AION
PARTNERS

62 West 45th Street · 5th Floor
New York, NY 10036
T 212.849.9200
www.aionpartners.com

January 25, 2024

2024 Letter to Investors

Dear AION Investors,

Happy New Year! Good riddance to 2023, a year that changed both the political and financial landscape and presented numerous challenges across the U.S. multifamily market. Central banks moved aggressively across the globe to confront the challenges of resurgent and persistent inflation by increasing short-term interest rates and reducing balance sheets. At AION, we spent the year aggressively managing our properties in order to increase free cash flow to offset the increases in mortgage-related costs and changes in the capital markets. As we enter 2024, the markets are predicting lower rates in the coming months, which will undoubtedly have a positive impact on AION's Portfolio.

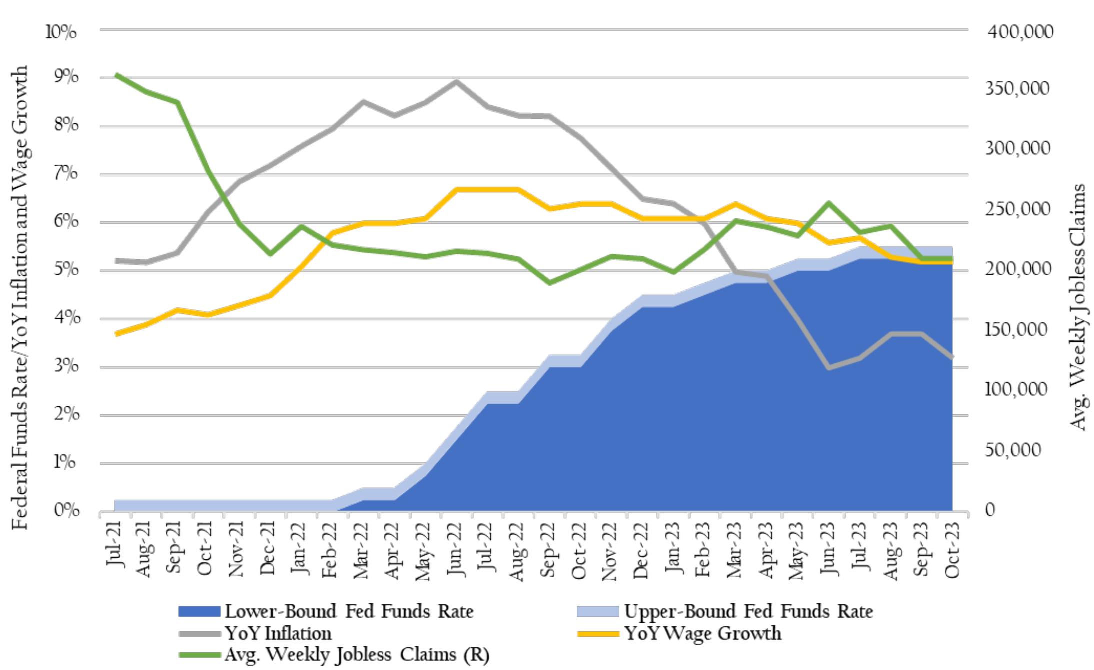
While AION was not immune to the changing capital market landscape in 2023, we were able to generate significant investor returns through capital events. Last year, we executed eight capital events.

After acquiring 11,000 units in 2020 through 2022, 2023 was a year dedicated to asset management and stabilizing the Properties that were acquired more recently in 2022. Over the past twelve months, we continued to battle post-pandemic challenges that have lingered much longer than we expected. Above-trend delinquency, declining net asset values, compressed dividends, increasing replacement hedge escrow requirements, and an industry wide labor shortage were several headwinds we faced last year.

The clouds finally appear to be lifting and we expect 2024 to present many more opportunities than 2023. The Federal Reserve ("Fed") has finished raising rates this cycle. The pace of increases drastically slowed in 2023, only up 100 basis points (bps) versus the 425 bps in 2022. The Fed officially dialed back its inflation projections, seeing its favorite gauge, core PCE, falling to 2.4% in 2024, declining further to 2.2% in 2025, and 2.0% by 2026. The World Bank projects that China's growth will continue to slow to 4.5% in 2024 vs. 5.3% in 2023, as it sees "significant risks" stemming from the country's weak real estate sector. Another inflationary factor has been the amount of excess savings accumulated by Americans during the pandemic. Moody's calculates that excess savings peaked in late 2021, with most of the remaining excess savings primarily concentrated among older age, with high-income households.

The Fed Chairman, Mr. Powell, rode a white horse in December to the drumbeat of slowing economic data, reflecting the Fed's signaling of three quarter-point rate cuts in 2024. However, Wall Street traders aren't buying the narrative and are wagering that the Fed will slash the benchmark rate below 4.0% by the end of 2024. Consumer confidence seems to be improving as inflation eases and talk of an impending recession fades. This shift in consumer sentiment yielded a remarkable year-end rally in Treasuries, with yields on 5 and 10-Year treasuries below 4%, close to where yields started in early 2023. Along with consensus, we believe the Fed may be successful in their ability to achieve a "soft landing." Nevertheless, the direction of interest rates appears to be turning around and it is expected that cuts will commence in early 2024.

Federal Funds Rate, Avg. Weekly Jobless Claims, Annual Wage Growth, and Inflation



Sources: Moody's Analytics, U.S. Bureau of Labor Statistics (BLS), Federal Reserve Bank of Atlanta, Federal Reserve Bank of St. Louis, Freddie Mac

As we enter the new year, the case for investing in U.S. multifamily has never been stronger, especially given the current affordability crisis. Prior to the 2008 Recession, U.S. homeownership surpassed 69%[1]. As of Q4 2023, the U.S. homeownership rate has fallen to approximately 66%[2]. Last year, everything from groceries to monthly rent became more expensive. As a result, 2023 was the least affordable year for homebuyers on record[3]. A few additional 2023 homeownership stats:

- A U.S. homebuyer with a median income would have had to spend 41% of their income on monthly housing costs[3], the suggested ratio is 30%. (AION targets markets where this ratio stands between 20-25%).
- The average 30-year fixed mortgage rate hit a high of 7.79% in October 2023, nearly triple the 2.65% low achieved during the pandemic.
- As of September 2023, U.S. single family home prices were up 4.7% yoy, marking 141 straight months of annual appreciation.
- As of Q4 2023, the average new monthly mortgage payment is 52% higher than the average monthly apartment rent[4].

[1] U.S. Census Bureau
[2] U.S. Census Bureau
[3] Redfin
[4] CBRE

AION PARTNERS
62 West 45th Street · 5th Floor | T 212.849.9200
New York, NY 10036 | www.aionpartners.com

Homeownership affordability remains a challenge for much of the U.S. population and recent trends have only aggravated the problem. During the past three years, median home values nationwide have increased over 34% (from $303,543 in Q1 2020 to $408,573 in Q4 2023)[5]. Only 15.5% of homes for sale in 2023 were considered affordable for the typical U.S. household, the lowest level on record since Redfin began tracking the data in 2013. The single largest contributor to home value inflation continues to be a lack of supply, which has been in the making for over a decade. RE/MAX reports that the United States is short between 4.5 and 5 million homes, with no expectation that the supply imbalance will achieve equilibrium any time soon.

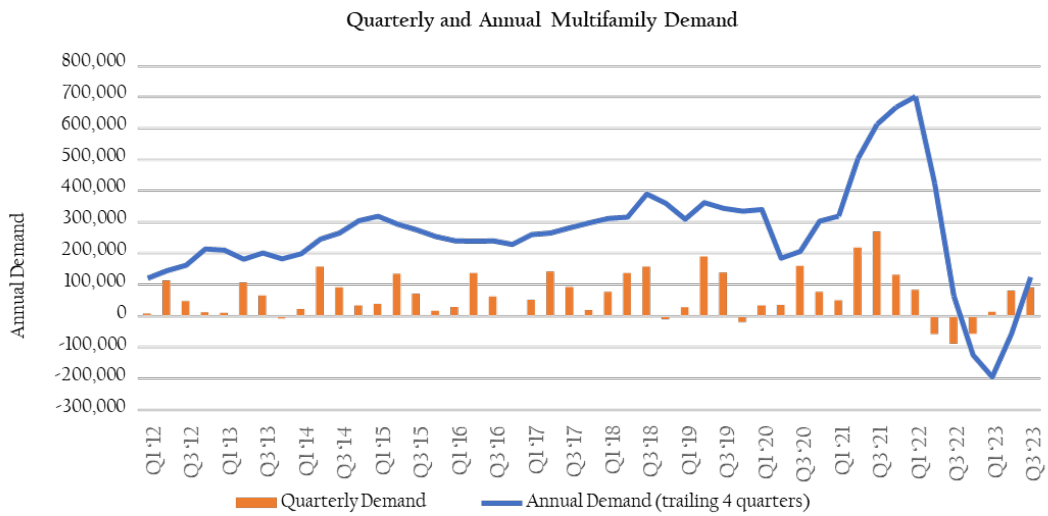
The decline in affordability has led 34% of the population to rent instead of own, despite median apartment rents nationwide increasing over 40% since 2020 (from $1,041 per month in Q1 2020 to $1,462 per month in Q3 2023)[6]. In the coming months, home prices may continue to climb due to the mortgage rate-lock effect, where a homeowner with a low-rate mortgage has less incentive to sell given their low in-place interest costs. The expensive for-sale market has impacted, and will continue to impact, many would-be first-time homebuyers. Higher monthly costs and down payment requirements as a result of elevated property values will price many out of the market and result in a larger pool of renters, a tailwind for AION and the U.S. multifamily market as a whole.

The enduring lack of supply and the affordability crisis in the United States continue to support AION's thesis in the Mid-Atlantic and Midwest. Through October 2023, the Northeast region led the country in annual single-family home value appreciation, while four Western states experienced modest losses. The Northeast is enjoying renewed home price gains, in part due to the hybrid workforce. In a recent study by XIG, 90% of employers are offering hybrid work weeks to employees.

RealPage research reports that there were 405,000 units added to an existing inventory of 19.2 million units in 2023, an increase of 2.1%. The Sunbelt and Mountain regions saw some of the highest levels of new supply in 2023, ranging between 3% and 4% of existing inventory. Markets with the highest levels of new supply in 2023 were Salt Lake City, Nashville, Austin, Charlotte, and Colorado Springs at 5.5%. Meanwhile, "AION country" (the Midwest and Northeast/Mid-Atlantic) saw much lower supply ratios of 1.5% and 1.3%, respectively, resulting in continued positive rent growth. The highest rent growth nationally as of October 2023 were secondary Northeast markets, with Central New Jersey leading rent growth tables at 5.9%. Within AION's markets, renters typically spend between 20-25% of their income on rent, further highlighting the affordability of our rental markets, especially against the backdrop of elevated single-family home values.

---

[5] Redfin
[6] U.S. Census



Sources: RealPage, Freddie Mac

With potential homebuyers priced out of the market, well-amenitized Class B and C multifamily communities in suburban submarkets have become the optimal alternative and will remain so in the years ahead. According to Jay Parsons of RealPage (our 2023 Annual Investor Conference guest speaker), "in the short term (2024), we expect the Midwest and Northeast to continue outperforming due to relatively little supply plus steady demand. There's a "steady eddy" story to those regions, and there's always value in that - especially in times like now." In 2024, the Midwest region is expected to see stronger rent growth than the West, South, and Northeast regions. The Northeast follows a similar trend with high demand and limited supply. Therefore, markets like New Jersey, Pittsburgh, and Philadelphia are expected to outperform the national average. RealPage recently identified the top ten markets expected to have the strongest rental growth in 2024 and five out of the ten markets are within AION country (highlighted in blue below). The demand for housing, intensified by the unaffordable cost of homeownership, has reinforced the resilience of multifamily, especially in AION's core markets.

Rent Growth Forecasts 2024
San Jose
Richmond
West Palm Beach
Anaheim
Pittsburgh
San Francisco
Columbus
Riverside
Baltimore
Philadelphia

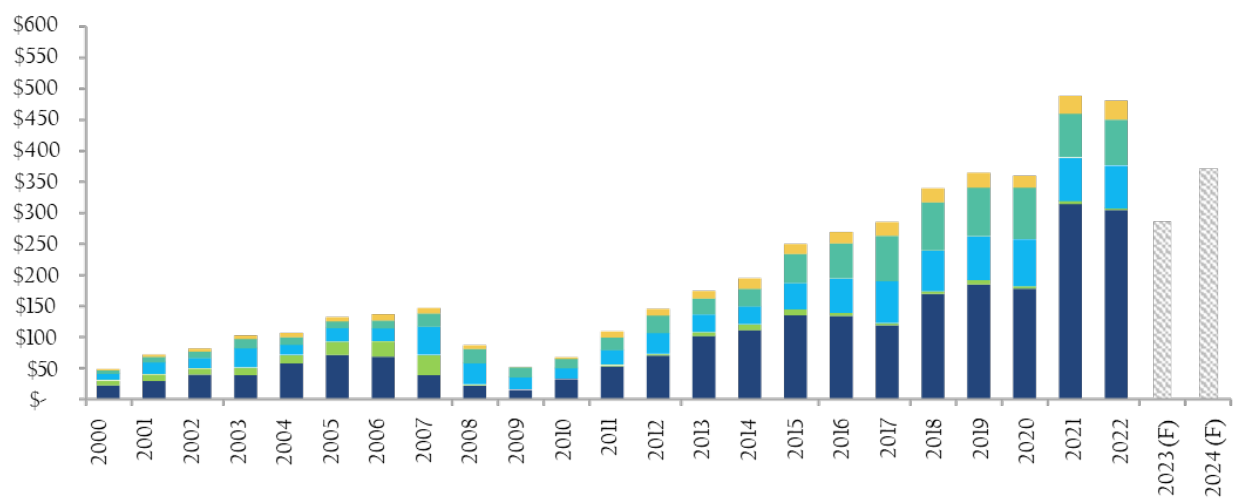
Portfolio and Performance

In total, AION currently manages a Portfolio of nearly 20,000 apartment units across 60 properties in seven states. The Portfolio valuation currently stands at over $3.3 billion, with over $1.0 billion of investor equity under management. Our platform has grown exponentially over the past three years and we continue to invest in new talent by adding personnel across Asset Management, Construction, and Property Management. We are excited to share that we welcomed a new Chief Financial Officer, Kevin Mitchell, to AION Management in September. Kevin has over 18 years of experience in the Private Equity Real Estate industry and has already made a large impact at AION Management. In May, we held our second in-person Annual Investor Conference in New York City, attended by over 100 AION investors.

What we experienced this past year was consistent with the multifamily market as a whole. Property sales slowed dramatically and challenges with community banks caused debt to become less available and more expensive with significant movements in rates. Multifamily transaction volumes fell by 70% in 2023, mainly due to interest rate volatility and price uncertainty[7]. According to Freddie Mac, multifamily mortgage originations were down 50% annually as of Q3 2023. As a result, the deals we reviewed in 2023 were largely in the credit space.

In November, AION originated a mezzanine loan s to finance the acquisition of the Hamilton Vestal Portfolio, a five-property portfolio located in Central New Jersey and New York State. We see potential for additional credit opportunities due to increasingly strained sponsors and balance sheets. We will continue to pursue such deals in 2024.

U.S. Multifamily: New Purchase and Guarantee Volume ($ Billions)



Sources: Mortgage Bankers Associate, ACLI, Wells Fargo, Intext Solutions Inc., Freddie Mac projections
Note: 2023 and 2024 projections of $285 billion from MBA and $370 billion to $380 billion by Freddie Mac as of November 2023

[7] Yardi Matrix

62 West 45th Street · 5th Floor
New York, NY 10036
T 212.849.9200
www.aionpartners.com

AION Construction oversaw and executed nearly $84 million worth of capital projects in 2023. The Construction team worked hand-in-hand with AION Management to deliver over 1,000 newly-renovated units across the AION Portfolio. In 2023, the Construction team delivered four new leasing centers, including a gut-renovated leasing and fitness center at The Addison in North Wales, PA. The 2,783 square-foot space now houses a party room, conference room, lounge, fitness center, leasing office, and coworking space. Additionally, The Addison's residents received a new tennis court and two pickleball courts. The Construction team continued their focus on utility reduction initiatives, completing water conservation / low flow toilet installations at 11 assets and LED lighting retrofits at 17 assets. On average these initiatives have reduced utility usage by over 20%.

AION Value Add Fund Series

AION Value Add I LP

AION Value Add I LP ("Fund I"), AION's first discretionary fund vehicle, is now entering its fifth year of the hold period. Closed in 2019 with over $50 million in total, Fund I is currently in the process of harvesting the Portfolio. Fund I generated two successful dispositions in 2022, Yorktowne Pointe and The Clark, and Bethlehem I and II, are in contract to be sold by the end of January 2024.

As a reminder, AION sold Yorktowne Pointe in March 2022 for $26,800,000, almost double AION's purchase price of $13,750,000 in September 2019. The Clark was sold in June 2022 for $8,100,000, representing an increase in value of 67% compared to the acquisition price in September 2019. Following the sale of Bethlehem I and II, Fund I investors will have received back 100% of their original committed equity.

Of the eight remaining properties in Fund I, six are financed with fixed-rate debt. Due to the nature of fixed-rate loans, yield was heavily shielded from both interest rate volatility and increased replacement hedge escrow payments, which will be discussed in greater detail within the Fund II section of this letter.

AION Value Add II LP

AION Value Add II LP ("Fund II"), AION's second discretionary fund vehicle, held its final close in May 2022 with total investor commitments of $275,000,000 (and an additional $380,000,000 of co-investments). Fund II was fully deployed as of November 2022, with a Portfolio of 30 properties across seven states. 16 of the remaining 29 properties were purchased in 2022, meaning over half of the portfolio is still early in their respective value-add business plans. As it typically takes 24-36 months to stabilize a multifamily asset, Fund II should be 100% stabilized by the end of 2024.

In 2023, Fund II held its first disposition, Hickory Point Townhomes. Hickory Point was the first acquisition of Fund II, transpiring in December 2020. While Fund II started off the year with a successful sale, operational performance was hindered by two primary components: inflated hedge escrow payments and the eviction of delinquent residents.

62 West 45th Street · 5th Floor
New York, NY 10036
T 212.849.9200
www.aionpartners.com

Fund II has significant exposure to floating-rate debt. While we adequately hedged below a 5% cost of capital (, we never expected replacement hedge escrows payments to balloon as much as they did in 2023, severely crimping our ability to distribute free cash flow to investors. In the fourth quarter, as rates started to stabilize, we saw the pricing of interest rate caps fall by 25% from its peak. As the Fed starts cutting rates, we should see monthly escrows at the time of resets be reduced 30-50%, resulting in a significant increase of distributable free cash.

Throughout the year, we have communicated delinquency challenges faced by Fund II Assets. As it relates to delinquency, the Portfolio continued to be negatively affected by temporary rent control legislation in certain jurisdictions, as well as the slow deployment of COVID rental assistance. As we mentioned during the Annual Event in May 2023, courts were backlogged through the better half of the year, particularly in states such as New Jersey and Maryland to combat delinquency, we have implemented additional upfront screening measures for prospective residents that include a manual renter verification in an effort to prevent non-paying renters from being approved at AION Properties. We believe this short-term pain will lend itself to long term gain and expect the challenges from evictions to begin to subside this year.

Conclusion

Following two years of unprecedented volatility in the debt and multifamily markets as we exited the global pandemic, we termed 2023 "the race to normalcy." While the calendar has turned to 2024, the work will continue. Large format properties with 400 units or more, acquired in 2022, will take the better part of the year to stabilize. As the recent rally in Treasuries has started meaningfully reducing monthly replacement hedge escrows and a largely anticipated reduction in SOFR, we strongly believe the worst is behind us.

As we have said before, AION's value-add strategy remains unchanged. Our strategy remains scalable and continues to be the main driver of AION's success as an owner-operator of multifamily real estate. In 2024, we will continue to:

- Institutionalize operations by utilizing technology to reduce expenses and create operational efficiencies.
- Invest in our talent pool, by recruiting and training the best professionals within our industry.
- Improve curb appeal by rebranding the properties, enhancing common areas, and adding amenities.
- Tackle deferred maintenance items that may not correlate to rental increases in the short-term but are imperative for keeping properties safe and functional in the long-term.
- Renovate unit interiors to augment rental growth.

The macro investment thesis for multifamily continues to be underpinned by the lack of single-family supply and lack of affordability. Since the 2008 Financial Crisis, single-family home starts have been challenged by both NIMBYism and volatile capital market conditions. These challenges will continue to drive multifamily fundamentals and we are optimistic that 2024 will be a better year for both the U.S. multifamily market and the AION Portfolio. As we outlined above, demand should be boosted by supply dynamics and an elongated renter lifecycle. We continue to have strong conviction in our markets where

62 West 45th Street · 5th Floor
New York, NY 10036
T 212.849.9200
www.aionpartners.com

low levels of apartment supply translates to strong rental growth. Over the next twelve months, we will continue working diligently to achieve exceptional returns for our investors.

Thank you for your continued support of AION Partners. As always, please do not hesitate to reach out with any questions. Wishing you and your families a healthy, happy, and prosperous 2024!

Sincerely,

Michael Betancourt
AION Partners
Managing Partner