

PRIVATE REAL ESTATE CREDIT INVESTMENT

HGI MULTIFAMILY CREDIT FUND II:

HGI WHITE PAPER

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1. EXECUTIVE SUMMARY

Multifamily is a strong asset class with solid and improving fundamentals and debt market liquidity that provide a foundation for compelling credit investments. Per J.P. Morgan Private Bank's report on US Real Estate released in December 2025, "we view real estate as a key source of portfolio diversification, providing inflation-resilient income and upside potential" with rental housing recognized as "one of the clearest potential long-term investment opportunities in U.S. real estate." Yardi Matrix declares in its US Outlook for 2026 that "multifamily boasts stability, which is a positive trait in a time of uncertainty."

The market opportunity for credit has expanded as traditional lenders have continued to take a historically low market share. The banking

sector has been impacted by losses from existing balance sheet loans combined with changing regulations and stricter underwriting standards. At the same time, market demand for credit continues to rise – both from a wall of maturities for existing loans, and from increasing volume of transactions. In addition to these fundamentals and market drivers, investor interest in private credit is driven by the relatively higher yield as compared to comparable corporate credit and traditional fixed income.

Multifamily Credit Fund II is designed as an all-weather, absolute return strategy with the following benefits:

- Diversification – complements core equity exposure with low correlation to the broader markets.

- Current Cash Flow – heavy focus on current income provides predictable cash flow for investors whether interest rates moderate or stay higher for longer
- Stability – Equity cushion for downside capital protection to absorb potential asset stress or market volatility, complemented by a strategic mix of fixed and floating rate investments.

Harbor Group International ("HGI" or "Harbor Group") is recognized as a leading multifamily owner/operator that brings scale, deep property level experience, and data from its existing investment portfolio to a sophisticated credit platform with a strong track record.

Source: JP Morgan Private Bank, "U.S. Real Estate: Why everything you thought you knew is wrong", 12/15/25

2. MULTIFAMILY FUNDAMENTALS

Multifamily remains an attractive asset class with the highest market share of investment demand of the traditional asset classes. Contributing factors include:

- Starter home prices rose by 87% between 2017 and 2024 which exacerbates affordability challenges for first-time buyers.¹
- The national median single-family home price grew to 5 times the median household income in 2024 which typically means that would-be buyers need to save more and for longer to afford the downpayment required.²
- Starts of multifamily development have tapered off considerably from the 2022 peak and are projected to decline even further over the next few years. Per Yardi Matrix research, starts were down 35% between 2022 and 2024 and are projected to decline by another 9% by 2027.³

As of October 2025, the national multifamily occupancy rate was 94.7% per Yardi Matrix research. Ongoing growth in U.S. Gross Domestic Product and jobs contributes favorably to demand generation.



¹Source: Realtor.com, Starter Home Prices research report, 4/14/25

²Source: Harvard University, Joint Center for Housing Studies, "State of the Nation's Housing 2025"

³Source: Yardi Matrix, US Multifamily Outlook | Winter 2026

3. MULTIFAMILY CREDIT MARKET

The US private commercial real estate credit market, valued at \$4.93 trillion, represents a substantial asset class on par with major fixed income markets. Multifamily is the largest property type with \$2.24 trillion, or 45% of the overall private real estate credit market.¹ Within multifamily credit, the largest lenders are the Agency and Government Sponsored Enterprises (“GSE’s”). In anticipation of strong debt demand, the Federal Housing Finance Agency announced

a 21% increase in Fannie Mae and Freddie Mac multifamily loan purchase caps, increasing them to \$88 billion in 2026.² However, the GSEs are focused on longer-term, fixed-rate products that are not well suited for all borrowers or asset level business plans. This leaves significant market share available for private credit lenders like HGI, who typically can provide quicker and more certain execution to borrowers compared to commercial banks and life insurance companies.

J.P. Morgan’s Private Bank report from December 2025 declares, “For many investors leery of commercial real estate risks – such as falling property values, tenant defaults, illiquidity, and the impact of elevated interest rates – allocating to real estate credit could be a logical first step for its potential income, downside risk mitigation, and exposure to the sectors most likely in high demand.”

¹Source: Mortgage Bankers Association, Commercial / Multifamily Mortgage Debt Outstanding | 3Q 2025

²Source: Federal Housing Finance Agency, “U.S. Federal Housing announces 2026 multifamily loan purchase caps”, 11/24/25



4. DIVERSE WAYS THAT HGI INVESTS IN MULTIFAMILY CREDIT

WHOLE LOANS

Whole loans - HGI originates and/or buys first mortgages on multifamily properties nationally. New issue loans typically are structured with three to five year durations. They use floating rates to hedge against inflation and reduce interest-rate risk. Floating rate loans also provide borrowers with more flexibility to sell a property or refinance with longer term, fixed rate debt as soon as property level business plans are achieved. HGI maintains a first lien on the underlying real estate with priority claim on the real estate and cash flow in the event of default. A major focus is the track record, creditworthiness, and

equity investment of the borrower as well as asset quality and market performance metrics.

STRUCTURED CREDIT

HGI originates or buys preferred equity and/or mezzanine debt ("Pref/mezz") to borrowers facing funding gaps, provides Pref/mezz in limited circumstances for new construction and buys Agency (Freddie Mac and Fannie Mae) structured products, including secondary market B-pieces and Credit Risk Transfer bonds. Pref/mezz is a more junior portion of a capital structure offering higher yields than first mortgages and providing attractive optionality in the event of default

(with such risk minimized by using conservative attachment points to insure significant equity cushion for enhanced principal protection as well as an emphasis on structural protections and control rights in the event of a sponsor default). Credit risk transfer bonds are collateralized by first mortgage loans underwritten to GSE standards that prioritize actual, in place cash flow at the property level.

INVESTMENT GRADE BONDS

HGI also purchases new issue and secondary market investment grade multifamily bonds in the CRE CLO and SASB markets.



5. DISTINGUISHING FACTORS FOR HGI AS A MULTIFAMILY CREDIT SPONSOR

- **Track record** - Since HGI began investing in multifamily credit in 2007, we have deployed over \$4.4 billion and realized \$1.9 billion in proceeds in a variety of strategies. This activity has generated over 10.80% net IRR and 1.29x Net Equity Multiple
- **Our team** - Our dedicated team includes 20 multifamily investment professionals fully immersed in the target market and 10 multifamily credit asset managers to provide proactive monitoring and oversight of all credit investments. Additionally, the 10 members of our corporate investment committee have worked together for over 20 years on average.
- **Broad range of credit strategies** - flexible investment mandate provides unique vantage point to make investment decisions based on relative value as market conditions evolve.
- **Curated and consistent deal flow** - HGI's long-standing relationships with owners, brokerage firms, lenders, issuers, and trading desks have developed over our 40-year history as an owner and operator
- **Proprietary data & analytics** - real time insights into leasing trends, supply/demand dynamics, and competitive differentiators between properties via data from HGI's direct credit and equity portfolio, covering over 1 million multifamily units nationwide
- **Judicious use of leverage** - For whole loans, we have flexibility to hold on our balance sheet, finance with a warehouse line or note-on-note structure, securitize via a CRE CLO structure to create multifamily-backed bonds, or partner with Freddie Mac in its Q series securitizations to sell senior bonds guaranteed by the agency which increases liquidity and return potential. For investment grade bonds, we have multiple repurchase agreement ("repo") financing sources. We do not use leverage on any of our pref/mezz investments.



6. CONCLUSION

Harbor Group International's Multifamily Credit Fund II is a flexible all-weather credit strategy that offers attractive current yield and downside protection to one of the most resilient segments of real estate: US multifamily. We are excited about the opportunities ahead and look forward to partnering with you.



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HARBOR GROUP INTERNATIONAL, LLC

HGI and its affiliates control an investment portfolio of ~\$21 billion¹ including 5 million square feet of commercial space throughout the United States and the United Kingdom and 65,000 apartment units² in the United States. In addition to its corporate headquarters in Norfolk, Virginia, HGI maintains offices in New York City, Baltimore, Los Angeles, Tel Aviv, and Hong Kong.³



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Certain statements made herein reflect the subjective views and opinions of HGI and its personnel. Such statements cannot be independently verified and are subject to change.

¹As of 9/30/2025. AUM represents the total capitalized value of underlying assets, which includes direct and indirect real estate and real estate related investments, and the AUM of HGI's affiliate, HGI Capital Management, LLC.

²Includes multifamily direct and preferred equity investments.

³Hong Kong office opened subsequent to quarter-end.