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

2025 Letter to Investors

Dear AION Investors,

Happy New Year! As we celebrate our 15th year of investing in workforce housing, we find ourselves reflecting on our journey from our first value-add acquisition in 2010 to today's portfolio of nearly 20,000 apartments spanning the Mid-Atlantic and Midwest regions. Over these fifteen years, our core thesis has remained unchanged; acquire well-located workforce housing communities where our operational expertise and strategic capital improvements can drive meaningful net operating income ("NOI") growth and generate attractive risk-adjusted returns for our investors.

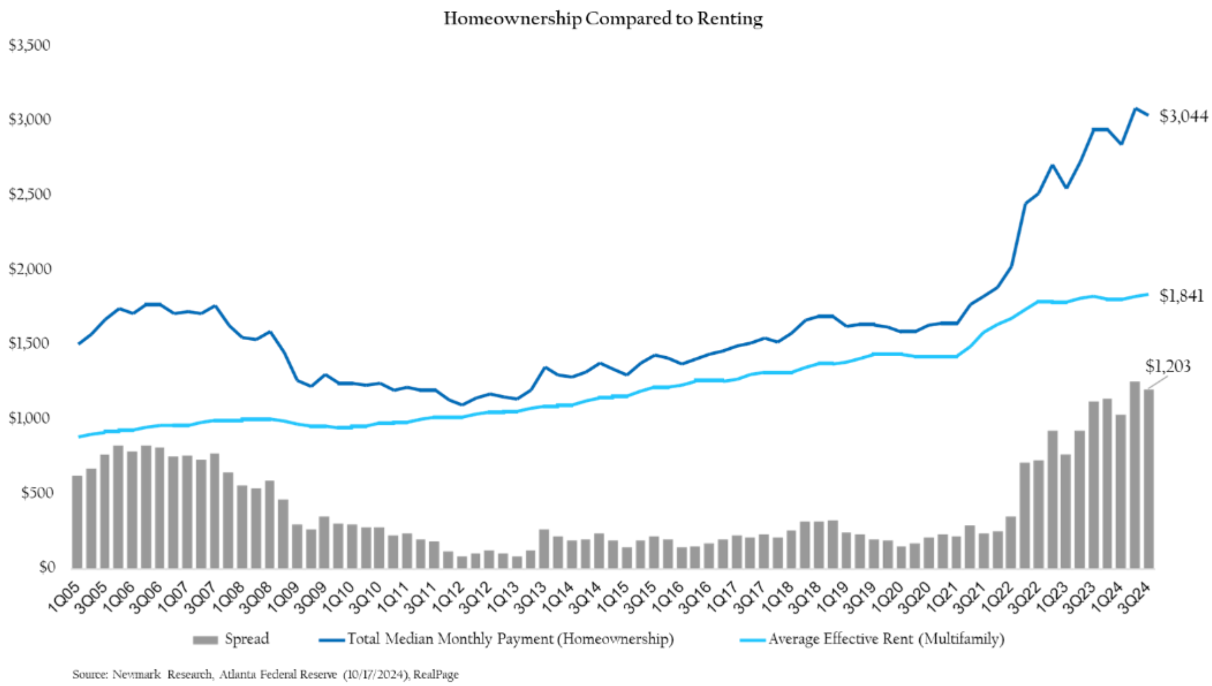
As we begin 2025, the strength of our regional focus and value-add strategy is increasingly evident. While the U.S. economy continues to navigate significant transitions in technology, inflation, and monetary policy, local economies in our target markets in the Mid-Atlantic and Midwest have demonstrated remarkable stability. The rapid advancement of artificial intelligence continues to reshape industries and offers potential for productivity gains, while possibly helping to moderate inflationary pressures. Though inflation has moderated significantly since its peak, the path to price stability remains complex, with risks of potential setbacks that could impact interest rates.

Despite these challenges, the U.S. economy continues to show remarkable resilience. Though the Federal Reserve has begun easing monetary policy, interest rates are likely to remain elevated by recent historical standards in this "higher for longer" environment as the Fed balances its inflation target with economic growth. Key economic indicators support this resilience; employment remains strong with 256,000 jobs added in December and wage growth of 3.9% year-over-year; in the fourth quarter, consumer spending surged to its highest level since early 2023, climbing at a robust 4.2% rate. With Americans purchasing everything from new cars to healthcare services, this spending boom carries significant weight, as it drives over two-thirds of economic activity.[1].

The new administration in Washington DC is expected to facilitate robust economic growth, which is positive for real estate. These anticipated policy shifts may improve capital markets conditions and unlock opportunities for strategic acquisitions. After two years of little transactional activity, buyers and sellers should find more common ground on pricing, and lenders demonstrate increased appetite for multifamily deals, investment activity should build momentum through 2025[2]. AION is well positioned with a strong operational platform, access to capital, strong lender relationships, and a proven track record in managing through market cycles. We are ready to capitalize on opportunities, no matter the challenges the market presents.

As we enter 2025, the multifamily market is emerging from a pivotal transition. The fundamentals supporting multifamily investment remain strong as the affordability crisis continues to intensify. With mortgage rates approaching 7% and median home prices at $420,000[3], the path to homeownership remains blocked for many Americans. The spread between the median cost of homeownership and average rent now stands near $1,200 per month, driving sustained rental demand across our markets. Due to the high price disparity between owning and renting, the share of U.S. households that prefer renting has reached a record high of 35%. While the near-term operating environment presents challenges, we believe the multifamily sector is well-positioned for long-term growth and the current market dynamics are creating attractive entry points for disciplined investors with patient capital.

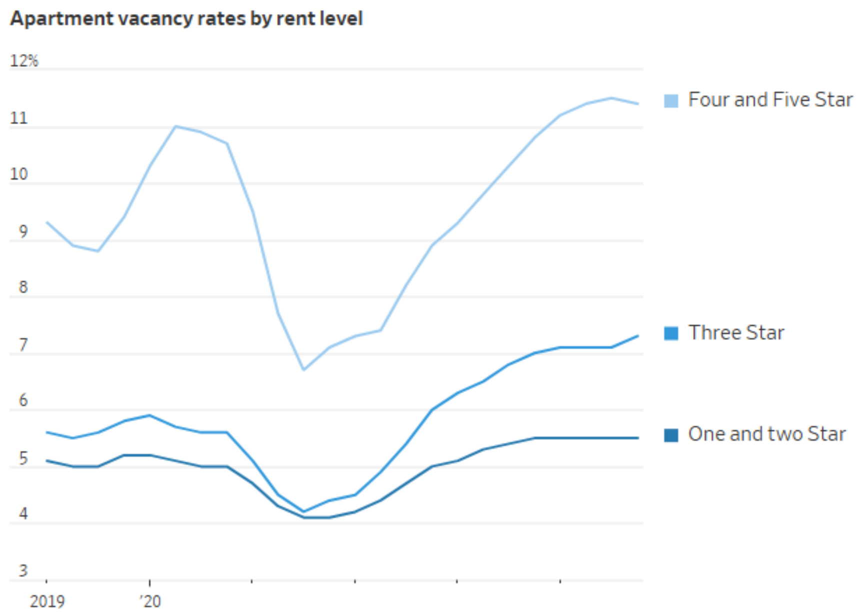
[1] CNBC, United States Federal Reserve, https://www.wsj.com/economy/us-gdp-economy-fourth-quarter-2024-9ccb1816?st=mYyGxe
[2] Mortgage Bankers Association
[3] St. Louis Fed



The national multifamily market is affected by strained supply-demand dynamics in addition to volatile capital markets conditions. Despite recent construction activity, decades of underdevelopment have created a national structural housing deficit of 3-5 million households. Despite a record year of 500,000 apartment deliveries in 2024 and a projected 508,000 deliveries in 2025, new construction starts have plummeted to 336,100 units – down 37.6% from the peak of 538,700 units in November 2022. In Q4 2024, the housing shortage is particularly acute in the workforce housing space, with only 6,700 units under construction nationwide. This severe undersupply in our target segment, combined with mounting construction headwinds – namely high construction costs and restrictive zoning measures – positions our portfolio favorably. Additionally, demographic tailwinds from millennial and Gen Z cohorts entering their prime renting years continue to drive sustained demand across both urban and suburban submarkets.

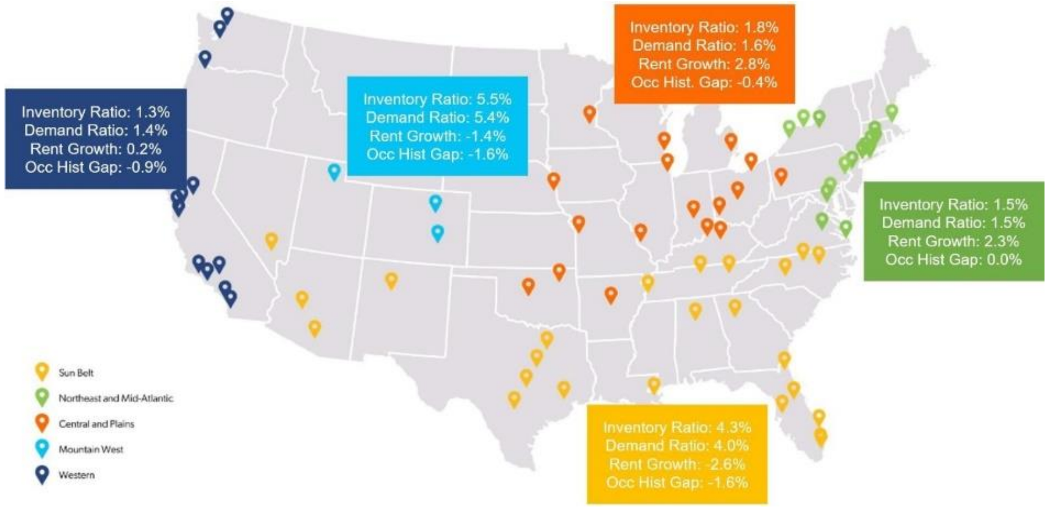
The national multifamily market has demonstrated remarkable resilience in the face of the large wave of new supply. After a challenging three years, the market regained its footing in 2024, with early signs pointing to the beginning of a new growth cycle. Property valuations, which seem to have bottomed out, have since risen, and capitalization rates appear to have stabilized in the 5.2-6.0% range. The Federal Reserve's pivot to monetary easing in late 2024, with rate cuts beginning in September to a target range of 4.50% to 4.75%, has provided more stability in the transaction market. While the 10-Year Treasury has been moderately volatile as of late, economic forecasts suggest interest rates will continue to be range bound between 4.0-5.0% in 2025. Improved clarity on monetary policy has begun to unlock transaction activity, though deal volume remains selective and driven by fundamental value rather than over-levered capitalizations, a "back-to-basics approach".

Broad market fundamentals support AION's longstanding focus on workforce housing investment, as nationwide Class A and B vacancy rates have remained relatively stable, with Class B vacancy particularly resilient at rates below those of luxury properties. The broader market fundamentals support our strategy. According to recent data, the average gap between four/five star and three-star rents has reached $553 per month, with the gap between three and one/two stars at $254 per month. This pricing spread creates meaningful barriers to mobility between property tiers, which should help stabilize occupancy and renewal rates across our portfolio. This is particularly relevant as concession usage in the broader market has increased, affecting primarily new luxury developments rather than workforce housing[4].



AION's continued investment in the workforce housing space is underscored by our conviction in our core markets. These traditionally steady markets are now leading in year-over-year rent growth as of December 2024, benefiting from relatively low supply pressure coupled with strong labor markets. This performance underscores how modest demand, coupled with minimal new supply, can drive meaningful rent growth even in historically slower-growth markets. The current top-performing markets reflect a clear geographic pattern favoring the Midwest and Northeast regions. Looking at year-over-year performance, Kansas City leads the country at 3.9%, followed closely by **New Jersey** at 3.8%. **Columbus** (3.1%), Milwaukee (3.0%), **Cincinnati** (2.8%), and **Washington D.C.** (2.8%). **Indianapolis** (2.6%), **Baltimore** (2.2%), and **Philadelphia** (1.9%) also demonstrated solid performance (AION markets in bold). These steady markets are a stark contrast to the traditionally high growth areas like the Sun Belt. The Sun Belt continues to face significant headwinds from the new supply. Austin exemplifies these challenges, with rents declining 5.9% year-over-year as of December 2024, while other Sun Belt markets struggle to maintain positive growth amid substantial deliveries[5]. Given current market dynamics, we are continuing with our carefully targeted investment approach. Our acquisition strategy focuses on markets where supply and demand fundamentals align, particularly in secondary and tertiary markets in the Northeast and Midwest with limited new supply and targeting properties where AION's operational expertise can drive NOI improvement.

[4] IPA 2025 Multifamily National Investment Forecast
[5] Yardi Matric National Multifamily Report December 2024



Source: Freddie Mac 2025 Multifamily Outlook

Portfolio and Performance

AION's portfolio has grown to encompass nearly 20,000 apartment units across 57 properties spanning seven states (Delaware, Indiana, Maryland, New Jersey, Ohio, Pennsylvania, and Virginia). The Portfolio currently carries a valuation exceeding $3.3 billion, with more than $1.0 billion in managed investor equity. During 2024, while overall transaction volume was subdued, AION focused on strengthening our financial position by converting loans from floating-rate to fixed-rate debt.

In 2024 AION closed two transactions:

- October 2024: A Mezzanine Loan for a property in Newport News, VA.
- November 2024: A $700MM recapitalization of the AION 12 Portfolio (3,962 legacy units) with Goldman Sach Alternatives and a Sovereign Wealth Fund.

AION Construction

In 2024, AION Construction executed over $50 million in strategic capital improvements across our Portfolio. Our construction team renovated units while working seamlessly with AION Management to minimize disruption to our residents. Notable projects included the installation of in-unit washer/dryers at Terminal 21 in Pittsburgh, generating monthly rent premiums while enhancing resident satisfaction. At Pointe at Northern Woods in Columbus, we converted a 5,000-square-foot maintenance facility into a modern leasing center with a state-of-the-art fitness center and clubhouse. The Brunswick in New Brunswick, NJ exemplified our creative approach to value creation, where relocating the leasing center allowed us to add a rental unit while improving the leasing experience. These strategic improvements, combined with our ongoing amenity enhancements and interior unit renovations, continue to elevate the resident experience across our communities while driving meaningful NOI growth. Looking ahead to 2025, our construction platform is well-positioned to continue delivering value-enhancing improvements across the Portfolio.

AION Value Add I LP

Now in its sixth year, AION Value Add I LP ("Fund I"), which closed in 2019, is currently executing its wind-down strategy. In 2024, AION successfully completed two successful dispositions: Stonegate and Harborstone.

As we approach the scheduled conclusion of Fund I, our focus is on the strategic disposition of the remaining assets. We are particularly attuned to the Properties in Montgomery County, Maryland while carefully monitoring market

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

conditions to optimize the timing of these final dispositions. Our team remains committed to maximizing investor returns through thoughtful execution of these remaining capital events.

AION Value Add II LP

AION Value Add II LP ("Fund II" or "The Portfolio"), held its final close in 2022. While Fund II has navigated a challenging market environment since inception, we are seeing encouraging signs of stabilization. Fund II, originally a 31-property portfolio, spanning seven states, has been reduced to 28 Assets. In 2023, we disposed of one asset; Hickory Pointe, Newport News, VA, followed by two dispositions in 2024: The George Indianapolis, IN and The Ridge Hagerstown, MD.

We are pleased to report that the few remaining unstabilized assets, which are larger format properties acquired in 2022, are expected to achieve stabilization within the first half of 2025. As we enter 2025, we remain focused on stabilizing the large format late 2022 acquisitions and maximizing value across the Portfolio through operational execution and strategic capital management. The substantial progress made in our refinancing initiatives has positioned the Fund for free cash distributions and potential dispositions in the second half of the year.

Conclusion

The multifamily market is showing clear signs of stabilization as we enter 2025. With household formation expected to exceed the 10-year average by more than 250,000 this year and elevated single-family home costs continuing to drive rental demand, the fundamental backdrop for our investment strategy remains strong. Our focus on workforce housing is particularly well-positioned, as only a limited number of new units targeting moderate income renters are in development nationwide.

The current market environment, while challenging, presents compelling opportunities for experienced investors with targeted strategies. The combination of reduced transaction volume since 2023 and the approaching wave of debt maturities is creating opportunities for well-capitalized buyers. While valuations appear to have found their floor, moderating property expense growth and improving economic fundamentals in the residential sector creates an attractive entry point for long-term investors. This is particularly true within our Mid-Atlantic and Midwest operational footprint, where we continue to see the nation's lowest supply levels driving robust rent growth potential. The structural backdrop for residential investment remains strong, driven by persistent barriers to homeownership and demographic trends. We see multiple entry points emerging in the market: distressed sales from owners facing refinancing challenges, opportunities from slower-than-expected lease-ups of new communities, and potential acquisitions from developers with overestimated projections.

Looking ahead to 2025 and beyond, AION's established operational presence in key markets, combined with our value-add expertise and disciplined approach to risk management, positions us well to capitalize on opportunities while maintaining our focus on generating strong risk-adjusted 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 2025!

Sincerely,

Michael Betancourt
AION Partners
Managing Partner