INTRODUCTION - OREAD CAPITAL & DEVELOPMENT

Investing in Value.
Developing Value.
Protecting Value.
Oread Capital Colorado Portfolio
ANTHEM COLORADO
ANTHEM COLORADO
INSPIRATION COLORADO

Rendering Only, Subject to Change
The ‘Capital C’ Community
Oread Activity – Founding to Present

- **December 2011: Oread acquires Anthem Colorado, Broomfield (1,500 remaining lots)**
  - Seller: Pulte Homes (all-cash)
  - Financial Partner: Wheelock Street Capital
  - Oread developed & operated for 3 years; sold to Newland Communities in March 2015
- **December 2012: Oread acquires Provenance, NE Longmont (227 lots)**
  - Seller: Mile High Bank (purchased defaulted note)
  - Financial Partners: 2 non-Oread individuals
  - Oread repositioned plat (eliminated TND) sold entire subdivision to Lennar Homes in July 2014
- **April 2013: Oread acquires Somerset Meadows, SW Longmont (350 lots)**
  - Seller: Bankruptcy Estate (all-cash)
  - Financial Partner: Wheelock Street Capital
  - Oread: Entitled and Platted 4 Filings; Sold the Filings to 4 different homebuilders from 2013-2016
- **January 2014: Oread acquires Rocking Horse (Inspiration), Douglas County (1,750 lots)**
  - Seller: Lennar Homes and a local JV (cash and other consideration)
  - Financial Partner: Wheelock Street Capital
  - After extensive entitlement and development, sold to Newland Communities in March 2015
- **December 2015: Oread acquires The Canyons, Castle Pines (2,000 lots)**
  - Seller: a partnership containing various parties, including the Alpert family (cash and other consideration)
  - Oread simultaneously sells The Canyons to Shea Homes
THE CANYONS AT CASTLE PINES

CASTLE PINES, DOUGLAS COUNTY, COLORADO
LOCATOR MAP
AERIAL VIEW – SOUTH VIEW

The Canyons
**South Suburban Submarket Overview**

### MERIDIAN & STEPPING STONE
- Shea, Richmond American, KB
- $455K ASP
- 260 Net Sales in 2014
- 251 VDL (12 Months); 939 Future Lots
- HEIRLOOM
  - Standard Pacific
  - $538K ASP
  - 52 Net Sales in 2014
  - 123 VDL (12 Months); 0 Future Lots
- SIERRA RIDGE (new)
  - Meritage, Lennar
  - $485K ASP
  - 101 Net Sales in 1H2015 (Jan - June 2015)
  - 278 VDL (20 months); 554 Future Lots

### NORTH DOUGLAS SUBMARKET
- Few Remaining Projects
- $905K Detached ASP
- 258 Starts in 2014
- 272 VDL (15.5 Months)

### DOUGLAS-PARKER SUBMARKET
- Move-up production homes
- $477K Detached ASP
- 727 Starts in 2014
- 1,514 VDL (24.1 Months)

### BACKCOUNTRY
- Shea, Paragon
- $852K Detached ASP
- 91 Net Sales in 2014
- 114 VDL (12 Months); 170 Future Lots

**Note:** Data from 2Q15 Metrostudy; for Detached Homes only; no Attached Homes included.
DENVER MSA COMMUNITY DEVELOPMENT: THE GOOD

• **Colorado is a Brand**
  - CO is #1 craft brewing in US. We're cool.
  - Marijuana is a positive and negative, but it certainly is shaping the Brand

• **Robust Job Growth:** “Homes are where Jobs Go to Spend the Night”

• **Demographics Drive Demand**
  - Millenials: Colorado now first choice among 25-34 year olds
  - Millenials: They are going to have kids and move to suburbs (maybe suburban infill).
  - “Nearly 22 million more people were renting in MSA’s around the U.S. in 2014 than in 2006 and **much of that increase was driven by growth in suburban renters**…” WSJ, 3/10/16, citing NYU’s Furman Center Study. The increase in rentership rate has peaked, and was largely driven by repairing (and building) of consumers’ balance sheets.
  - Boomers: Boomers have all the money – wealthiest generation ever. Nationally, 10,000 boomers a day turn 65. 12,000 Millenials turn 30 every day. People mostly likely to buy houses at those ages. The difference is that Boomers actually have the money to buy those homes.

• **Cheap, cheap, cheap capital** (home mortgages, development/building loans, equitys)

• **Denver/Boulder is under-housed** by approx. 60,000 homes (T. Thibodeau, CU Boulder)
DENVER MSA COMMUNITY DEVELOPMENT: THE BAD

• **Low Volumes:** with all the Good factors, how in the world are we still below the long-term Denver/Boulder average for SFD construction? Approximately 10,000 permits in 2015 (vs. approx. 12,000 long-term average).

• **Cost Increases:** Since 2013, hard costs, soft costs, fees, water, etc. have increased the total costs of a SFD home by approximately 50%. If increased land/lot prices are included, total costs have increased nearly 60% per house. As a result, **new single family detached homes are an average of $500,000** (and the ‘A & B’ locations are absorbing the price increases). However, the builders are not making any higher margins than in 2013! This has resulted in a **low-volume, flat-margin environment concentrated in A & B submarkets.**

• **Affordability:** Denver MSA Housing prices threaten growth - our median price is 50% higher than US.

• **Builders taking Development Risk – and they’re not getting paid for it:**
  • Land developers like Oread able to shift risk in this 'good market' by selling platted and engineered lots (undeveloped).
  • Typically developers still have to develop spine/master infrastructure, but in some cases (Colliers Hill, Sterling Ranch), the builders are essentially funding or actually CONSTRUCTING the master infrastructure as well.
  • Builders are now self-developing 80% of their lots, taking on incremental development risk, and not being paid for it, as their margins are not reflecting development profit (in addition to building profit).
For the cities below, median single-family home resale prices today are on average 4.6 times the median household income, up from 3.5 in 2000 but down from 5.5 in 2005.

Source: Moody’s; RCLCO. Note: Historical average is for the set of cities surveyed here, not the U.S. overall.
DENVER MSA COMMUNITY DEVELOPMENT: THE BAD

- Municipalities have NO CLUE that these aren't the 'good old days':
  - Aggressively increasing fees (impact fees, building fees, water fees, sewer fees)
  - Pushing code and architectural upgrades
  - Ivy Zelman estimates Denver is now among 5 worst MSA’s in U.S. for longest entitlement/approval timelines.
  - Common municipal wisdom: 'residential development costs the city money, while commerical development makes the city money'. Community development and homebuilding regarded as a 'necessary evil.'

- Other Fixed Costs in addition to Municipal Fees are too High:
  - Standard Operating Procedure is to sub-excavate each lot (or build structural foundations) to avoid getting sued on foundation issues.
  - Every house in CO has to have a basement (buyer psychology).
SUMMARY

• So....the high fixed costs in Denver MSA prevent building anything but move-up product in the strongest submarkets. The attainable house is a rare sight indeed in the Metro area these days other than in distant exurban locations, and even then it is rare unless the land is legacy land (land that has been owned at a low basis for a long time, e.g. Oakwood’s Green Valley Ranch).

• In summary, it has been a great cycle to be a land holder and/or developer in strong submarkets but not that great to be a builder.

• The imbalance of supply and demand for attainably-priced homes can only last so long. I think this resolves itself in a few possible ways:
  • Denver homebuilding/development industry will figure out a way to deliver attainable houses to the surge of Boomers and Millenials, by increasing density (construction defect legislative reform) and/or cooperation by municipalities with fees, etc.; or
  • Denver will become like San Francisco where home ownership is realistically only feasible for upper middle class move-up / luxury buyers.
Missing middle housing is “a range of multi-unit or clustered housing types compatible in scale with single-family homes that... provides a solution to the mismatch between the available U.S. housing stock and shifting demographics combined with the growing demand for walkability.”

Source: RCLCO; Opticos Design