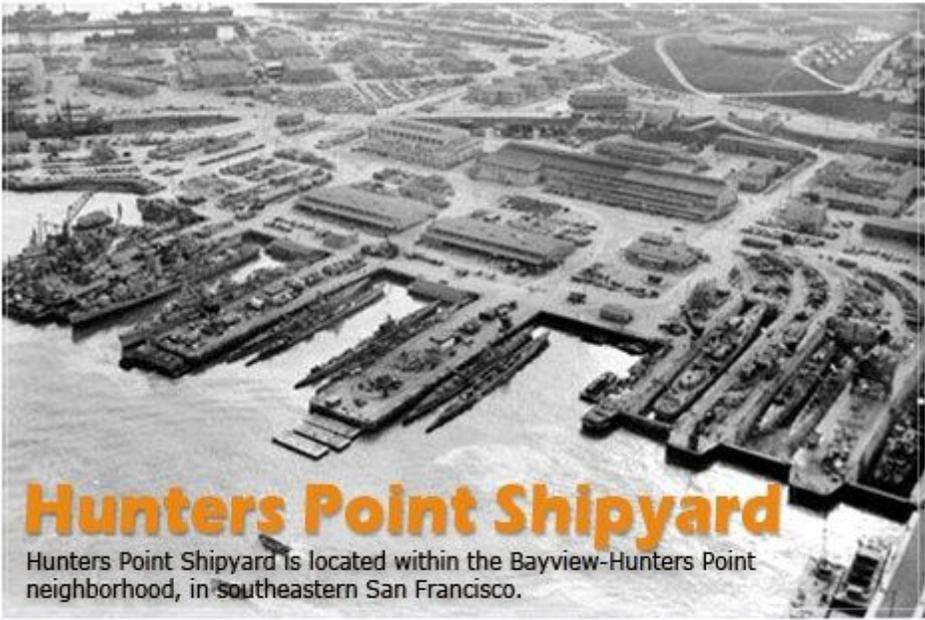


We can invest in creating new neighborhoods and communities. Bay Meadows has been changing from this horse racing venue to this new, complete transit oriented mixed use community:



<http://stockbridge.com/opportunity-fund/bay-meadows>

In San Francisco, the Hunters Point Shipyard is being transformed from this:



Hunters Point Shipyard: Navy 1940's

To this:



The following bond issued by the City and County of San Francisco is an investment that could be in the BAIII Fixed Income portfolio, the BAIII Real Estate portfolio and the BAIII Infrastructure portfolio, contributing to the financing of affordable housing in Hunters Point.

City & County of San Francisco
\$28,320,000 Certificates of Participation (Hope SF)
Series 2017A (Aa2/AA/AA)

The proceeds of the Certificates were used to finance or refinance a portion of the costs of the acquisition, construction, installation or improvement to, or

rehabilitation of, mixed-use housing development in the City's HOPE SF – Hunters View project in the Bayview-Hunters Point neighborhood of the City. *The overall Hunters View project consists of demolishing and replacing severely deteriorated public housing sites to create a sustainable, mixed-income community with neighborhood retail, community facilities, parks and playgrounds, in addition to 750 new housing units consisting of 267 public housing units (replaced on a one-for-one basis), as well as market-rate and affordable rental and ownership housing.* The total estimated cost of all phases of the project is \$450 million.

The Bay Area is addressing traffic congestion, the housing crisis, gentrification, sea level rise, reducing our carbon footprint, etc. This is bringing some massive redevelopments in neighborhoods long neglected, like Hunters Point, or repurposed locations, like Bay Meadows. These very large large projects are multi-year and multi-partner. As the local municipality must permit a redevelopment project, it and the developer and various community groups also must plan for the impact on the current residents, the schools, the roads and the natural environment. Long term collaboration and a variety of funding sources and partners over time are required. Collaboration and access to capital are paramount for success.