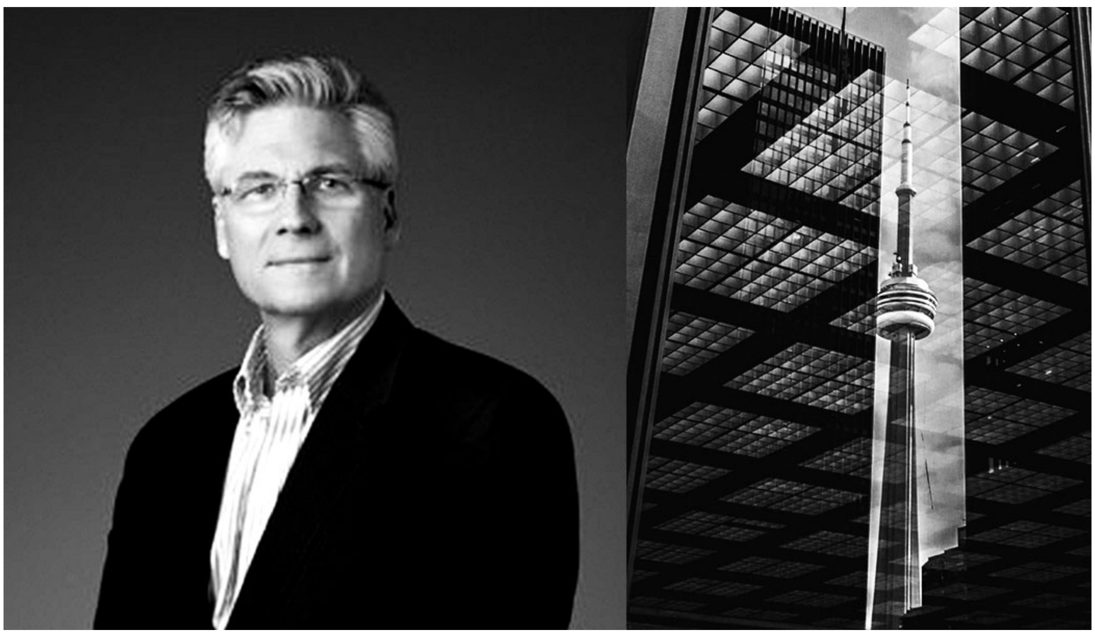
Carmo Companies & Family Office Real Estate Magazine presents:

An interview with Kenneth Munkacy



Kenneth Munkacy, Senior Managing Director of Kingbird Properties and Speaker at the Upcoming Canada Latin America Real Estate Meeting.

May 9, 2018

Q: Can you tell us a little bit about the Family Office you work for?

Answer: Kingbird Properties is the real estate investment management subsidiary of Grupo Ferré Rangel ("GFR"), a 4th generation family office based in San Juan, Puerto Rico. GFR owns and operates a diversified portfolio of businesses including media, real estate, costomer engagement and digital marketing. GFR's legacy dates back to 1918 and includes Luis A. Ferré, an MIT graduate and Governor of Puerto Rico (1968-1972); his son, Antonio Luis Ferré Ramirez de Arellano, an Amherst College and Harvard Business School graduate, listed the first Puerto Rico company on the New York Stock Exchange, also serving as its president (1982-1990). Since 2008, GFR has invested $500 million in approx. 3,500 residential units, office buildings and warehouses in the U.S. and South America. GFR is building upon a tradition of entrepreneurial and diversified enterprises to establish a similarly diversified investment portfolio that generates superior risk-adjusted returns.

Q: Can you tell me about the objectives of the family office in the real estate space?

<u>*Answer:*</u> Kingbird Properties objective is to be premiere family office investment manager by consistently generating compelling cash flow returns and long-term value by creating partnerships with leading vertically integrated local real estate operating companies. Kingbird sources, acquires and asset manages a diversified multifamily investment portfolio, using GFR's own capital and working with other family offices and investors to create partnerships to acquire multifamily assets. Our focus is on sourcing risk-adjusted opportunities in secondary and tertiary U.S. markets and in Latin America that have growing demand, particularly for workforce housing. We then create value through thoughtful investment in capital improvements, repositioning properties, and collaborative property management arrangements with local operating partners.

Q: And How about your background?

<u>*Answer:*</u> As Senior Managing Director of Kingbird Properties, I am responsible for creating and implementing its investment strategy, acquisitions, joint ventures and investment management platform in the U.S. and Latin America. I have more than 25 years of real estate experience in 15 states and 12 countries. From 2007 to 2017, I served as senior vice president of GID Investment Advisers LLC, a real estate investment/operating company with over 25,000 units and $12 billion in assets; I also served as a senior managing director of GID International Group, where I was a member of GID's Executive Committee and was responsible for GID's international real estate investments, joint ventures and portfolio companies. Previously, I was a managing director, Asia at Starwood Capital Group (Tokyo); senior managing director of GE Capital Europe (Prague,); and managing director at TrizecHahn Asia Pacific (Hong Kong). Prior to this, I headed the acquisitions/development group at Golub & Co., a large Chicago family-owned real estate owner/ operator, where I acquired approximately 19,000 residential units in ten states representing over $850 million in value.

Q: In the course of your career, you've worked for major publicly listed companies like GE Capital and large global investment funds like Starwood Capital, as well as for major family offices. What do you see

as the principal differences between them?

Answer: Public companies tend to be overly quarterly earnings driven, with generally shorter investment horizons, which does not fit well for the real estate asset class. Because real estate can be monetized relatively quickly, it's often used as a way to boost short-term earnings. Fund managers usually have a seven-year window in which to commit their capital and harvest it, which creates artificial constraints in the investment cycle and tends to create enormous pressure to invest fast, resulting in "buy and flip" tactics. Many investments do not get sufficient time to fully mature and realize the full value. By comparison, I have found that family offices, because they are generally long-term investors, can look through short-term cycles and get better, more consistent returns because they're not pressured to spend and harvest their capital in order to accommodate quarterly earnings reports or skewed institutional fund cycles. In addition, I find that family offices can be more nimble and flexible in response to market changes and new opportunities.

Q: You recently left a large family office after 11 years to join another one. What led to this move?

Answer: Several factors influenced my decision. Grupo Ferré Rangel, a fourth-generation 100-year-old family office based in Puerto Rico, wanted to diversify their investment portfolio to include more real state in the US and South America; they were particularly interested in expanding their value-add rental apartment investment portfolio in secondary markets where prices are lower and cash flows are higher. They also wanted to bring in other family offices from Puerto Rico and Latin America and create a multi-family family office. The opportunity for me is to grow the apartment portfolio and to build an investment management platform. Throughout my career, I've been good at building and/or expanding investment platforms. Hence, I felt I could add significant value to this strategy and that my capabilities, experience and network are well-suited to execute this specific opportunity. I also really liked the values and culture of the Ferré Rangel family, centered on transparency, collaboration, entrepreneurship, investment partnerships and community philanthropy; they have successfully evolved into a fourth-generation family office and have created a dynamic investment holding company centered around multi-media companies, customer engagement and real estate.

Q: With your focus of building out a multifamily portfolio, many feel that the market is overheated and that any purchases would be towards the top of the market. What is your feeling on that?

Answer: Coastal gateway cities with global renown have dominated the multifamily building boom of the past decade. High-end luxury development in primary markets on the coasts – and Chicago on the "third coast" – have been inundated with new units and institutional capital. Sophisticated private investors such as family offices have been crowded out of gateway markets, edged out of many deals by major institutional investors and foreign capital. This wall of capital has driven up prices and lowered yields. Many privately held investors have begun to wonder: where do we go from here? The answer for many lies in the robust activity now taking place in secondary and tertiary markets. And there's even more coming in 2018 and beyond, as a result of continued low-interest rates (even in spite of the recent modest rate hike), increasing price disparity and improving valuations.

Additionally, with younger and older, and lower- and higher-income people all coming into the renter pool, people in the middle are being squeezed in the availability and affordability of apartments. According to CoStar, this "rentership society" is expected to grow by more than 7 million through 2025, and 80 percent of the renter demand, representing over 5 million units, is from renters with incomes less than $75,000 – the "renters by necessity." These "renters by necessity" make up the lesser-known but increasingly important – and potentially lucrative for investors – workforce housing segment. Workforce housing is distinct from affordable housing, targeting middle-income families and individuals with good quality rental units that are in a lower rental class than the luxury class A and A+ new construction buildings. The class B and C multifamily buildings that comprise workforce housing offer good fundamentals for investors – steady demand, low vacancy rates, and the ability to incrementally raise rents with low capital expenditure on improvements.

At Kingbird Properties, our investment strategy has been focused on identifying growing submarkets that have a need for housing that meets the needs of the middle – Millennials who don't have the capital or desire to own a home, young families who are saving to buy, and Boomers who are downsizing. The multifamily sector continues to be a compelling investment for institutional investors, real estate investment companies, and family offices, as the country sees a demand for affordable rental housing for middle-income families that are unable, or unwilling, to purchase a home.

Q: Is the family currently investing in Latin American Real Estate? If so, where, which markets, which asset classes? Where do you see the opportunity?

Answer: Yes, our objective is to expand the current portfolio in the US as well as in South America. In the US, the focus is on value-added workforce apartments in secondary markets, where we can buy below replacement costs and have going in 6% to 8% cash yields and generate 11% to 18% leveraged IRR returns with a 2X multiple. We will invest as limited partners or Co-general partners or do mezzanine and preferred equity positions as well. Our strategy in both the US and South America is to be an asset allocator and to form joint ventures with best in breed vertically- integrated local operating partners who can manage the day-to-day property operations. Kingbird serves as an asset manager where we source deals, underwrite and structure the joint ventures, and add value as the asset manager on behalf of our investors. In Latin America and South America, we have done student housing in Chile and mixed-use office, warehouses and parking facilities in Puerto Rico. We will pursue market-rate rental apartments and student housing in Mexico and Colombia going forward and do some more in Chile as well. I've invested in South America over the past decade and think there are tremendous risk-adjusted return opportunities in the rental apartment sector.

Q: What is your strategy for the properties? Find, add value and sell, or hold and if holding for how long?

Answer: Kingbird targets the renter by necessity workforce apartment segment in selected high growth and barrier to entry markets. The Kingbird investment strategy is focused on the workforce housing and student-housing sectors in select markets. Our investment strategy is rooted in research and driven by a long-term ownership perspective and investment horizon. We deploy a research-driven investment strategy that capitalizes market dislocation and mispriced risk. Kingbird seeks a portfolio diversified by geography, product and renter profile. We seek risk-adjusted opportunities in secondary and tertiary U.S. markets and in Latin America that have growing demand, particularly for workforce housing. We use our own capital first and seek partners in our real estate investments by forming partnerships with third-party investors, other family offices and local operating partners. We create value for our investment partners through thoughtful investment in capital improvements, repositioning properties, and collaborative property management arrangements with local operating partners.

Q: From your perspective where do you feel we are in the cycle and what do you see happening over the next 5 years in the real estate market?

Answer: The US continues to generate strong economic and job growth; the unemployment rate is now at 3.9%, the lowest level since 2000. The US has had 91 straight months of job growth. This indicates that strong economic fundamentals are intact. Payrolls increased in April by 160,000 jobs, which shows continued confidence in the economy by investors and companies. In addition, the US passed a major tax reform law that helps the real estate and rental apartment sectors; meanwhile, interest rates still remain relatively low by historical standards. All this reinforces continued investments in real estate.

Although the macro market fundamentals of the US economy remain strong, Kingbird is cautiously optimistic at this point in a long economic cycle. Right now, we feel it's important to structure deals with greater downside risk protection – like using less debt, limiting heavy capital improvements and preferring to invest in deals with sustainable going- in cash flow. We tend to look at smaller deals, with the total cost between $10 million and

$40 million, with smaller equity amounts between $1M and $15M, rather than doing larger scale investments with greater risk exposure and concentrated positions. As a final point, I think the headline risks and political static create some volatility, but the true signals of the US apartment market, particularly in the middle-income sector, remain fundamentally strong and are undersupplied; as a result, this will generate compelling returns on a risk-adjusted basis going forward.

Q: This is going to be your first experience of attending a Carmo Event. There are many events/conferences why are you choosing to attend the upcoming Toronto event and what do you expect to gain from going?

Answer: I've known the founders of Carmo for many years and recognize that they have a tremendous network that they can attract, from all regions of North and South America. Unfortunately, I was unable to attend the Dallas event because my mother was in the hospital, but I had five or six friends attend and all of them said it was a tremendous event – including one who flew in from London and said it was worth the trip! There were strong endorsements all around and I anticipate that Toronto will enjoy the same success. My objectives in Toronto are to find new investment opportunities where we can deploy our capital and continue to diversify our portfolio. As a multi-family office, it's important to cull as many investment opportunities as we can, and it's more efficient to do so in one city and in one location. In this light, the Toronto event is perfectly suited for this.