TESTIMONY BY

DARYL J. CARTER

FOUNDER, CHAIRMAN AND CEO

AVANATH CAPITAL MANAGEMENT, LLC

ON BEHALF OF THE

NATIONAL MULTIFAMILY HOUSING COUNCIL

AND THE

NATIONAL APARTMENT ASSOCIATION

BEFORE THE

HOUSE COMMITTEE ON FINANCIAL SERVICES

FOR A HEARING ENTITLED

"HOUSING IN AMERICA: ASSESSING THE INFRASTRUCTURE NEEDS OF AMERICA'S HOUSING STOCK"

April 30, 2019

Chairwoman Waters, Ranking Member McHenry and members of the Committee, thank you for this opportunity to speak on behalf of the National Multifamily Housing Council and the National Apartment Association on the infrastructure needs of the apartment sector. I appreciate your efforts to examine this multifaceted problem and your recognition of the challenges facing the owners and developers of apartment housing today.

My name is Daryl Carter, and I am the Founder, Chairman and CEO of Avanath Capital management based in Irvine, CA and in California's 45^{th} Congressional District, represented by Congresswoman Katie Porter. I am also a past Chairman of the National Multifamily Housing Council. Avanath is an investment firm that acquires, owns, renovates and operates affordable, workforce and value-oriented apartment communities across the U.S. Founded in 2008, we partner with institutional investors – both domestically and internationally – to deliver quality housing in major metropolitan and suburban markets. We have $1.7 billion in assets under management comprising 79 multifamily properties in 12 states. Over 34,000 residents call these communities home and approximately 50 percent of them receive Section 8 housing assistance.

For more than 25 years, the National Multifamily Housing Council (NMHC) and the National Apartment Association (NAA) have partnered to provide a single voice for America's apartment industry. Our combined memberships are engaged in all aspects of the apartment industry, including ownership, development, management and finance. NMHC represents the principal officers of the apartment industry's largest and most prominent firms. As a federation of more than 160 state and local affiliates, NAA encompasses over 73,000 members representing nearly 9 million apartment homes globally.

Avanath's Approach to Socially Responsible Multifamily Investment

Avanath is uniquely positioned in the multifamily industry as a firm that focuses on affordable and workforce housing in low-income areas with more than half of our properties being located in communities of color. We strategically invest in markets where renters have high cost burdens. Since our founding, we have served communities with the highest demand for affordable multifamily apartments and the greatest constraints to new supply.

Families with incomes of $30,000 to $80,000 represent the largest segment of the rental housing market. We regard the ability to serve this market as a social, cultural and financial opportunity, so we invest not only in brick and mortar, but in on-site services, amenities and activities that add value to properties and bring our residents' desired lifestyles within reach. Some of our onsite efforts include after school programs for young people, financial literacy seminars, and wellness activities for seniors.

Avanath believes that the affordable housing sector provides excellent and sustainable risk-adjusted returns with high barriers to entry and strong downside protection. We operate in many markets that are underserved by institutional capital. Nevertheless, Avanath consistently delivers apartment homes to America's most expensive housing markets at costs considerably below market rate rents. In San Francisco, median one-bedroom rents topped $3,240, yet Avanath's average rent in this market is $1,093. In Los Angeles, Avanath's rents average $1,135 compared to median rents of $2,106.

We have a long history of successful, affordable multifamily development in some of the nation's most difficult and marginalized housing markets. However, our industry faces serious obstacles that I articulate throughout my testimony. We look forward to working with this Committee to break down barriers to apartment development and rehabilitation and finding solutions to the nation's affordability challenges.

Apartments and Today's Housing Needs

A healthy housing market includes a diversity of housing options both rental and for-sale, multifamily and single-family. More broadly, there is a well-established relationship between a community's well-being and economic strength and the availability of suitable and affordable housing. Apartments have an important role in meeting these housing needs nationwide and play a fundamental part in ensuring housing affordability.

The Apartment Industry – Historic National Demand

The apartment industry is a robust and diverse sector that serves 39 million people - providing homes and lifestyle options that are right for them. We help build and sustain vibrant communities, create millions of jobs and provide a range of housing options. Moreover, our nation's housing dynamics have undergone a fundamental shift as changing demographics, economic factors and lifestyle preferences steer Americans towards rental housing.

Beginning in the mid-2000s, the nation experienced the greatest renter wave in its history, as the number of households who rent rose by more than 7 million.[1] Fueled by this historic demand for apartment homes, recent NMHC and NAA research finds that we need to build 4.6 million new apartments by 2030 to meet the nation's housing needs.[2]

Driving this demand is a wide variety of households that can afford home ownership, but prefer the flexibility and convenience of renting.[3] Households making $60,336 or more (the national median household income) now make up 29.5 percent of all apartment renter households and account for over half (56.3 percent) of apartment growth over the past decade.[4] Further, immigration (over one in four (25.1%) apartment householders were born outside of the United States), Baby Boomer and other empty nester trends (over half (59.2 percent) of the net increase in renter households from 2007 to 2017 came from householders 55 years or older) and other demographic changes are powering demand for apartments.[5]

To meet this demand, we will need to build an average of 328,000 new apartments every year. Yet we have only hit that mark twice since 1989.[6] This supply-demand imbalance seriously jeopardizes housing affordability, limits housing choice and undermines broader economic well-being.

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[1] U.S. Census Bureau, Various Surveys.
[2] Hoyt Advisory Services; NMHC and NAA, "U.S. Apartment Demand – A Forward Look", May 2017.
[3] NMHC and Kingsley Associates, "2017 Apartment Resident Preferences Survey".
[4] NMHC, Tabulations of 2017 American Community Survey public use microdata.
[5] NMHC, Tabulations of 2017 American Community Survey public use microdata.
[6] U.S. Census Bureau, New Residential Construction.

In addition, the need for renovations and improvements to existing apartment buildings continues to grow. Recent research found that 51 percent of the nation's 20 million-plus apartment stock was built before 1980, which translates into millions of units that could need rehabilitation or renovation by 2030.[7]

The growing demand for apartments – combined with the need to renovate thousands of apartment buildings across the country – can make a significant and positive impact on our nation's economy for years to come. Apartments and their residents contribute $1.3 trillion to the national economy annually.[8]

There is opportunity for a tremendous and sustained contribution to the national economy from the apartment industry. However, many factors influence the apartment industry's health and ability to meet the nation's growing demand for rental housing. Infrastructure is an important factor in meeting growing housing demand, and the need for housing affordability.

Housing and Infrastructure

Infrastructure and housing are linked in significant ways. The existing supply and efficacy of housing is directly dependent on the condition of related transportation and other infrastructure assets. For example, access to suitable transportation options, safe and reliable water and utility services and broadband and telecommunications are all vital to the livability and, importantly, to the affordability of housing.

Likewise, successful new apartment development depends on additional funding for infrastructure, modernization and strategic planning for sustained investment. We support a cooperative approach to housing development and infrastructure planning and observe that contemporaneous consideration of housing demands and infrastructure needs maximizes community benefit and promotes efficiencies in transportation, land use and public works. Early alignment of these priorities can help ensure that infrastructure assets are best serving the current and future needs of communities.

However, communities nationwide struggle with aging and inadequate transportation, water, sewage and other public systems. Jurisdictions facing serious deficits in infrastructure funding are increasingly looking to pass improvement costs along to developers. While some infrastructure enhancements on or around a development site may be mutually-beneficial, jurisdictions sometimes exploit developer resources, and by extension renter household expenditures, making project approvals contingent on ever-increasing infrastructure investments. This strain on project affordability is unsustainable. Some examples faced by NMHC and NAA members include:

- In Illinois, one city required an apartment builder to finance a public street through their site increasing the total project costs by $1.2 million. Additional improvements required to an existing road beyond the builder's site cost another $63,000.

[7] Hoyt Advisory Services; NMHC and NAA, "U.S. Apartment Demand – A Forward Look", May 2017.
[8] Dr. Stephen Fuller; NMHC and NAA. "The Trillion Dollar Apartment Industry", February 2013.

- In Georgia, one city required a new development project to pay the entire cost of widening a road and upgrading the traffic signals at a cost of approximately $200,000.
- In Texas, a project was required to replace and increase the capacity of a storm line by 75 percent to address not only the project, but to address community flooding outside of the project site. This resulted in two months of additional permit time, 30 days of additional build time and $250,000 in added cost.
- In another Texas development, the developer was required to run a water line extension almost 600 linear feet to accommodate not just that project, but future growth in the area. The developer absorbed the entirety of the $370,000 cost.

As policymakers consider infrastructure initiatives, we urge the inclusion of measures to support housing including those that would:

- Ensure a long-term and stable transportation funding stream to provide state and local governments, and the private sector, with the certainty and resources they need to meet their infrastructure needs and make further infrastructure investments;
- Encourage and incentivize all levels of government to remove barriers to apartment development and streamline regulatory burdens;
- Invest in rehabilitating existing communities;
- Address the challenges of housing affordability and stimulate new affordable development through density bonuses, fast-track review and by-right development; and
- Upgrade municipal infrastructure to accommodate growth and facilitate remediation of safety and environmental hazards that burden housing and new construction.

Our Nation's Housing Affordability Challenge

Housing affordability is a significant challenge facing many Americans today. Any discussion of national infrastructure needs must also include discussion of housing demand and affordability. Thoughtful planning and recognition of the real estate sector's dependency on reliable infrastructure is a critical component to addressing today's housing challenges for those at all income levels.

The increased demand for apartments, coupled with significant supply pressures, is making it challenging for millions of Americans to find quality rental housing that is affordable at their income level. Those at the lowest end of the income spectrum are especially vulnerable to these problems—one in five renter households earns less than $15,000 annually, and for them an affordable unit is one with a monthly rent of under $400. Yet from 2003 to 2013, 11 percent of these rentals were permanently lost from the housing stock.[9] This is also the hardest segment to build for without subsidy, given the costs associated with development.

[9] Harvard Joint Center for Housing Studies, "America's Rental Housing", 2015: available at http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/americas_rental_housing_2015_web.pdf.

However, housing affordability challenges are not unique to lower income households. The total share of cost-burdened apartment households (those paying more than 30 percent of their income on housing) increased steadily from 42.4 percent in 1985 to 53.9 percent in 2017.[10] Consider that the median asking rent for an apartment constructed in 2017 was $1,550. For a renter to afford one of those units at the 30 percent of income standard, they would need to earn at least $62,000 annually.[11] More than one in four apartment households paid more than half of their income on their housing in 2017.[12]

Across all markets, the supply of multifamily rental housing at a variety of price points will play a vital role in promoting economic growth, attracting and retaining talent and encouraging household stability for all American families. And, the development, preservation and rehabilitation of apartments for *all* income levels is a key component to meeting the nation's affordability challenges.

Affordable Housing, Infrastructure and Jobs

The intersection of affordable housing, infrastructure and jobs is also worth noting. With the increasing housing affordability challenges in so many local communities, there is additional pressure on the recruitment and retention efforts of employers. For example, according to a 2017 survey of 87 employers, large and small, in Greater Boston by Northeastern University on behalf of the Massachusetts Housing Partnership, *"72% of respondents found it "Extremely or Somewhat Difficult" to recruit and/or retain talent in the past five years. In addition, over 67% claim home prices and rental costs have affected their ability to recruit qualified candidates."* The survey also found that housing costs ranked third on a list of nine potential barriers to recruitment and retention.[13]

The Costs and Challenges of Apartment Development

Our industry faces significant challenges to new apartment construction, development and renovation and must balance a wide array of concerns including project viability, rising costs and regulatory burdens at all levels of government. A recent study by NMHC and the National Association of Home Builders (NAHB) found that 32 percent of multifamily development costs are attributable to compliance with local, state and federal regulations.[14] In a quarter of cases, that number can reach as high as 42.6 percent.

Breaking down the government regulation costs showed that 95 percent of developers' projects included requirements that went beyond what the developer would ordinarily provide (such as complex architectural design, landscaping, and parking requirements). Developers saw an average of 7 percent of regulatory costs coming from building code changes over the past 10 years,

[10] NMHC Tabulations of American Housing Survey microdata.

[11] NMHC calculation based on U.S. Census Bureau, Survey of Market Absorption.

[12] NMHC tabulations of 2017 American Housing Survey microdata.

[13] Wael Altali, Jonathan Hillman, Sarah Tekleab April 2017, Northeastern University, School of Public Policy and Urban Affairs, 'Assessing Affordable Housing Availability and its Effects on Employers' Ability to Recruit and Retain Employees in Greater Boston, April 2017.

[14] NMHC and NAHB, "Regulation: Over 30 Percent of the Cost of a Multifamily Development", June 2018.

and developers were required to dedicate land or otherwise leave land unbuilt in 50 percent of their projects.

The apartment industry stands ready to meet America's demand for rental housing, but our ability to succeed depends on several important needs; including, relief from unnecessary regulatory burdens, the availability of consistent and competitively priced capital and robust and reliable infrastructure. We commend the Committee for recognizing the interconnectivity between housing and infrastructure and exploring opportunities to break down those barriers impairing development of apartments for all income levels.

Barriers to Multifamily Development

We believe that Congress has a critical role to play in ensuring that the development and rehabilitation of multifamily housing represents a key component of infrastructure legislation.

The ability of our sector to meet housing demand, address affordability needs and deliver lasting job growth depends on collaboration and partnership at all levels of government. The cost to develop apartment homes has escalated at a dramatically faster pace than rent rate increases in many markets nationwide. As the affordability of housing is already strained, development costs must be controlled in order to create needed and affordable housing throughout the United States.

A range of outdated, unnecessary and overly burdensome policies create significant barriers to the development of apartment properties. The resulting impacts increase the cost of apartment development and construction, exacerbate supply constraints and ultimately raise the necessary monthly rent of apartment homes. Easing regulatory and other policy obstacles in apartment production is a critical consideration as policymakers explore solutions to close the affordability gap in America's housing.

Importantly, some commonplace hurdles are deliberately intended to deter multifamily development and further the ideas of NIMBYISM ("Not In My Back Yard"), which explicitly oppose new apartment development in many communities. Support from policymakers, along with educational and planning tools, can help promote the acceptance of apartments and demonstrate the benefits of multifamily development.

However, even well-intentioned policies can be counter-productive to affordable apartment production and hinder multifamily development. Common impediments to multifamily projects include:

- **Zoning Laws** that restrict or otherwise unduly burden multifamily development;
- **Onerous and Extended Entitlement Requirements**. The entitlement process, including various approvals and permits, can mire projects for years. According to NAA's Barrier to Apartment Construction Index, development timelines for properties with 50 or more units including permitting, land development, non-conforming use and zoning ranged from an average of three years in Miami to over eight years in San Diego;[15]

[15] National Apartment Association, "Barriers to Apartment Construction Index," https://www.naahq.org/news-publications/barriers-apartment-construction-index.

- **Excessive Impact and Linkage Fees**;
- **Business License Taxes**;
- **Assessment and Inspection Fees**;
- **Outdated Minimum Parking Requirements**. Parking can cost \$30,000 to \$75,000 per space depending on location, and often fail to reflect the changing transportation needs and trends of apartment residents;[16] and
- **Lengthy Environmental Site Assessments**.

  While these requirements are primarily within the purview of local governments, federal policymakers can play a role by creating incentives for local leaders to reduce barriers and adopt policies that encourage private sector investment in housing. Examples of actions that local governments can take include:

  - defer taxes and other fees for certain apartment development,
  - make available underutilized land,
  - streamline the development and approval processes with fast-tracking programs,
  - adopt by-right zoning for multifamily development,
  - reduce parking and other land requirements,
  - establish density bonuses,
  - enact separate rehabilitation codes,
  - create an efficient public engagement process, and
  - use property tax abatements.

An excellent example of how the federal government can incentivize these actions is the \$10 billion set-aside within the CDBG program proposed under the *Housing is Infrastructure Act of 2019* to encourage the elimination of impact fees and streamlining of the process for development of affordable housing. These are exactly the kinds of strategies that are needed to remove barriers to construction of affordable housing and rental housing overall.

Housing Affordability Initiatives and Community Barriers to Development

Beyond impact fees and the development process itself, there are other policy measures being pursued in some local jurisdictions that act as significant and fundamental barriers to the development of critically-needed housing. Artificial price controls on rent levels or mandated set-asides of affordable units within new developments. While well-intentioned, these policies can produce the opposite outcome.

Rent control, in any of its various forms, is a mechanism that obligates a property owner to set rental rates for all or a portion of the units on a property. These policies act as disincentives to investing and developing the diversity of housing units that a community requires. There are

[16] National Apartment Association, "Transformation of Parking," https://www.naahq.org/news-publications/transformationparking.

alternatives to rent control that take slightly different approaches but have the same detrimental effect. The most common form of these is inclusionary zoning.

Inclusionary zoning refers to municipal and county planning ordinances that require a given share of new construction to be affordable to people with low to moderate incomes without an investment from the municipality. It is normally a condition of approval of the development. Proponents of inclusionary zoning often fail to acknowledge that these policies drive up costs, and ultimately rents, for the entire project, as developers are forced to raise rents for market-rate units to make up the difference from the affordable units to make the project financially feasible.

Additional Strategies for Meeting Housing Demand and Addressing Affordability

In addition to incentives for local governments to ease the development process, this Committee can take other steps to support the goals of meeting housing demand and affordability needs.

- **Support Housing Finance Reform that Preserves the Multifamily Mortgage Liquidity Provided by the Government-Sponsored Enterprises (GSEs)** - One of the foremost priorities of federal policy makers should be getting multifamily right in any housing finance reform effort by recognizing its unique characteristics; it is the single most important factor to ensuring that the apartment industry can meet the nation's growing rental housing demand. The GSEs', Fannie Mae and Freddie Mac, multifamily businesses are an important provider of debt capital for the apartment industry. The GSEs serve all markets and all income levels and have been particularly effective at providing capital to multifamily properties that serve affordable and middle-income renters. For over a decade more than 80 percent of their business has served that class of renters. Preservation of the mortgage liquidity currently provided by the GSEs in all markets during all economic cycles is critical. NMHC/NAA urge lawmakers to recognize the unique needs of the multifamily industry. We believe the goals of a reformed housing finance system should be to:

    - Maintain an explicit federal guarantee for multifamily-backed mortgage securities available in all markets at all times;
    - Ensure that the multifamily sector is treated in a way that recognizes the inherent differences of the multifamily business; and
    - Retain the successful components of the existing multifamily programs in whatever succeeds them.

- **Increase Funding for and Enhance Performance of the Section 8 Program. Increase Support for other Crucial HUD Programs** - Tenant-Based Section 8 and Project Based Rental Assistance allow low-income families to rent market rate housing, taking advantage of the broad offering of privately owned and operated properties in a given market. In the case of the Housing Choice Voucher Program, there are ways these programs can be enhanced to draw more participation from the private sector and create a better experience for voucher holders.

  Additionally, funding for the HOME and CDBG programs should be increased in recognition of their important role in the development of new affordable housing. Both programs allow developers to address financing shortfalls often associated with affordable housing properties and stimulate meaningful development and preservation activity.

- **Modifying the Community Reinvestment Act (CRA) -** The three main banking regulators – Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, and Federal Reserve – who control the regulations around CRA have begun the process to modernize the existing rules. The regulators have the opportunity to promote lending and investment activities of their member banks in low- and middle-income neighborhoods where infrastructure upgrades are often needed. The CRA could be modified to include greater incentives for banks to provide loans for multifamily apartments that include workforce and affordable housing development.

  CRA guidelines currently allow banks to obtain Community Development (CD) credit for multifamily units serving occupants with incomes of up to 80 percent of area median income. While this level captures a significant portion of workforce households, the rules themselves make it difficult to obtain the CD credit due to a requirement to report incomes, information that is not captured.

  Investment activity by banks often takes the form of the purchase of tax credits from a LIHTC project. Due to an outdated determination of assessment areas, banks do not efficiently distribute their investments across a broad geographic footprint. The challenge with the current CRA assessment structure is that there may be a misalignment between assessment areas and areas underserved by institutional capital, where capital could be deployed more effectively. There is an opportunity to retool CRA to provide incentives to promote investment into those areas of need where infrastructure projects overlay with low- and middle-income neighborhoods.

Finally, we encourage Congress to address the following tax proposals that all have a significant influence on addressing housing affordability.

- **Expand and Enhance the Low-Income Housing Tax Credit:** The Low-Income Housing Tax Credit (LIHTC) is a public/private partnership that leverages federal dollars with private investment to produce affordable rental housing. Since its inception in 1986, the LIHTC program has financed over 3 million apartments and served 7 million households. Given that there are currently just 45 affordable units for every 100 very low-income apartment households, lawmakers should strengthen the program by: making permanent the increased credit authority enacted in March 2018, further augmenting credit authority by 50 percent and establishing a minimum 4 percent tax credit rate.

- **Enact the Middle-Income Housing Tax Credit to Support Workforce Housing:** Housing affordability is not limited only to families eligible for units financed by LIHTC. Consider that the median asking rent for an apartment constructed in 2017 was $1,550. For a renter to afford one of those units at the 30 percent of income standard, they would need to earn at least $62,000 annually. Accordingly, this is an issue impacting those supporting the very fabric of communities nationwide, including teachers, firefighters, nurses and police officers.

We urge Congress to consider the *Middle-Income Housing Tax Credit Act of 2018* (S. 3365) that Senate Finance Committee Ranking Member Ron Wyden introduced during the 115th Congress. The Middle-Income Housing Tax Credit takes over where LIHTC leaves off and is designed to benefit households earning below 100 percent of area median income.

- **Enhance Opportunity Zones to Incentivize Rehabilitation of Housing Units:** Enacted as part of tax reform legislation in 2017, Opportunity Zones are designed to provide tax incentives for investments in distressed communities.

  While we expect the program to be beneficial in spurring the production of new multifamily housing, we believe it could be improved to incent the rehabilitation of existing multifamily units. NMHC and NAA urge Congress to support statutory modifications to reduce the basis increase necessary to qualify a multifamily rehabilitation project for Opportunity Zone purposes.

- **Repeal Foreign Investment in Real Property Tax Act:** In 1980, Congress passed the Foreign Investment in Real Property Tax Act (FIRPTA) to tax foreigners' gains on the income they earn from, and then the sale of, U.S. real estate and other real property. In doing so, FIRPTA imposes significant costs on foreign investors in U.S. real estate, thereby serving as a significant barrier to such investment.

  Repealing FIRPTA or enacting additional reforms could unlock billions in foreign capital that could help to refinance real estate loans and drive new investment. NMHC and NAA strongly support FIRPTA repeal legislation, *Invest in America Act* (H.R. 2210), introduced on April 10 by Reps. John Larson and Kenny Marchant, and believe it would represent a beneficial component of any future infrastructure package.

The Housing is Infrastructure Act of 2019

We applaud Chairwoman Waters for her work to make sure that housing is seen as a key and necessary component of any large infrastructure initiative undertaken by Congress and the Administration. Through the establishment of a CDBG set-aside, the Chairwoman is directing financial resources to create housing, remove or lessen burdensome and costly local regulation, entitlement processes and other cumbersome barriers to multifamily development in an effort to create more housing that is affordable across the country. Even further, making investments in the Housing Trust Fund as well as Rural and Native American housing programs are positive steps forward in addressing the housing affordability challenges we face. In all of these areas, we strongly urge the Chairwoman and her colleagues to look for ways to ensure deployment of these funds is as efficient as possible and leverages the expertise and abilities of private sector apartment developers, owners and operators.

Another area that the Chairwoman's draft legislation provides funding for is FEMA's Pre-Disaster Hazard Mitigation Program. We applaud the Chairwoman for being forward-thinking in seeing flood and disaster mitigation as a key piece of future-proofing our nation's housing stock and community infrastructure. Funds like these lessen fiscal pressure upon FEMA and taxpayers more broadly. We would encourage the Committee to consider prioritizing some of these limited grant dollars for multifamily and commercial property owners so they can more readily access these funds when mitigation is most cost effective and dollars go further.

We look forward to working with the Chairwoman, Ranking Member and other members of the Committee on this important discussion draft.

Conclusion

Housing and infrastructure are both critical nationwide needs. I applaud the Committee's efforts to explore this relationship and find solutions to the nation's most pressing housing challenges. Policymakers at every level of government have a role to play in removing obstacles to housing production, easing costs and creating a supportive environment for the providers of apartment homes. The apartment industry is committed to providing high-quality and attainable housing for all Americans. Using a combination of incentive-based programs, streamlined regulatory burdens and innovative solutions, we stand ready to work with Congress to achieve these goals.

Daryl J. Carter

Founder, Chairman and Chief Executive Officer
Avanath Capital Management, LLC

Daryl J. Carter is the Founder, Chairman and CEO of Avanath Capital Management, LLC, a California-based investment firm that acquires, renovates, and operates apartment properties, with an emphasis on affordable and workforce communities. Mr. Carter directs the overall strategy and operations of the Company. Since its formation in 2008, Avanath has acquired $1.5 billion of properties in 12 states in the U.S., comprising 8,000 apartment units. Avanath is vertically integrated and is an SEC registered investment advisor and an institutional fund manager, with capabilities that include acquisition sourcing and underwriting, construction, asset management, and on-site property management.

Mr. Carter has 37 years of experience in the commercial real estate industry. Previously, he was an Executive Managing Director of Centerline Capital Group. Mr. Carter became part of the Centerline team when his company, Capri Capital Finance, was acquired by Centerline in 2005. Mr. Carter co-founded and served as Co-Chairman of the Capri Capital family of companies. He was instrumental in building Capri to a diversified real estate investment firm with $8 billion in real estate equity and debt investments under management. Prior to Capri, Mr. Carter was Regional Vice President at Westinghouse Credit Corporation and a Second Vice President at Continental Bank.

Mr. Carter holds a Master's in Architecture and a Master's in Business Administration, both from the Massachusetts Institute of Technology. He received a Bachelor of Science degree in Architecture from the University of Michigan. Mr. Carter serves on the Visiting Committee of the MIT Sloan School of Management. In 2015, Mr. Carter received the MIT Sloan School Distinguished Alumni Award and served as the 2015 commencement speaker for the Sloan School MBA graduation.

Mr. Carter is a Past Chairman of the National Multifamily Housing Council. Previously, Mr. Carter served as an independent director on the boards of the following companies: Catellus Development Corporation (CDX), Silver Bay Realty Trust (SBY), and Whitestone REIT (WSR).

Los Angeles Times

This apartment owner makes money by providing affordable homes

By ANDREW KHOURI
DEC 09, 2018 | 3:00 AM
https://www.latimes.com/la-fi-himi-carter-20181209-story.html

Daryl Carter is chief executive of apartment owner Avanath Capital Management, which invests in low- to middle-income housing. (Luis Sinco / Los Angeles Times)

Daryl Carter is founder and chief executive of Avanath Capital Management, an Irvine investment firm that owns nearly 9,000 apartments nationwide — both market-rate and affordable. About 75% of its units have some form of rent restriction, and 40% of residents receive rent subsidies under the federal Section 8 program.

Carter, a former chairman of the National Multifamily Housing Council, said Avanath's mission is to acquire properties, most of which are older, and make them nicer, while at the same time keeping them affordable. "I had a blessing of living in a house that was affordable," Carter said, adding he wants to give that gift to others so "they can pursue their dreams."

Growing up

Carter's affordable home was in Detroit, where his father worked in an auto factory and his mother worked as a nanny. Growing up in the 1960s, he loved construction and recalled stopping at building sites when he walked down the street. "I could watch for hours," he said.

He said his parents — who moved from the South for a better life — also encouraged him to strive for more. They'd point to the doctors, businesses owners and other wealthier individuals who also lived in their largely African American neighborhood, but on a tonier street.

"They would say you don't want to be jealous of people who lived on Oakman Boulevard," he remembered. "You want to live on Oakman Boulevard."

College years

Carter attended the University of Michigan, where he majored in architecture and played basketball.

After gaining his bachelor's degree, Carter went to MIT and graduated with a master's degree in architecture and an MBA.

Starting out

After MIT, Carter got a job at Continental Bank in Chicago just as a downturn was gaining steam. He was dispatched to south Florida to do workouts on unsold condominiums — a key learning experience, Carter said. Among the things to untangle: He and his team had to decide whether to sell units at 50 cents on the dollar, or maybe invest in some rehab and shoot for 80 cents.

“You have to use imagination,” he said. “It makes you be very entrepreneurial.”

Building a business

In 1992, Carter teamed up with high school friend Quintin E. Primo III, who was also in banking in Chicago. Together, they founded Carter Primo Chesterton, a real estate investment firm. The company would eventually become Capri Capital and handle billions of dollars’ worth of real estate, including Baldwin Hills Crenshaw Plaza, which it is trying to redevelop.

Carter left during the middle of last decade to focus on housing and in 2007 launched Avanath, named after his daughter Ava and son Nathan. “They are only 17 months apart, so there is this great sibling rivalry,” he said. “She likes to say, ‘My whole name is in the company.’ And he says, ‘Well, I have more letters.’ ”

> You have to stay true to your vision, but you have to adjust that vision as you learn more about it.
>
> DARYL CARTER

Lessons learned

Be patient. Carter said that when he and Primo looked for funding to start their company, they had 56 rejections before someone finally said yes. In part, it was difficult because as two African Americans from a public high school in Detroit, they lacked many of the connections historically used to launch new firms in the heavily white real estate industry filled with monied families.

“We didn’t look like who they typically bankroll,” Carter said. Eventually, on the 57th meeting a company called Chesterton said yes.

“What happened with us is, each no we got better. Every no gives you information,” Carter said. “You have to stay true to your vision, but you have to adjust that vision as you learn more about it.”

Diversity matters

Today, he mentors young businesspeople of color and advocates for diversity in companies. He said Avanath is stronger because its employees come from many backgrounds and “talk about different things,” allowing them to brainstorm smart solutions for the company and its residents.

“The reason we are successful in serving the communities we serve is that we are highly diverse,” he said.

A gentler strategy

In the hot real estate market of recent years, investors have scooped up older apartment buildings in lower-income communities and evicted all the tenants to rehab units and double the rent. That’s not Avanath’s model.

Instead, Carter said, Avanath purchases buildings and works to keep existing tenants. It makes money by reducing vacancies that bring in no money. In some cases, where rent limitations don’t prevent it, Carter said rent is raised after renovations.

But he said renovations are done without evicting tenants and provide residents with added benefits, such as an in-unit washer and dryer or energy-efficient lighting. He called the increases modest and said that properties are still affordable to those of lower and moderate incomes.

Beyond housing

Avanath also works with nonprofits to offer services at its properties. At its 528-unit subsidized community in Long Beach, financial literacy courses and an after-school program are offered. Avanath also installed a basketball court.

Carter said such services mean happier residents. And happier residents mean more money. “They stay. They pay their rent on time. They respect the property,” he said. He called the strategy of emptying a building riskier. “You have to re-lease the building, and you probably get rid of a lot of good people,” he said. “Turnover costs are expensive.”

Changing perceptions

Carter said too many in the investment community hold misconceptions about Section 8 renters, including that many don’t work and are bad tenants. Carter said 95% of Avanath’s Section 8 tenants have jobs, but their incomes simply can’t support sky-high rent. He said turnover at Avanath’s properties is less than at the typical apartment building.

Many misconceptions stem from “debacles” of old-school public housing projects that became crime hot spots, Carter said, as well as general faulty perceptions about investing in black and Latino neighborhoods. Stereotypes have been so “overwhelming,” Carter said, that at times he’s turned to Europe to raise capital.

So Carter has undertaken a major effort to shift perceptions. On behalf of the U.S. Department of Housing and Urban Development, Carter has talked to property owners about the Section 8 program. He also brings people to Avanath communities to do walk-throughs.

“As many places as I can talk, I talk about Section 8 residents,” he said. “Every time I speak, every time we talk to investors.”

Personal time

In his spare time, the Coto de Caza resident loves to read and play golf with his son and basketball with his daughter. He's also a huge University of Michigan sports fan. The ringtone on his phone? The Michigan fight song.

Andrew Khouri

CONTACT

Andrew Khouri covers the housing market for the Los Angeles Times. Before coming to The Times he wrote about commercial real estate for the San Fernando Valley Business Journal. He holds a master's degree in journalism from the University of Southern California's Annenberg School for Communication and Journalism and graduated from the University of San Diego with a degree in history.

NEWS

Developer changes affordable housing dynamic by investing in lives

LONG BEACH, CA – FEBRUARY 11: Daryl Carter, the founder and CEO of Avanath Capital Management, walks around one of his affordable housing complexes in Long Beach on Monday, Feb. 11, 2019. When Carter bought Northpointe Apartments several years ago, the complex was plagued with shootings and other crime. By bringing in some amenities such as a basketball court and after-school program, it has now become more family friendly. (Photo by Scott Varley, Torrance Daily Breeze/SCNG)

By **DAVID WHITING** | dwhiting@scng.com | Orange County Register
PUBLISHED: February 14, 2019 at 8:00 am | UPDATED: February 14, 2019 at 8:00 am

There is a large map on a large computer screen on Daryl Carter's desk that shows his company's portfolio of nearly 10,000 apartments that stretch from the shores of California to the New York waters.

In total, the properties are worth some $1.5 billion and what's astonishing is that But it's not big bucks or turning around the image of Section 8 housing and their

corresponding partial rent vouchers that grabs my attention. It's the digital wallpaper on Carter's tablet.

I used to live in southeastern Michigan and the photo shows a tiny, well-kept home that reminds me of some streets in Detroit.

With one large hand — Carter is 6-foot-7 and played basketball for the University of Michigan — he holds up the tablet for easy review and smiles. "That's where I grew up."

It's a sentence of just a few words. Yet it reveals an impressive journey of rising up, hard work, perseverance and an unquenchable thirst to excel.

The more we talk, the more I learn about a man who does far more than live the American dream. He embodies it.

Deep South roots

In the midst of a long, wide-ranging conversation, Carter, now 63 years old, shares he's had two amazing mentors and that one was his father. Let's start there.

Nolan and Flossie Carter were born and raised in Mississippi, and, like thousands of African Americans, they headed north after World War II for a better life.

Settling in Detroit, Nolan Carter manned the line at the local Fisher Body Plant. Flossie Carter worked as a nanny. Together, the couple scraped and saved and by the time Carter was in junior high school his parents managed to buy a 900-square-foot bungalow with one bathroom for their family of five.

"Dad was old-school," Carter allows, eyes soft with memories. "He did not tolerate back talk."

More than anything, however, Nolan Carter worked hard to better himself and his family. "There's a parallel," says the son, "to my parents and me. I got my work ethic from both my parents and Dad was really pro-education and so was Mom."

Despite riots in 1967 that rocked Detroit and took 43 lives, summers found a wide diversity of people in their front yards chatting and sharing. With other dads, Nolan Carter walked to work and watched his son's basketball games in the evening.

Of growing up in blue-collar Detroit, Carter has no complaints. He says it toughened him for being prepared for life's challenges.

After high school, Carter played on the freshman squad at University of Michigan. But in his second year foot injuries ended his basketball career.

No matter. Carter knew his calling wasn't sports. It was something to do with housing and finance. After graduating University of Michigan, he went to MIT where he earned a master's degree in architecture as well as an MBA.

His knowledge and skills landed him job offers in Houston, Denver, Chicago. To be near family and with a love for the Windy City's sizzle, Carter chose Chicago and Continental Bank.

Tellingly, at the relatively tender age of 27, he bought his first home. It cost $45,000.

After five years, he transferred to Southern California where temperatures were in the 70s instead of Chicago's minus-5 degrees. From offices in Irvine, he managed the company's loans during the 1980s real estate boom. Soon, he was named second vice-president.

Next, he accepted an offer with Westinghouse Credit Corporation where he served as regional vice president.

But all along, he was restless with his own vision: better homes for people with limited income.

Reaching out

Carter, a recent recipient of Christ our Redeemer AME Church's Martin Luther King Drum Major Award, looks at me and explains you can't talk about affordable housing without touching on race.

As past chairman of the National Multifamily Housing Council, a review of his previous talks bears this out. He once told Ebony magazine of his early years: "I got involved in lending to builders who built large subdivisions. You'd look at their ads and they featured a perfectly scrubbed blonde couple with blonde kids and big smiles.

"Everything that went along with the industry was really not focused on a major group of the population," he continued. "The reason many neighborhoods have declined, whether it's Oakland or other places, it's not necessarily because of who lives there but because there's a lack of investment."

In 1992 and with a buddy from his high school days, Quintin Primo III, Carter co-founded a company named Capri Capital. The goal was to prove that affordable housing could be a solid investment.

It took 57 meetings before Carter and his business partner heard a "yes" for capital and Carter says there's a lesson there. "You don't take it personally. You hear, 'no,' and you try to understand why and make your next pitch better.

"How'd we get to meeting 57?" he asks. "Because we had a meeting with person 56."

You might say things worked out.

They convinced pension funds that emerging markets included such places as South Central Los Angeles and North Long Beach. By the time he sold and left Capri, the firm had $8 billion in real estate equity and debt investment.

"If you prove you can make money and make it sustainable," Carter says, "the capital will flow."

Making a difference

A decade ago, Carter founded Irvine-based Avanath Capital Management, a merger of his daughter's name, Ava, and his son's, Nathan.

The CEO reports there are many myths about affordable housing. One is that it's free. Wrong. Vouchers pay for only part of the rent. Another is that renters don't work. In fact, the only people with Section 8 vouchers who don't work are elderly and disabled and comprise a small fraction of that population.

Carter explains affordable housing is exactly that. He offers an example of two Walmart workers getting by, but unable to live locally. "Income is low," he points out, "and housing costs are high."

Instead of trying to build affordable homes, Avanath's strategy is to rebuild and renovate.

The secret to successful affordable housing, he says, is keeping up with maintenance and offering improvements that truly make a difference in occupants' lives. As an example, he offers that instead of scraping antiquated popcorn ceilings it's better to install washers and dryers in every unit.

Low incomes often means both parents work, he continues, and one of the best ways to ensure that kids avoid gangs and do their homework is to offer after-school assistance. "Nonprofits need space so you put those programs in an apartment comp ex and you have just solved a prob em.

"If you enhance satisfaction," he says, "there isless turnover and residents feel safer because they know their neighbors."

The sweet spot is that improvements end up increasing profits. "We have less turnover and less expense."

In a newly renovated area of Long Beach named Northpointe Apartments, Carter says such improvements as app-based requests for repairs and well-lit basketball courts have helped bring community together.

Still, Carter takes his mission one step further with his up-close and personal approach.

At Northpointe, for example, he went out of his way to meet with gang members and explain what he was trying to do: make their living conditions better.

Did the gang members listen?

Carter says they did. And he's honest enough to admit his Motor City roots helped.

"They know I come from a similar place."

avanath

LIFESTYLE WITHIN REACH

April 2019

about avanath

- California-based investment firm focused on acquiring, renovating, and managing affordable and workforce housing throughout the U.S.
- Holistic investment approach – invest in brick and mortar and in services and activities that support the betterment of the community and our residents.
- Vertically integrated platform with 223 employees nationwide, including 162 person in-house property management team and 7 person dedicated property compliance team. The firm is supported by two corporate offices located in Irvine, CA (HQ) and Bethesda, MD as well as regional offices located in Orlando, FL, Chicago, IL, and Sacramento, CA.
- Seasoned executive team with over 20 years of collaboration in prior firms before teaming up again to pursue an investment strategy focused on economic and social goals.

avanath overview

TOTAL ASSETS UNDER MANAGEMENT* $1.7B

PORTFOLIO OVERVIEW	
States	12
Cities	42
Markets	13
Communities	75
Family Communities	60
Senior Communities	15
Units	9,228
Average Occupancy	98%

* Projected as of March 2019

the strategy

Housing America's workforce

- **Experienced owner/operator**– approved in 12 states with 27 regulatory agencies. Highly focused on developing and maintaining strong working relationships with regulatory agencies.

- **Upside potential** – proprietary deal flow, expense savings initiatives, opportunities to enhance occupancy by creating pride of rentership, improve rent growth, strategic refinancing and disposition of select assets

- **Attractive growth markets** – strategic locations in areas with highest demand for affordable multi-family apartments and greatest constraints to new supply

- **Impact investing** – socially responsible investments (housing for middle-/lower-income families), without compromising strong current and total returns

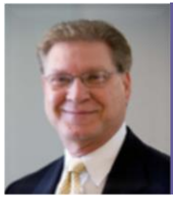
executive leadership team

Diverse, cycle-tested executive team led by Daryl Carter – an industry veteran with over 37 years of real estate expertise

Daryl Carter
Chairman / CEO
37+ yrs. experience

John Williams
President / CIO
36+ yrs. experience

Jun Sakumoto
President- Avanath Development LLC
26+ yrs. experience



Ron Juskiewicz
Vice Chairman / CCO
36+ yrs. experience

Camille Longino
COO

Ben Finley
SVP Acquisition

Nicolas Dunlap
SVP Property Mgmt

Ellen Guccione
EVP Risk Mgmt.

Wes Wilson
CFO

Pat Gaudin
SVP HR

Madeline Hall
SVP Asset Mgmt.

Ada Arevalo
VP Fund Mgmt.

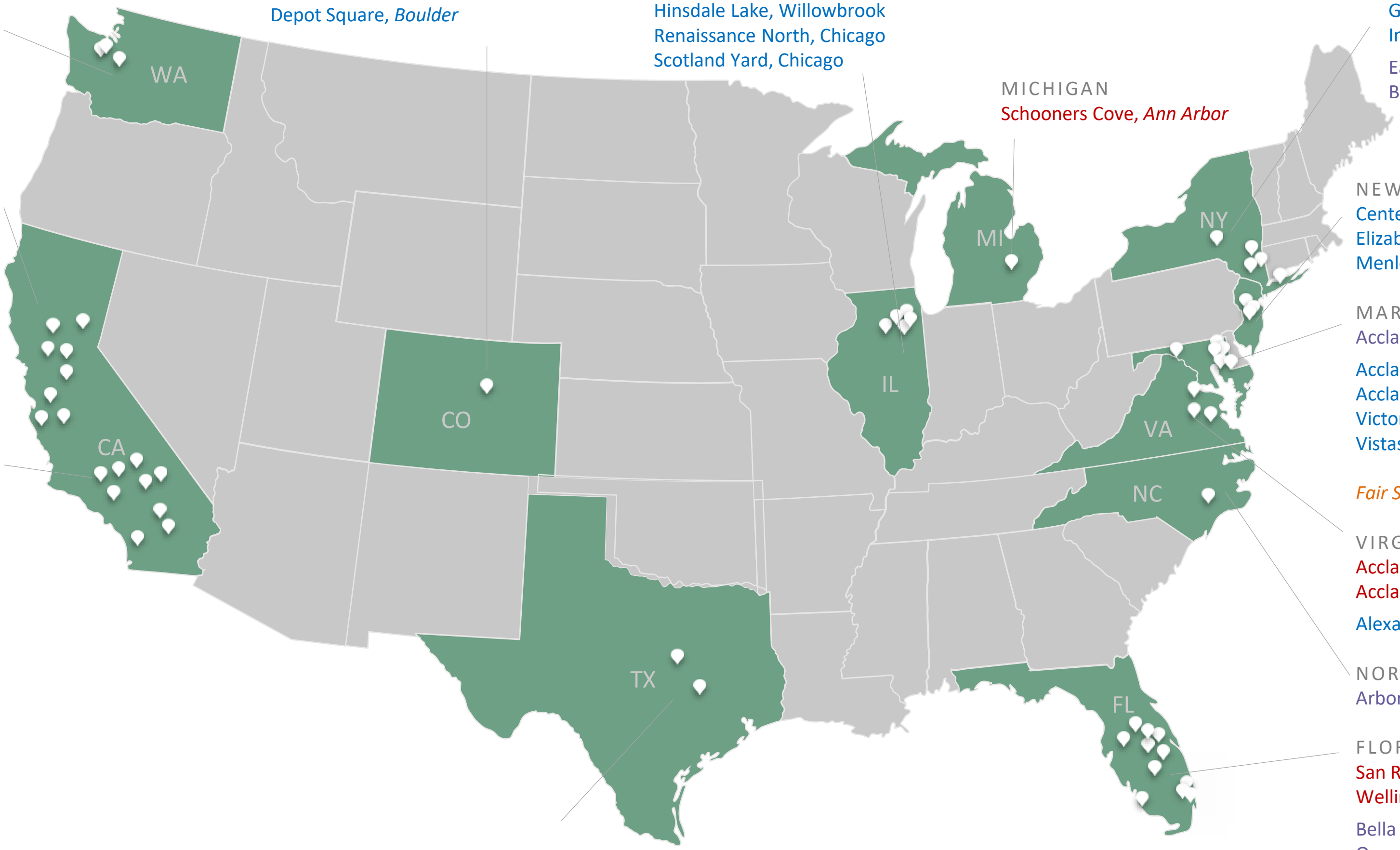
Kelly McBride
VP Compliance

Tanya Barnes
VP Finance

Malachi McKinney
VP Asset Mgmt.

Saul McDonald
VP Acquisitions

avanath footprint



WASHINGTON
Maple Crossing, *Maple Valley*
Silver Springs, *Seattle*
Lodge at Peasley, *Seattle*

NORTHERN CALIFORNIA
Renwick Square, *Elk Grove*
Sutter Terrace, *Roseville*
Natomas Park, *Sacramento*
Oak Village, *Oakland*
Woodcreek Terrace, *Elk Grove*
Sierra Creek, *Sacramento*
Geneva Pointe, *Elk Grove*
Lincoln Creek, *Dixon*

SOUTHERN CALIFORNIA
Heritage Park, *Duarte*
Hudson Gardens, *Pasadena*
Rancho Carrillo, *Carlsbad*
The Terraces, *Escondido*
Castelar, *Los Angeles*
Northpointe, *Long Beach*
Seaport Village, *Long Beach*
Woodside, *Ontario*
Huntington Breeze, Huntington Beach (PENDING)

COLORADO
Depot Square, *Boulder*

ILLINOIS
Country Wood, Naperville
Drexel, Chicago
Hinsdale Lake, Willowbrook
Renaissance North, Chicago
Scotland Yard, Chicago

MICHIGAN
Schooners Cove, *Ann Arbor*

NEW YORK
Brooklyn II & III Portfolios, *Brooklyn*
Grand Pointe, *Poughkeepsie*
Invincible Court, *Harlem*
Eagle View Court, *Middle Island*
Brooklyn I Portfolio, *Brooklyn*

NEW JERSEY
Centennial Court, *Wharton*
Elizabeth Towers, *Elizabeth (PENDING)*
Menlo Manor, *Edison*

MARYLAND
Acclaim at Germantown, *Germantown*
Acclaim at Largo, *Largo*
Acclaim at Victoria Manor, *Temple Hills*
Victoria Park, *Edgewater*
Vistas at Lake Largo, *Largo*
Fair Spring, Baltimore (PENDING)

VIRGINIA
Acclaim at Ashburn, *Ashburn*
Acclaim at Sterling, *Sterling*
Alexandria Station, *Alexandria*

NORTH CAROLINA
Arbors at Cary, *Cary*

FLORIDA
San Rocco, *Orlando*
Wellington Woods, *Kissimmee*
Bella Cortina, *Orlando*
Osprey's Landing, *Naples*
Ravenna, *Orlando*
Savannah I, *Gainesville*
Coral Isle, *Ft. Lauderdale*
Harbour Beach, *Ft. Lauderdale*
Harbour Pointe, *Ft. Lauderdale*
Savannah II, *Gainesville*
Brooke Commons, Orlando (PENDING)

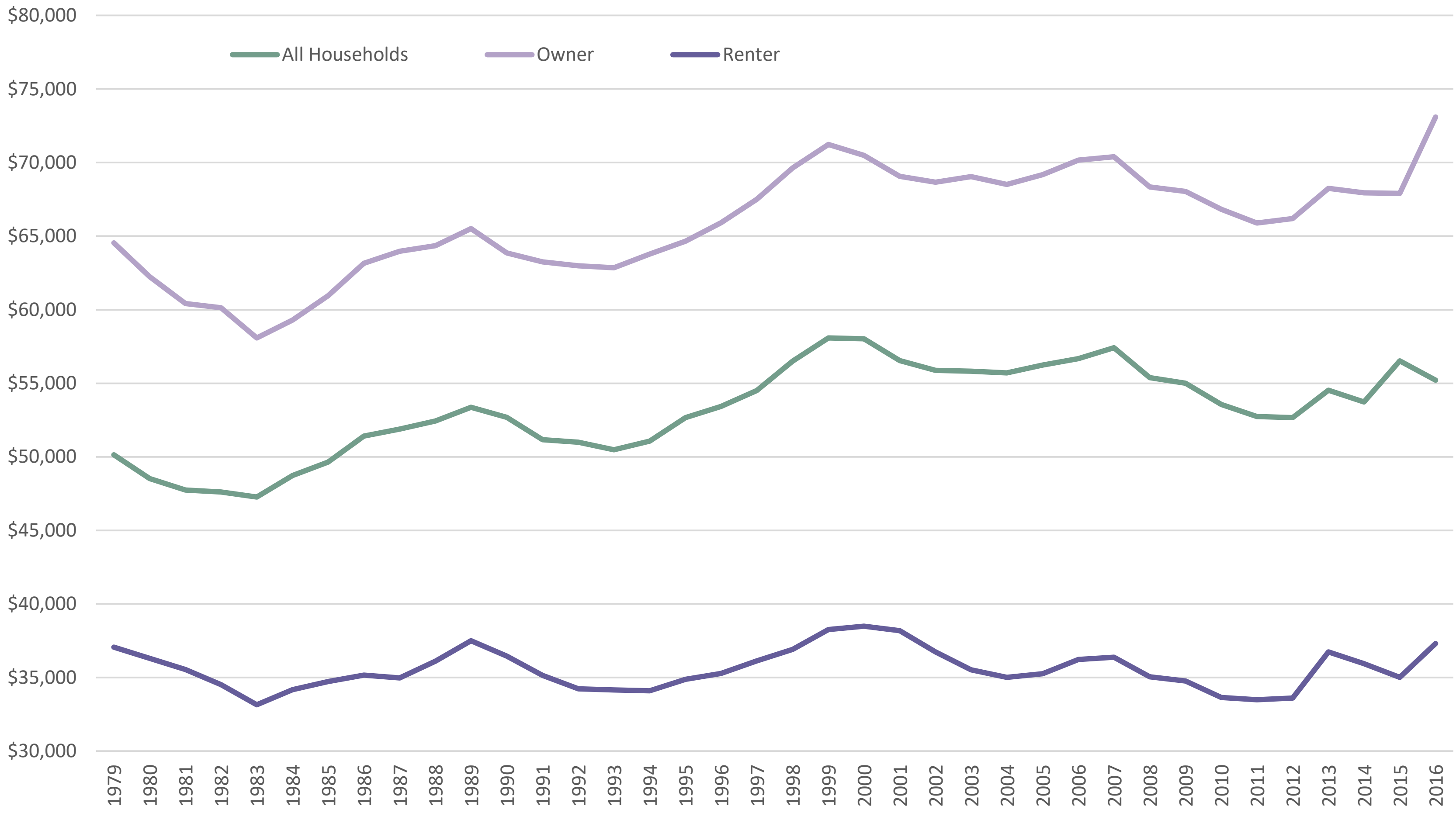
TEXAS
Cooper's Crossing, Irving
Blunn Creek, Austin

FUND I
FUND II
FUND III
FUND IV

affordable housing data

affordable housing data

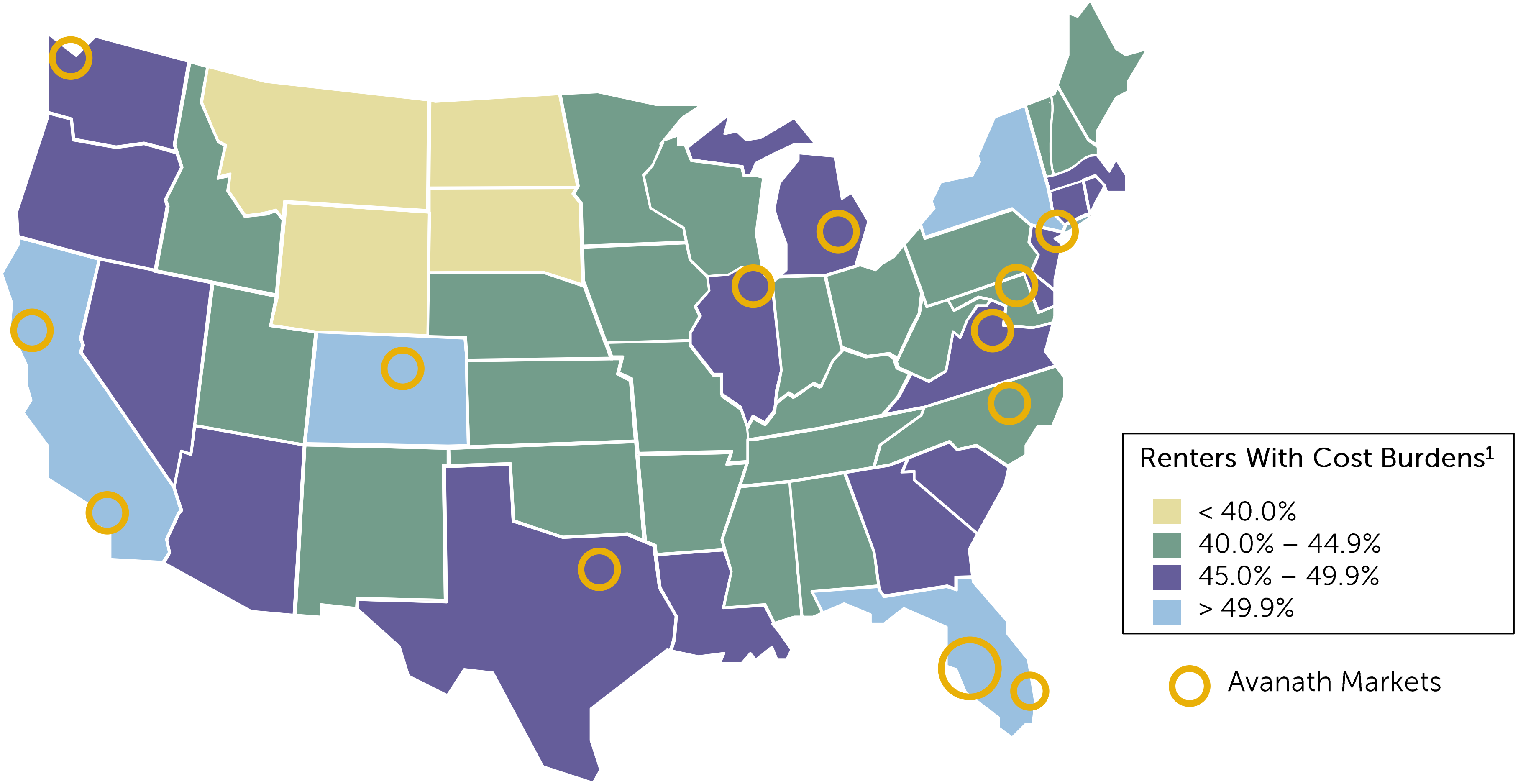
Median income of renters is $38,000



Source: Census Bureau; NMHC

affordable housing market

Avanath invests in markets where renters have high cost burdens

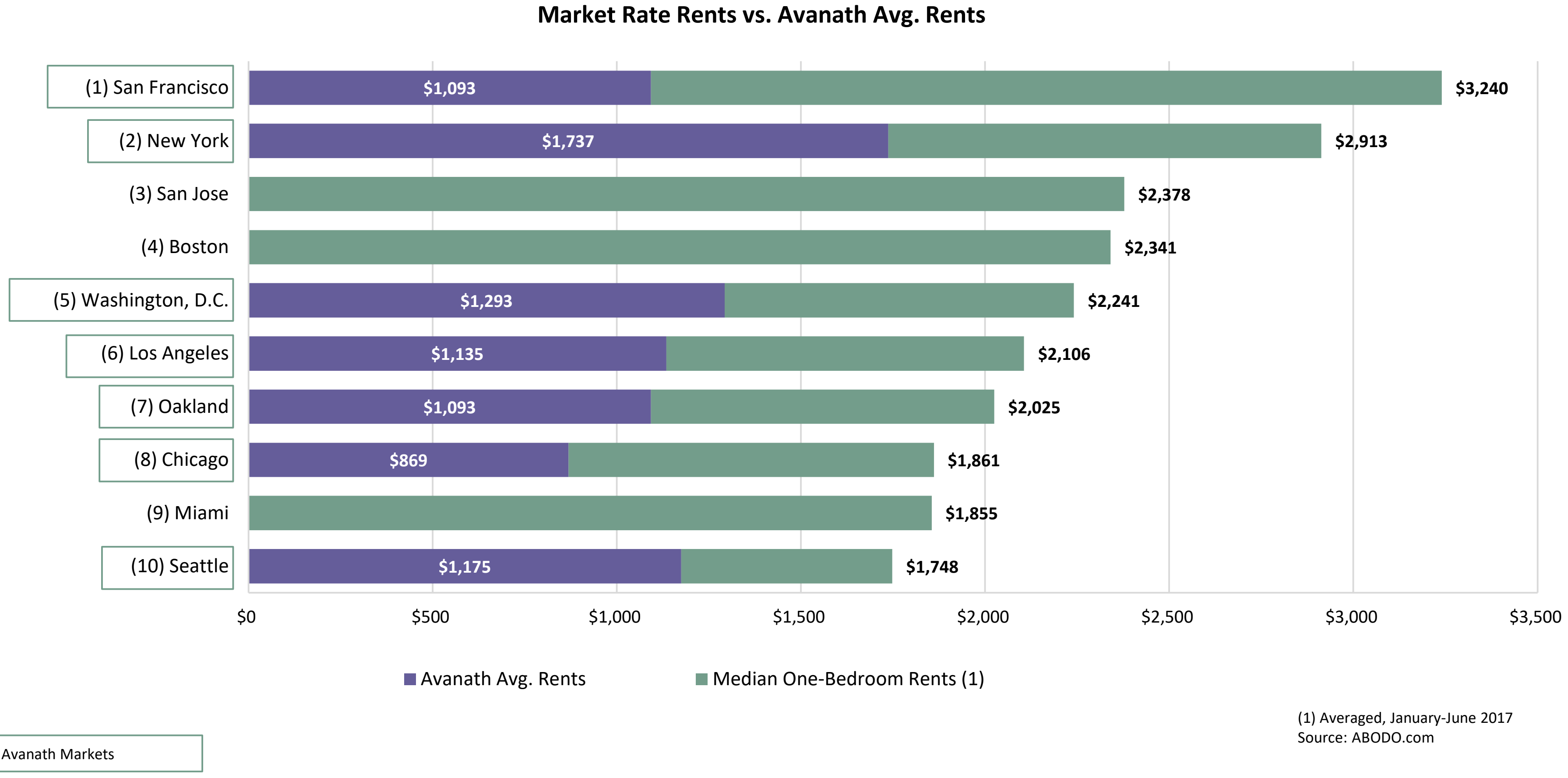


[1] Renters with Cost Burdens are defined to be households with housing costs that represent more than 30% of household income; source: JCHS tabulations of US Census Bureau, 2011 American Community Survey

affordable housing market

Avanath invests in markets where renters have high cost burdens

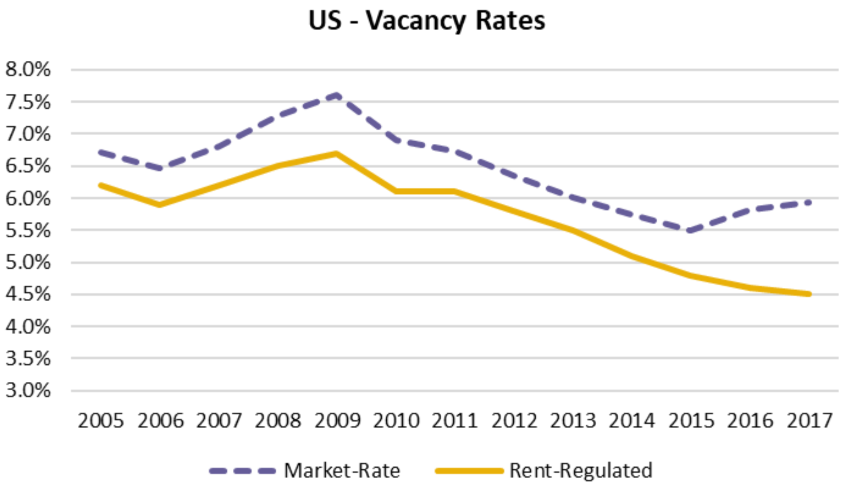
Top most expensive markets in the U.S

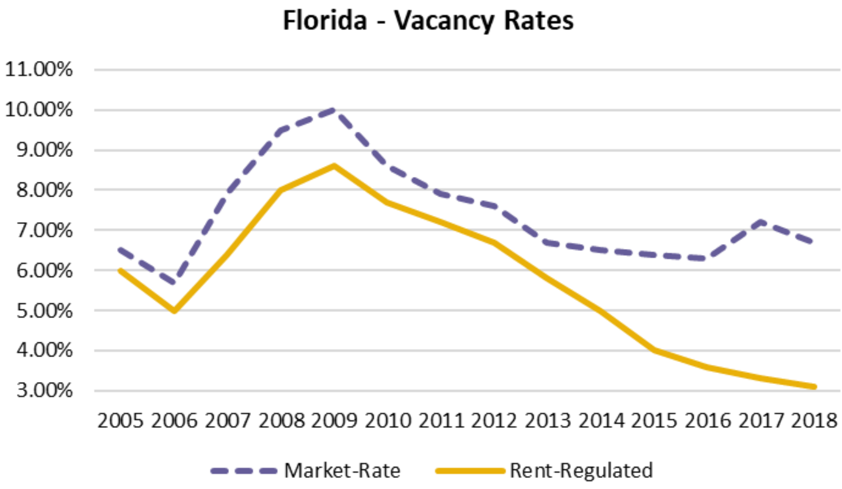


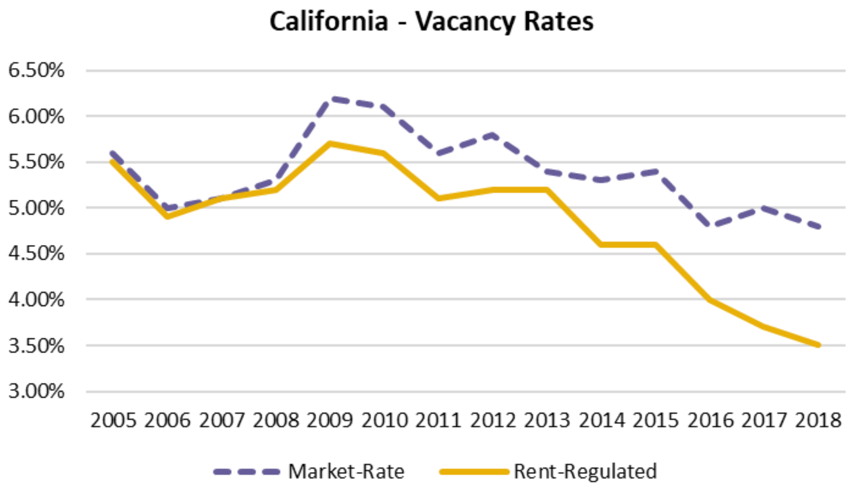
(1) Averaged, January-June 2017
Source: ABODO.com

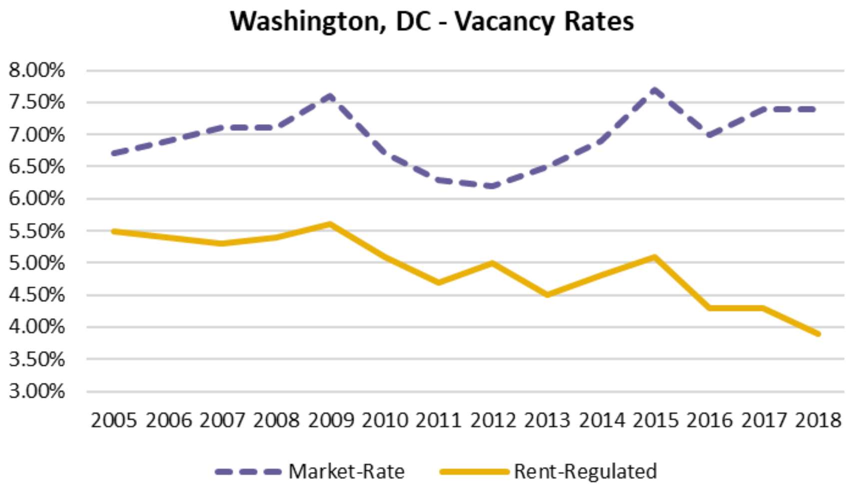
affordable housing market

High tenant demand leads to lower vacancy rates than conventional rentals









Source: Costar, September 2018

affordable housing market

A tale of two properties – market rate compared to affordable housing

The Emerson LA

Rent Levels: $2,800 - $5,000

Castelar Apartments

Rent Levels: $610 - $1,300

The Emerson LA is a luxury apartment building located 1 mile southwest of Castelar Apartments in downtown Los Angeles. The assets are a prime representation of the rental gap in major metropolitan areas.

portfolio case studies

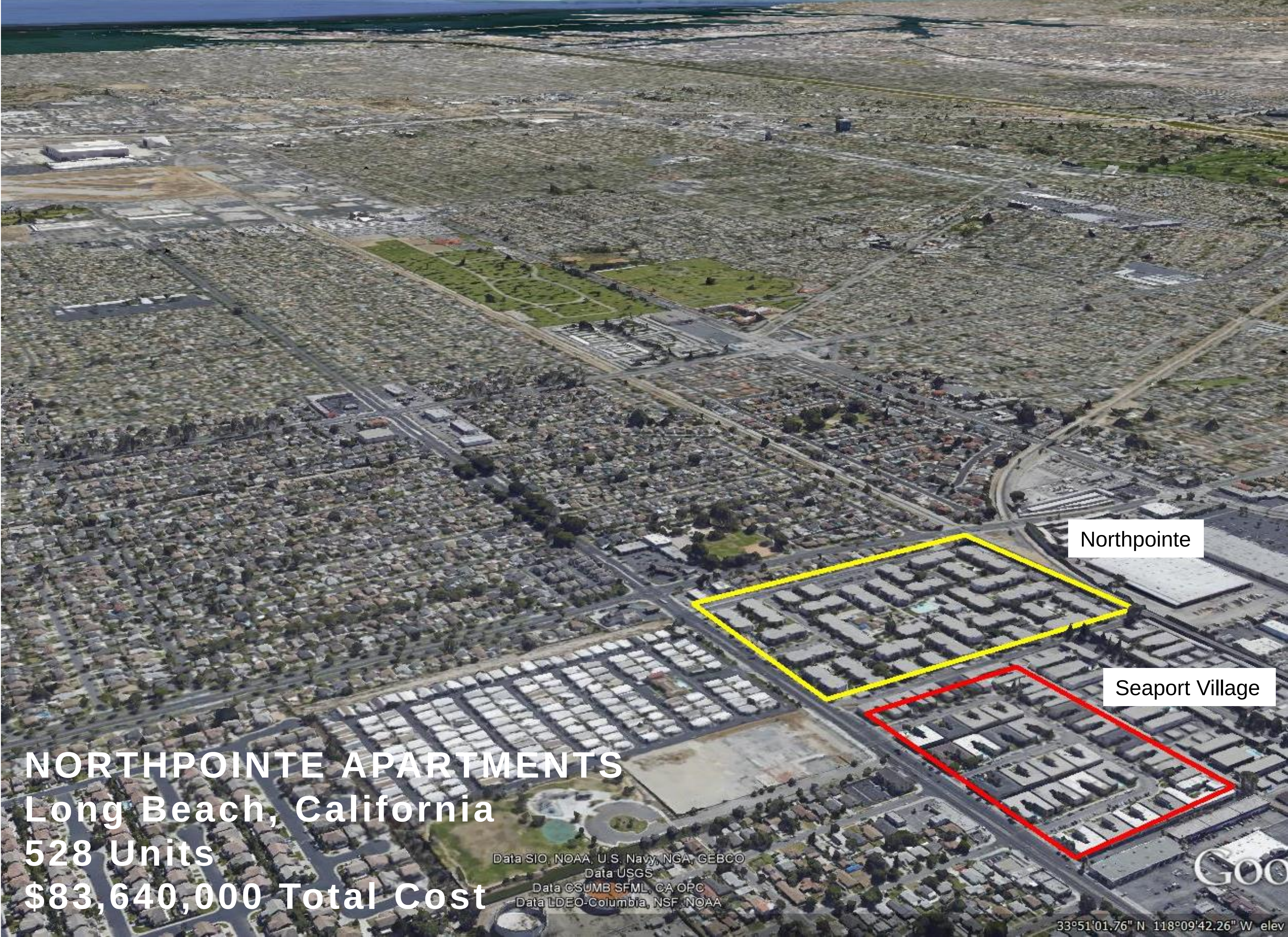

Bella Cortina
Orlando, Florida
304 Units
$34,110,167 Total Cost

bella cortina

Before	After

Before

After


Northpointe
Seaport Village
NORTHPOINTE APARTMENTS
Long Beach, California
528 Units
$83,640,000 Total Cost
Data SIO, NOAA, U.S. Navy, NGA, GEBCO
Data USGS
Data CSUMB SFML, CA OPC
Data LDEO-Columbia, NSF, NOAA
33°51'01.76" N 118°09'42.26" W elev

northpointe

Before	After
	
	

impact investing

impact investing

Responsible investment through social programs and environmental sustainability initiatives

Social Programs

- Senior activities & transportation services
- Job readiness & career workshops
- After school and summer youth programs
- Computer training
- Adult education classes

Environmental Initiatives

- Solar panel installations
- Drought tolerant xeriscaping
- LED light installations
- Members of the Principles for Responsible Investing as well as the California Organized Investment network.

PRI Principles for Responsible Investment

CALIFORNIA ORGANIZED INVESTMENT NETWORK
Insurers investing in a better California

health & wellness program

By 2030 all baby boomers will be older than 65

Avanath is working to develop protocols for residents to age in place

Recent studies show that a healthy lifestyle increases duration and quality of life.

- Fitness enrichment
- Nutrition education
- Health education & services
- Preventative health screenings

measuring impact

PERSONAL + PROFESSIONAL DEVELOPMENT

146 Personal and professional development workshops held

291 Residents participated in personal and professional development workshops

FITNESS + WELLNESS

724 Hours of senior and adult fitness

187 Residents participated in fitness and wellness services

COMMUNITY + CIVIC ENGAGEMENT

617 Residents participated in community and civic engagement services

851 In-kind donations by schools, businesses, and government agencies

YOUTH EDUCATION + ENRICHMENT

964 Residents participated in youth enrichment services

448 Hours of mentorship

girls basketball

measuring impact

Reimagining **IMPACT**

Doing Good and Measuring Good

A study conducted by Brad Christensen, Professor of Sociology at Biola University and Richard Flory, Senior Director of Research Evaluations for the USC Center for Religion and Civic Culture.

Civic engagement – increasing voter turnout

- 9.5% voter turnout in 2014 general election
- 50.4% voter turnout in 2016 general election
- 40.9% increase in 22 months of civic engagement initiatives

avanath+

LIFESTYLE WITHIN REACH

disclosure information

This confidential presentation has been prepared for use in the annual meeting of the members of Avanath Affordable Housing I, LLC, Avanath Affordable Housing II, LLC and Avanath Affordable Housing III, LLC (together, the "Fund") and does not constitute an offer to buy or sell or a solicitation of an offer to buy or sell interests in the Fund or any other securities. No reliance should be placed upon the contents of this presentation for the purpose of making an investment in the Fund or any other investment vehicle managed by Avanath Capital Management, LLC ("Avanath"). Investing in a fund includes significant risks, including loss of all of your investment.

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Certain information contained in this presentation constitutes "forward-looking statements," which can be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "target," "project," "estimate," "intend," "continue" or "believe," or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events or results may differ materially from the events, results or performance contemplated by such forward-looking statements.

No representation is made or assurance given that any statement of opinion and/or belief or any views, projections or statements relating to expectations regarding future events are correct, that the objectives of the Fund will be achieved or that investors will receive a return of their capital.

The statements made in this presentation are made as of the date hereof unless stated otherwise herein. While Avanath's valuations of unrealized investments are based on assumptions that Avanath believes are reasonable under the circumstances, the actual realized returns on unrealized investments will depend on, among other factors, future operating results, the value of the assets and market conditions at the time of disposition, any related transaction costs and the timing and manner of sale, all of which may differ from the assumptions on which the valuations used in the prior performance data contained herein are based. Accordingly, the actual realized returns on these unrealized investments may differ materially from the returns indicated herein. In considering the prior performance information contained herein, investors should bear in mind that past performance is not necessarily indicative of future results. The delivery of this presentation at any time shall not create any implication that the information contained herein is correct as of any time subsequent to the date hereof.

The projected returns included in this presentation are hypothetical returns. The projected returns have been prepared and are set out for illustrative purposes only, and no assurances can be made that they will materialize. Accordingly, no assumptions or comparisons should be made based upon these returns. Due to various risks and uncertainties, actual events or results or the actual performance may differ materially from those reflected or contemplated in the projected returns. The projected returns are based on assumptions believed to be reasonable in light of the information presently available to Avanath, but such assumptions (and the resulting analyses, and projected returns) may prove inaccurate, or may be subject to modification based on new or different information and as economic and market developments warrant, and such modification could be either favorable or adverse.

"Gross IRR" means an aggregate, annual, compound, gross internal rate of return on investments. In the case of portfolios of realized and unrealized investments, the Gross IRRs are based on realizations and internal valuations of Avanath as of the applicable date. Gross IRRs presented herein do not reflect management fees, carried interest, taxes, transaction costs in connection with the disposition of unrealized investments and other expenses that are borne by investors in each Fund, which will reduce returns and in the aggregate and are expected to be substantial. "Net" IRRs reflect all management fees, carried interest, transaction costs, and other expenses (other than taxes borne or to be borne by investors).

In particular, the projected returns have been prepared based on Avanath's current understanding of the intended future operations of the properties, its current view in relation to future events and financial performance of the properties and various estimations and assumptions made by Avanath and by the companies' management, including estimations and assumptions about events that have not occurred, any of which may prove to be incorrect. Therefore, the projected returns are subject to uncertainties, changes (including changes in economic, operational, political or other circumstances or the management of the companies) and other risks, including, but not limited to, the impact that market and economic risks may have on exit strategies, broad trends in business and finance, legislation and regulation affecting the companies, monetary and fiscal policies, interest rates, inflation, currency values, market conditions, the availability and cost of short-term or long-term funding and capital, all of which are beyond Avanath's control and any of which may cause the relevant actual, financial and other results to be materially different from the results expressed or implied by such projections. Industry experts may disagree with the projected returns, the estimations and assumptions used in preparing the projected returns or Avanath's view or understanding of the companies. No assurance, representation or warranty is made by any person that any fund will reflect any particular performance or that it will achieve or is likely to achieve any particular result or that investors will be able to avoid losses, including total losses of their investment. The actual returns on a disposition of the portfolio investments referred to herein may be either greater or less than illustrated herein, and you should not rely on the projected returns. While Avanath believes that its assumptions are reasonable, Avanath cautions that it is very difficult to predict the impact of known factors, and, of course, it is impossible for Avanath to anticipate all factors that could affect actual results.

Truth in Testimony Disclosure Form

In accordance with Rule XI, clause 2(g)(5)*, of the *Rules of the House of Representatives*, witnesses are asked to disclose the following information. Please complete this form electronically by filling in the provided blanks.

Committee: Committee on Financial Services

Subcommittee:

Hearing Date: April 30, 2019

Hearing Subject:

"Housing in America:Assessing the Infrastructure Needs of America's Housing Stock"

Witness Name: Daryl Carrter

Position/Title: Fonder, Chairman and CEO of Avanath Capital

Witness Type: ○ Governmental ● Non-governmental

Are you representing yourself or an organization? ○ Self ● Organization

If you are representing an organization, please list what entity or entities you are representing:

The National Multifamily Housing Council and the National Apartment Association

If you are a non-governmental witness, please list any federal grants or contracts (including subgrants or subcontracts) related to the hearing's subject matter that you or the organization(s) you represent at this hearing received in the current calendar year and previous two calendar years. Include the source and amount of each grant or contract. *If necessary, attach additional sheet(s) to provide more information.*

Avanath Capital Management is active in the ownership and operation of affordable apartment communities. Funds sponsored by ACM own apartment projects which benefit from Section 8 vouchers and HAP contracts with the Department of Housing and Urban Development, have been financed by low income housing tax credits and/or tax exempt bond financing and are subject to regulatory agreements related to the same.

If you are a non-governmental witness, please list any contracts or payments originating with a foreign government and related to the hearing's subject matter that you or the organization(s) you represent at this hearing received in the current year and previous two calendar years. Include the amount and country of origin of each contract or payment. *If necessary, attach additional sheet(s) to provide more information.*

False Statements Certification

Knowingly providing material false information to this committee/subcommittee, or knowingly concealing material information from this committee/subcommittee, is a crime (18 U.S.C. § 1001). This form will be made part of the hearing record.

Witness signature

4/26/19

Date

If you are a non-governmental witness, please ensure that you attach the following documents to this disclosure. Check both boxes to acknowledge that you have done so.

☑ Written statement of proposed testimony

☑ Curriculum vitae or biography

*Rule XI, clause 2(g)(5), of the U.S. House of Representatives provides:

(5)(A) Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof.

(B) In the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include a curriculum vitae and a disclosure of any Federal grants or contracts, or contracts or payments originating with a foreign government, received during the current calendar year or either of the two previous calendar years by the witness or by an entity represented by the witness and related to the subject matter of the hearing.

(C) The disclosure referred to in subdivision (B) shall include—

(i) the amount and source of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) related to the subject matter of the hearing; and

(ii) the amount and country of origin of any payment or contract related to the subject matter of the hearing originating with a foreign government.

(D) Such statements, with appropriate redactions to protect the privacy or security of the witness, shall be made publicly available in electronic form not later than one day after the witness appears.