A supplement to
Institutional Real Estate Americas

Stoneweg US

An ESG-driven investment approach to workforce housing

Chase McWhorter, Institutional Real Estate, Inc.'s managing director, Americas, recently spoke about sustainability and workforce housing investments with some of the members of Stoneweg's leadership team: **Patrick Richard,** founder and chief executive officer; **Karen Weller,** executive vice president and chief financial officer; and **Thomas Stanchak,** director of sustainability. Following is an excerpt of that conversation.

Can you share insight into Stoneweg's history and what makes the firm unique?

Patrick Richard: We come from Switzerland, and being from a different continent enriches what we do here. We have taken the best of our experience and practice in Switzerland and imported it here to the United States, incorporating it with the best U.S. practices. We have a dual approach, which gives us high standards of doing business in all elements of the work. Coming from Europe, ESG was deeply rooted in us from the beginning. It is at the center of everything we do. In terms of real estate, Swiss investors definitely have a longer hold period vision than U.S. investors, and that makes us focus more on the core qualities of the properties we buy, with a longer business plan. Switzerland has a long and deep history of multifamily investments. It has been a very strong asset class for a long period of time. In the United States, we found out how resilient and solid the multifamily sector is more recently.

What segments of the market and what opportunities do you find most interesting in the current environment?

Richard: Since the beginning of our firm here in the United States, we have focused on workforce housing, where the imbalance between supply and demand is a strong driver and supports what we do. There is such a big need for workforce housing. In response to that demand, we try everything we can to reduce the costs without jeopardizing the sustainability of our project. When we look at the multifamily over the long term, we definitely see opportunities in quality construction, offering safe and clean housing solutions for the workforce of America. We believe the best framework to bring this quality of assets with that focus on the quality of life of our residents is the ESG framework. For us, it is the best way to contain risks, to create value for all stakeholders and to act responsibly in today's world. It also is the best way to provide clear and transparent data to our investors, so they can comply with their own regulatory constraints. More and more, investors have to do their own reporting toward their regulators and their own investors. Working with a sponsor that can provide this information is key and very worthwhile to them.

How does ESG factor into your acquisitions process and ground-up development projects?

Thomas Stanchak: There are a lot of commonalities in the way ESG seamlessly factors into these two verticals of real estate investment. While ground-up development is a very distinct type of real estate investment, the ultimate result is a sustainable community we can bring to market that can magnetically attract like-minded capital partners that have a similar inherent interest in ESG with existing assets. Over the years, we've developed quite a sophisticated and comprehensive set of ESG actions and KPIs. We've worked with industry experts to develop them from the point of view of our stakeholders, to make sure there's value from equity and debt; from the point of view of the people who are calling the places we build or invest in "home"; and from the viewpoint of the employees of Stoneweg — those are the stakeholders we're trying to serve through our innovative ESG initiatives.

In terms of the ESG matrix and strategy we've developed, we begin looking at ESG through the context of our market analysis in the investment strategy. We take in items such as prevailing unemployment rates in the area or where demand is trending for homes in an area. How climate science predicts physical climate hazards will change over time is equally important and will affect the bottom line. If this is ignored, it will be an unhappy surprise. We also take this into account in due diligence for individual transactions. We create a written report, filling in the asset-level information related to the ESG actions and KPIs we've outlined. We put in writing how this investment aligns with our strategy, and then we deliver this to the investment committee, so there is light shed on ESG at the decision-making process. We know from the beginning how an investment aligns with our strategy. That same sort of document is taken into the asset hold period. Just like anything else in the business plan, we're going to implement the ESG initiatives. Sustainable real estate is undeniably becoming more attractive to investors, but we also firmly believe these sorts of responsible investing practices just remove friction in the marketplace, which otherwise burns away potential value and opportunity. We think our ESG approach sharpens our strategy overall.

Can you discuss the role of data science in optimizing multifamily property operations and tenant experiences?

Karen Weller: Data is knowledge, and knowledge is power. The more we know, the better we're able to react and to invest wisely. Data starts at a very granular level. At the property level, Tom uses data to drive our ESG initiatives to reduce and track power and water consumption. We have surveys that track resident satisfaction at the property level, which also help drive retention, rental rates and our ESG optimization strategy. Also, at the property level, we use AI-driven revenue management software to monitor conditions in the market, such as how many units are coming online, what the competition is like, and how units are being priced, so we can optimize our rents while keeping in mind we are targeting a workforce segment of resident. It helps us to optimize our revenue and optimize our occupancy rates.

At the organization level, we are building out a single database that houses everything. We have several functions that use data – underwriting, ESG, accounting and reporting, financial planning and analysis, forecasting, budgeting, treasury, and asset management all use the data. We don't want one person to use one source of data, and another department to use another source of data and come up with conflicting results from their analysis. Building this platform and allowing everything we do to access a single source of accurate and consistent data creates a lot of efficiencies in our organization, and it also helps to inform our decision making on a more proactive basis. Having ready access to solid data we can analyze quickly allows us to be much nimbler in the marketplace and make better-informed investment, asset-management and capital-expenditure decisions.

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>
> *– Patrick Richard*

Can you share a specific example of how data-driven insights have led to improvements? Any lessons learned along the way while developing your data platform?

Weller: We used to be more siloed, which sometimes caused delays in being able to make good, informed decisions. Building out this data platform and working together better means we are making better decisions. For example, on the treasury operations side, some of our property managers manage bank accounts and sometimes we manage the bank accounts. Now we have centralized that with one treasury person who manages all the users across our property managers, because we use third-party property management, and we are consolidating data. We've instituted good controls over how we send payments, wires, checks, etc. We have a very centralized view of what all the properties are doing, which helps us be more proactive in making sure they have adequate funding, but not too much in their accounts. And we're optimizing the use of our cash.

How does your multifamily portfolio align with sustainable and socially responsible practices? And what initiatives have you implemented to improve its ESG performance?

Stanchak: In terms of how our portfolio aligns with ESG, our track record speaks for itself. We have had remarkable accomplishments in benchmarking scores during the past couple of years for creating comprehensive ESG annual reports. Those demonstrate very well the tangible integration of ESG into our investment portfolio-management strategies. They give us an invaluable opportunity to connect with stakeholders, particularly capital partners, on how we're seeking to understand the opportunities that overlap in terms of ESG, and then we communicate those effectively and transparently with our partners. We believe that such open and candid communication creates a platform to strengthen those relationships and create value together.

ESG is an intrinsic, integrated strategy. It is not something separate that we do. It is integrated in the work we do to strengthen our bonds with our capital partners and deliver a quality living experience to the people who call our investments home. It's fundamentally that simple. It took years of dedicated effort to get to this point, and it gives us a sense of pride. We are very much a leap above a well-worded policy. We can demonstrate our commitment in an unambiguous way through benchmarking, collaboration and data-driven results. We have a platform that actively tracks the energy saved and the money saved in terms of energy-efficiency projects we implement. It's not a promise made during underwriting or when there's an annual pitch for capital improvement, but it's something we hold ourselves accountable to in all our work. We want to be clear about what expectations should be set, what our goals are, and how to be accountable for the people who invest with us.

How do you see the role of ESG evolving in the real estate industry during the next few years? And do you expect any new trends to arise?

Stanchak: We look at our work in terms of a decade. Being well prepared is being thoughtful about the next decade, and that's how you create resilient underwriting. I look at the ESG evolution in two primary parts. First, there is the undeniable rise of regulation. The dynamic beauty of the U.S. system is that there will be a continuing experiment across the country, across cities and counties and states, around regulating building performance standards. This starts as benchmarking compliance, delivering to municipalities through platforms, such as ENERGY STAR Portfolio Manager, how much energy a property is using. Then, in several markets, there are penalties if you don't comply. In addition, building performance standards are emerging in about 170 different U.S. locations,

CONTRIBUTORS

Patrick Richard

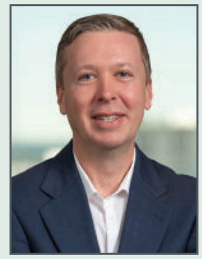
CEO and Founder

Patrick Richard is the chief executive officer and founder of Stoneweg US. As CEO, Richard has led all efforts to solidify the company's position as a desired investment partner since its 2016 inception. Under his leadership, the company has grown to reach a portfolio value of approximately $2.2 billion with more than 14,000 units. With a visionary approach that places the utmost priority on generating value for Stoneweg US's stakeholders, Richard continues to identify ways to inspire his team and establish Stoneweg US as a premiere investment partner for existing and new investors, alike. Richard began his commercial real estate career in Switzerland as a founding partner of Procimmo AG, a Swiss-based and regulated asset management company.

Karen Weller

Executive Vice President, CFO

Karen Weller joined the Stoneweg US Executive Leadership Team as the executive vice president and chief financial officer in July 2022. Weller oversees the company's finance and accounting functions, currently composed of treasury, finance, accounting and fund management, and she is also tasked with propelling the firm's innovation forward by means of automation and implementation. Weller's experience spans 30 years and includes senior-level positions with accounting firm Deloitte & Touche in several different countries. Since then, Weller's career has allowed her to garner both domestic and international experience in investor relations, debt and financing, financial risk management, and accounting and reporting.



Thomas Stanchak

Director of Sustainability

As director of sustainability, Thomas Stanchak leads all ESG efforts on behalf of the company and serves as the key adviser on all ESG initiatives for the company's stakeholders. He is responsible for implementing sustainability best practices that positively affect conservation, consumption and efficiency, initiated at the organization level and cascading down to the 14,000 units the company has under management. Additional responsibilities include continuing to forge strategic partnerships with environmentally and socially responsible companies; driving all ESG education and innovation efforts; presenting ESG initiatives to the investor committee, and compiling data to be included in quarterly, annual and specialty reports.

with some becoming law. It's good business to be prepared and well equipped for that. We've made ESG programmatic in part to build the muscle memory – then it becomes our own kind of internal renewable resource. It becomes part of a routine and doesn't cost us anything because we made the investment upfront.

The other half is what's happening with capital – whether capital truly desires ESG. We've researched this, and capital providers do care. ESG is part of their decision-making matrix. Stoneweg has embraced ESG in the sense that it creates stronger bonds and greater accountability with our capital partners, and that is how we see an avenue for our future growth, at the intersection of quality and value. It certainly was a steep and challenging path to begin with. What you gain from that challenging path is that you no longer have to put that effort into building these sorts of systems. That piece is accomplished.

How do you secure new capital for property acquisitions or development?

Richard: We are in a strong position. We have good debt; we have two credit facilities and no pressure from any of our lenders. We have a good insurance program in place and continue to work hard on our structure and on the market understanding. We did two acquisitions in 2023 and may do a third. That is 20 percent of what we have done in the past, but we are well equipped, and we don't have any pressure. At present, we are looking for like-minded investors who share our vision, see opportunities in ESG and understand the needs of residents.

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>
> *– Thomas Stanchak*

We are using this time, which is a little bit quieter, to meet with investors, speak about their goals and present our track record.

Karen, what opportunities do you see arising for the sector due to greater debt costs?

Weller: As Patrick mentioned, we are in a very comfortable position. We've never employed high leverage, so we're able to weather this storm comfortably. We're the only organization in the country that has credit facilities from both Fannie Mae and

Freddie Mac, and they work with us – they know it is much more difficult to get transactions done in this environment. A lot of people are sitting on the sidelines, and the fact that we're able to transact speaks to the strength of our team, our underwriting and our relationships with our partners. But for the real estate market as a whole, as debt costs rise, that doesn't necessarily interrupt deal flow except when it's in a period of volatility, as it is now.

> *With higher debt costs, it starts to make sense to be on the other side of the lending equation.*
>
> *– Karen Weller*

Once we have more clarity on where that rate is going to level off, we'll then see a repricing of assets, which gives us the opportunity to buy assets on an attractive basis.

At the same time, with higher debt costs, it starts to make sense to be on the other side of the lending equation. If you're interested in doing mezzanine debt or preferred equity, it makes sense to start pursuing these options because of the relatively attractive yield that can be obtained on that side of the equation. This time also gives us a little bit of a break in the transaction action to build up and invest in our platform, so we're prepared to hit the ground running whenever this market stabilizes.

How is Stoneweg addressing the shortage of housing, especially attainable housing?

Richard: When you have a shortage of housing, you need to build more, and you need to build at a price that makes renters able to rent it from you. I'm not a big fan of state sponsoring, but one thing states could do to support workforce housing – attainable housing – is to offer a break on taxes, which has a significant impact on NOI. In Florida, for example, new regulation allows that, if you get to a certain level of workforce housing, you get a break in your property taxes. If you are really committed to do sustainable housing, everybody has to give something. The developer must give something, banks have to give something, and the state has to give something. If everybody helps to make it possible, then it is possible. We're ready to do our part, and we can charge a lower development fee, especially if we do a greater quantity. We need investors who are committed to society. We need everybody.

CORPORATE OVERVIEW

Founded in 2016, **Stoneweg US** is an opportunistic real estate investment firm with a nationwide platform focused on the acquisition and development of multifamily assets. With a portfolio of more than 14,000 units valued at more than $2.2 billion, we seek to deliver attractive, risk-adjusted returns to our investors by identifying market opportunities and optimizing asset performance, all while improving the resident experience through a variety of value-added strategies. Through our association with Stoneweg SA, a Swiss-based real estate company with more than $3.0 billion in assets under management, Stoneweg US serves as the exclusive U.S. investment manager of Varia US Properties AG, a Swiss publicly traded multifamily real estate fund (SIX Swiss Exchange ticker: VARN). Stoneweg US also partners with U.S. and international equity investors to acquire and develop multifamily assets in markets with strong population growth and positive trending economic conditions. In 2020, Stoneweg US announced the formation of SW Fund I, an additional U.S.-based investment fund targeting multifamily investments in emerging U.S. markets, and in 2023, Stoneweg US launched a development fund.

For more information, please visit: **www.stoneweg.us.**

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