

# CREATING HOUSING FOR THE MISSING MIDDLE

September 2022

The Middlemarch Fund  
Civic Communities

Middlemarch Fund III

# THE NEED FOR MIDDLE INCOME HOUSING

- San Diego is the least affordable city in the nation.
- Over one million (1/3 of) San Diegans are 'middle income' – earning too much for government-subsidized affordable housing, yet unable to afford current market rents.
- San Diegans spend on average 85% more income on housing than recommended by the US Dept. of Housing and Urban Development.
- Families must choose between paying rent, having healthcare, higher education, saving for a home, or leaving San Diego altogether.
- Often, families occupying publicly-subsidized affordable housing stay long past the originally intended term and are forgoing promotions to do so, thus exacerbating the housing crisis – particularly for extremely low-income San Diegans.

# WHO ARE THE MISSING MIDDLE?

San Diego Average Salaries



M  
MIDDLEMARCH  
FUND

Source: US BLS, San Diego Occupational Employment Statistics, May 2021 and Payscale and Univstats.com



Head Cooks

\$60,670



Paralegals

\$70,920



Firefighters

\$80,990



Elementary  
School Teachers

\$86,470



Accountants  
and Auditors

\$92,840



Associate  
Professors

\$104,434

# Middlemarch Overview

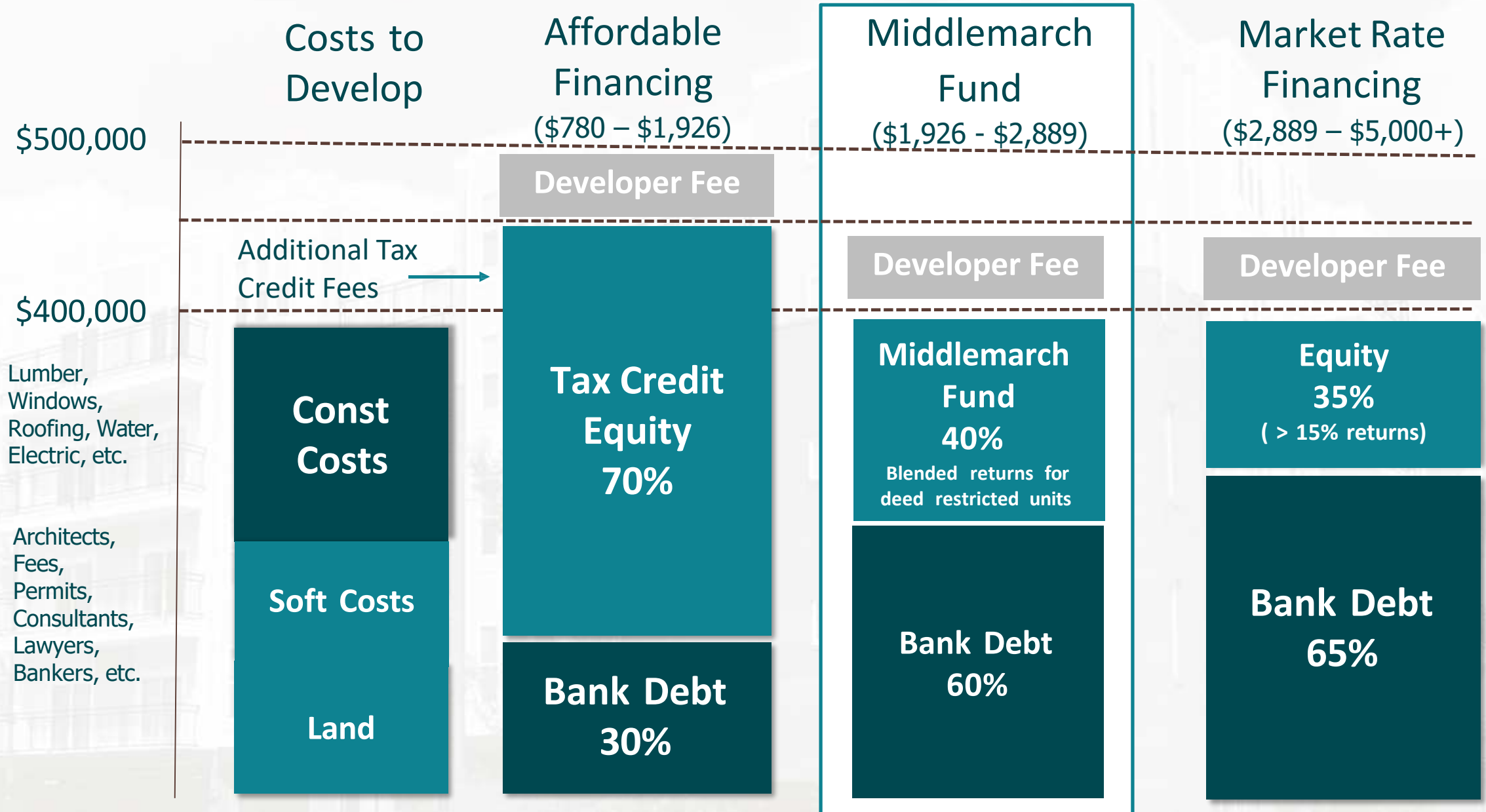
Middlemarch invests social impact funds into the new construction of market rate apartment buildings at a reduced interest rate to the developer - in exchange for a 30-year deed-restriction (between 80% - 120% AMI) on a portion of the new rental homes.

This creates three decades of affordability for San Diego's work force as well as true mixed-income communities within San Diego County's employment areas.

Relieves pressure on the subsidized San Diego housing portfolio (**~99% occupied**) with an average tenure in excess of **10 years**.



# EXISTING FUNDING MECHANISMS VS MIDDLEMARCH



# THE OPPORTUNITY

## Investment in Middlemarch Fund III

- Increments of \$500,000
- Five-year term (with one year extension option)
- Each \$500,000 creates approximately 7 rental homes (opportunity for an additional 7 if funds are recycled within five-year term)\*
- Each rental home will stay affordable to residents who earn 80% - 120% of the Area Median Income for a minimum of 30 years
- Targeted annual returns of 6-7% are paid back to the Investors after five years, or rolled into next Fund if desired

## Grant for Operating Capital – Need for office space in QCT

- Ability to grant through 501(c)3 with our CDFI partner Civic Communities

\* Assumes \$75,000/unit



# PORTFOLIO ASSUMPTIONS AND INVESTMENTS

## Investment Timeline:

5 Year Term (With Option for One Year Extension)

## Projected Portfolio Returns:

- Portfolio Level Returns (Net of Fees): 6-7%
- Portfolio Level Multiple: 1.30-1.35x

## Asset Management Fee:

- Less Than \$5,000,000 3.00%
- Less Than \$10,000,000 2.50%
- Greater than \$10,000,000 2.00%

## Investment Specifics:

- Preferred Equity Investment paid back immediately after bank debt is repaid.
- Middlemarch equity requires an 8% return from developers.
- Middlemarch investments are not for pre-development.

Projected returns are based solely on assumed amounts of invested capital, cash inflows, cash outflows including fees and expenses and a full return of invested capital, and an assumed preferred return paid thereon. All projected cash flows, with respect to both timing and amounts, are estimated by the Manager in good faith. There can be no assurance that actual cash flows will match projections either in timing or amounts, and actual returns may differ significantly from the returns shown herein.

# Case Study – Secoya Overview



- First investment of \$400,000 in Secoya on Fifth, a 100-unit mixed-income community in Banker’s Hill that broke ground in February 2021 and was completed in April 2022
- Proximity to Balboa Park and easy downtown and freeway access are major draws to the new tenants
- Diverse mix of household income levels include: 7% Very Low, 18% Low, 52% Moderate, and 23% Middle Income(naturally occurring affordable housing)
- Expected repayment of investment in Q2/Q3 2022

<b>Unit Mix</b>								
<b>Floor Plan</b>	<b>BD</b>	<b>BA</b>	<b>#</b>	<b>SF</b>	<b>\$/Mo</b>	<b>\$/SF</b>		
Studio	0	1	73	392	\$1,725	\$4.40	APN	452-624-01-00
1BR	1	1	17	564	\$2,310	\$4.10	Lot Size	.23 acres / 10,047 SF
2BR	2	1	10	737	\$2,854	\$3.87	Zoning	CC-3-9
<b>Totals/Avg</b>			<b>100</b>	<b>45,574</b>	<b>\$1,937</b>	<b>\$4.30</b>	Commercial SF	2,750 SF
							Gross Area	62,612 SF
							FAR (By-Right/Actual)	5.0/6.4
							Parking	0 Spaces
							Walk Score	Walker's Paradise (93)





# Case Study – 4233 Kansas Overview

- \$750,000 investment in 39-unit apartment complex located in North Park comprised of a 4-story building with a rooftop deck
  - North Park has experienced a massive growth in demand leading to ~10% rent growth over the last 12 months and vacancies under 3%
- Unit averages range from 344 SF studios to 595 SF one bedrooms and price from \$1,250 to \$2,408 per month
- Deed Restriction: 15 units at 120% AMI (12 studios/3 one bdrm)
- Development broke ground in Q2 2022 - estimated 18 months to build and lease

## Unit Mix

Floor Plan	BD	BA	#	SF	\$/Mo	\$/SF
Studio	0	1	24	456	\$1,883	\$4.13
1 Br	1	1	15	531	\$2,042	\$3.85
<b>Totals/Avg</b>			<b>39</b>	<b>897</b>	<b>\$1,944</b>	<b>\$4.01</b>

## Property Information

APN:	446-232-06,07-00
Lot Size:	.17 acres / 7,579 SF
Existing Use:	Residential Units
Zoning :	CC-3-9
FAR:	2.49
Building Area:	27,904 SF rentable
Parking:	0 Spaces
Walk Score:	Very Walkable (84)

# MIDDLEMARCH FUND III INVESTMENT PIPELINE

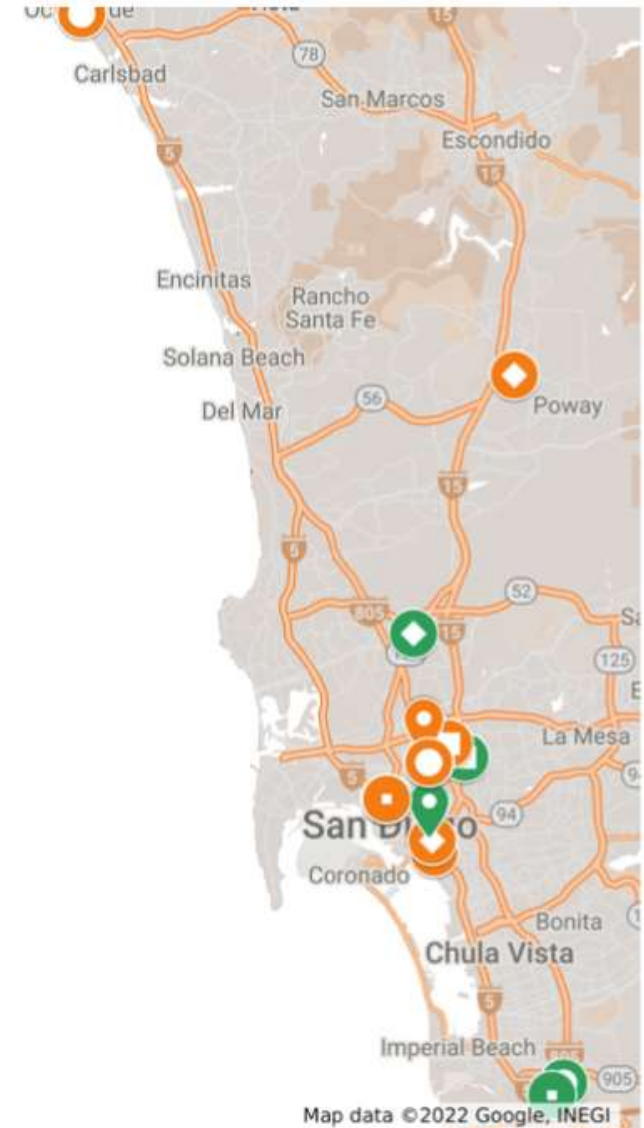
## 2022 Developments - Middlemarch Fund III - 2022

- North Park
- Carmel Mountain Ranch
- Oceanside
- North Park
- North Park
- Bankers Hill
- Normal Heights
- Logan Heights
- Bankers Hill
- Logan Heights
- Bankers Hill
- Oceanside

## 2023 Developments

- Logan Heights
- San Ysidro
- North Park
- Kearny Mesa
- Otay Mesa
- North Park

17 multifamily development opportunities are in the pipeline for 2022-2023 with a potential for over 500 - 800 middle-income residential homes



# Middlemarch Fund III Pipeline 2022

## Investment Highlights

- \$30 million fund can create 300+ restricted rental homes in five years for San Diego's working families in 2022\*\*
- Residents will live in brand-new rental homes the same as their market rate constituents

Neighborhood	Total Unit	Estimated Restricted	Total Project Cost	Total Equity	Middlemarch Equity	Debt	Construction Start Date
Carmel Mountain Ranch	50	15	\$18,500,000	\$3,700,000	\$1,500,000	\$14,800,000	Q4 2022
Oceanside THs	48	19	\$5,600,000	\$2,800,000	\$1,400,000	\$2,800,000	Q4 2022
Bankers Hill	78	26	\$7,700,000	\$3,850,000	\$1,925,000	\$3,850,000	Q4 2022
North Park	51	20	\$10,000,000	\$2,000,000	\$2,000,000	\$8,000,000	Q4 2022
Normal Heights	175	67	\$50,000,000	\$10,000,000	\$5,000,000	\$40,000,000	Q4 2022
Logan Heights	21	10	\$5,500,000	\$1,500,000	\$1,000,000	\$4,000,000	Q4 2022
Bankers Hill	87	13	\$3,800,000	\$1,900,000	\$950,000	\$1,900,000	Q4 2022
Logan Heights	157	65	\$49,000,000	\$9,800,000	\$4,900,000	\$39,200,000	Q4 2022
Bankers Hill	40	12	\$3,600,000	\$1,800,000	\$900,000	\$1,800,000	Q4 2022
Oceanside MF	60	16	\$4,800,000	\$2,400,000	\$1,200,000	\$2,400,000	Q4 2022
Southeast San Diego	72	39	\$36,000,000	\$18,000,000	\$9,000,000	\$18,000,000	Q4 2022
	<b>839</b>	<b>301</b>	<b>\$194,500,000</b>	<b>\$57,750,000</b>	<b>\$29,775,000</b>	<b>\$136,750,000</b>	

\*Middlemarch Fund I and II have been fully invested in single projects. \*\* Assuming blended \$75,000 per unit in first fund cycle and that funds don't get recycled during five-year term.

There is no assurance that the Fund will invest in all or any of these properties. The property descriptions, dollar amounts and construction start/end dates are estimates only and the actual results could be materially different than the estimates.

# MIDDLEMARCH BENEFITS



## To the Investor

- ✓ Strong fundamentals in San Diego market: vacancy rate of 2.7% (Costar)
- ✓ Market ESG Investment supports Climate Action and Social Equity Initiatives
- ✓ Funding alongside construction financing, eliminating entitlement and predevelopment risk
- ✓ Funding is senior to equity partners (more liquidity and lower risk profile)

## To the Developer

- ✓ Speed to Market: No Public Subsidy is required
- ✓ Lower cost of capital enables projects with middle-income rents and leasing benefits due to lack of supply

## For San Diego

- ✓ Promotes social equity, urban infill, improved health, mixed-income balanced communities, housing near transit and closer to work
- ✓ Long-term affordability
- ✓ Relieves pressure on the subsidized housing portfolio (~99% occupied)



# The Middlemarch Fund Team

## Deborah Ruane

Ms. Ruane has been in the real estate and financial markets for over 30 years. As Senior Vice President with Bank of America's Community Development Banking Group, she managed a team to provide loans to the for-profit and non-profit development community to create affordable housing in Southern California. Following Bank of America, Ms. Ruane was Vice President of Affordable Housing Development at Fairfield Residential, a nationwide developer of multifamily housing and had responsibility for development of affordable housing in the Pacific Northwest regions. Prior to starting the Middlemarch Fund, Ms. Ruane was Executive Vice President and Chief Strategy Officer for the San Diego Housing Commission and oversaw Real Estate Development, Policy and Strategy for the agency.

## Seth Gorrie

Mr. Gorrie is an experienced Real Estate Underwriter having worked in the industry for five years. Over the course of his career, he has completed over \$200m in transactions focusing on retail and ground up industrial in the western United States as well as nationwide high-rise office and multi-family properties. The primary focus has been on value-add and core plus properties. Before starting his own private investment firm, Seth was on the transaction teams for Capstone Advisors and Parallel Capital Partners, both based in San Diego. Mr. Gorrie has personally been involved in real estate investments for 7 years. He received his Bachelors Degree in Accountancy from the University of San Diego and a Master's of Science in Real Estate Finance from New York University.

# Civic Communities

## Advisor, The Middlemarch Fund

### **Andrew Phillips, President**

Mr. Phillips is the President and CEO of Civic Communities, a firm that offers lending and investment services aimed at providing products and services to organizations and businesses that have limited access to traditional capital or financing mechanisms. Mr. Phillips oversees the firm's lending and investment activities and provides real estate development, financial, market and proforma analysis, and neighborhood revitalization advisory services to clients. He is skilled at translating organizational needs into business cases and actionable performance to support the planning and implementation of real estate projects. Mr. Phillips has been with Civic Communities, or its related entities, in various positions since 2004 including COO and CFO. Prior to Civic Communities Mr. Phillips worked for Jones Lang LaSalle, Fairfield Residential and Symitar Systems. Mr. Phillips has more than 25 years of experience in real estate, finance/accounting, housing and public/private deal structuring with transactional values ranging from \$1 million to \$2 billion.

### **Michael Lengyel, Executive Vice President, Lending & Investment**

Mr. Lengyel has experience with the New Markets Tax Credits, Community Lending programs including identifying high impact community projects, deal structuring and loan underwriting. Mr. Lengyel also secures new funding sources and programs to further revitalization in targeted neighborhoods. Mr. Lengyel has a MBA degree in finance and a Master of Science degree in taxation and is a Certified Public Accountant.

### **Sherry Brooks, Senior Project Manager**

Ms. Brooks responsibilities include all aspects of real estate development and project planning for affordable housing and community development projects. Her priorities also include obtaining and deploying new funding sources for continuing revitalization work in San Diego's low- and moderate-income neighborhoods, including CDBG, State of California funding sources, and New Market Tax Credit investments. Ms. Brooks also performs construction financing and compliance monitoring for affordable housing, commercial projects, and public infrastructure projects.

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This presentation ("Presentation") is provided to certain selected qualified prospective investors in one-on-one presentations on a confidential basis only for informational and discussion purposes. This Presentation is not an offer to sell or a solicitation to buy interests in the proposed fund, [San Diego Middle March Fund], LLC (the "Fund"). We will only make any such offering with the Fund's Limited Liability Company Agreement and Subscription Documents (the "Fund Documents"). Interests in the Fund are not suitable for all types of investors.

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This Presentation contains forward-looking statements that represent our opinions, expectations, beliefs, intentions, estimates or strategies regarding future events, which may not be realized. Some of these statements may be identified by the use of words like "believe," "estimate," "expect," "intend," "may," "plan," "will," "should," "seek," "project," and similar expressions. The forward-looking statements reflect our views and assumptions with respect to future events as of the date of this Presentation and are subject to risks and uncertainties, including those beyond our ability to control or predict. Actual and future results and trends could differ materially from those described by such statements. We do not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Many factors affect investment performance, including changes in market conditions and interest rates and in response to other economic, political, or financial developments. Investment returns and asset values for any unrealized investments will fluctuate, so that when investment assets are sold, the sale proceeds could be less than the amount originally paid for the investments. Past performance of prior investments for properties managed by an affiliate of the Fund and its principals is not a guide to or indicative of future results and future returns are not guaranteed. You may lose all of your investment. We provide more information about the risks related to an investment in the Fund in the "Certain Risk Factors" section of the Subscription Documents.

In making a decision to invest in the Fund, you must rely on your own examination of the proposed arrangement and the terms of the offering, including the merits and risks involved and the legality and tax consequences of the arrangement, and should make your own inquiries and consult your advisors as to this arrangement and as to legal, including suitability, tax, financial, and other relevant matters concerning the arrangement. You should not construe the contents of this Presentation as legal, tax, investment, or other advice.

Prior to investing, you are strongly urged to review carefully the Fund Documents, including the risks described therein associated with investing in the Fund, to ask additional questions and discuss any prospective investment with your advisers. We will provide additional information upon reasonable request.

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The case studies discussed in these materials was selected for the basis of inclusion on the basis of being representative of investments that Middlemarch Management believes are comparable to the investments the Fund intends to make. It should not be presumed that such investments will be profitable; that their performance will be indicative of the overall performance of the Fund; or that decisions Middlemarch Management may make for the Fund will be similar. Actual results may differ materially, positively or negatively, from those reflected herein. The asset management approaches reflected in any case study herein may or may not be used by Middlemarch Management but are representative of the approaches Middlemarch Management will take for the Fund. No assurances are given that any such asset management approach will be employed by Middlemarch Management for the Fund or will achieve any particular results. A complete list of Middlemarch Management's investments is available upon request.



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