# 2024 Pretium Investor Symposium

*September 10-11, 2024*

Pretium.com

# A Note from Our Leaders

Pretium convened our 2024 Investor Symposium in mid-September in New York City. Over two days, more than 300 investors heard panel discussions and presentations by a range of experts including investment professionals, buy- and sell-side analysts, economists, leading housing and mortgage industry executives, demographers, and policymakers.

This was our eighth Symposium, and notably, many of the thematic undercurrents that defined our first conference back in 2015 have emerged to the forefront—including challenges in housing supply and affordability, and the impact of changing demographics and preferences across the U.S. housing market.

Of course, there have been marked changes in the business environment, in housing, banking, consumer spending, and other areas. And, in almost a decade, there have been substantial changes within Pretium itself, as we have executed on our vision to develop a differentiated, vertically integrated platform, now with more than $55 billion in assets under management. With tremendous opportunities ahead to grow and serve our clients, we recently expanded our leadership team by welcoming Stephen Scherr as Co-President of the firm.

This document is intended to serve as an overview of the Symposium. In it, we'll explore some of the key themes in the businesses where we operate—and the opportunities we see in fields with similar characteristics and meaningful potential to generate attractive returns for our investors.

As always, please reach out to us with questions or if you'd like to learn more about any of the topics covered here.

Best,

**DON MULLEN**
Founder and CEO

**JONATHAN PRUZAN**
Co-President

# Insights From Our Founder


GILLIAN TETT, Financial Times; DON MULLEN, Pretium

The 2024 Pretium Investor Symposium kicked off with a conversation between Pretium founder and CEO Don Mullen and *Financial Times* columnist and editorial board member Gillian Tett. The conversation provided a framework for understanding Pretium's distinctive investment approach and how the firm is applying it to opportunities in residential real estate, corporate and structured credit, legal financing and beyond. "We look for dislocations that require high complexity to execute on," Mullen explained. "It's more than just identifying assets. We're in the business of finding assets and then operating the assets."

The U.S. rental housing market is the seminal example of that idea. Today, the housing shortage and higher costs of home ownership are headline news. But in 2012, Mullen founded Pretium based on his conviction that two major trends would lead to challenges in the U.S. housing market. The first was based on demographics. "Longevity is a huge factor in the shortage of housing," Mullen explained. Baby boomers are "living in their primary residence as much as 15 years longer than they'd previously done 30 years ago. That takes a huge stock of housing off the marketplace." At the same time, the homebuilder industry receded in

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DON MULLEN, *Pretium Founder and CEO*

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the years following the Great Financial Crisis, leading to reduced housing capacity. “We had a severe housing shortage, and you could see that in 2010,” Mullen said.

Those conditions created strong tailwinds for the single-family rental (SFR) industry. But for investors, the complex and disparate nature of the SFR landscape made it extremely difficult to access. Pretium solved that challenge by buying single homes, and then tens of thousands of similar homes in similar neighborhoods, to create an investable asset class. “It was a very complex investment strategy and workflow to buy a single home and then 55,000 homes and develop the right fund structure to finance and then operate them,” Mullen said.

Operating these homes is at the core of what makes Pretium’s investment approach so distinctive. “We needed to have the ability to not just identify an asset, but the logistics to operate that asset,” Mullen said. “We’re two vectors: We’re a logistics business, and increasingly we’re a consumer business.” This operational expertise and the vertically integrated platform that Pretium has built around it—in real estate equity and debt, residential credit, and other areas—create enormous opportunities for Pretium and our investors.

As Mullen explained, “We’ve been able to harvest the knowledge we have today in proprietary data on single family homes.” That data provides a substantial advantage for Pretium across its investment areas, whether “it’s homebuilder lending, residential transition loans, mortgage lending, single family rentals, or multifamily rentals.”

At the same time, Mullen said, enabling families to rent houses in the “opportunity communities” where Pretium primarily invests creates advantages for residents in the form of safer neighborhoods and access to better schools and employment opportunities, among other benefits.

Moving forward, Pretium will continue to look for adjacencies in residential real estate where the firm has “unique value added either through our core product or our culture,” Mullen said. Simultaneously, we are replicating our formula of identifying long-term investment trends and applying sophisticated asset management and operational expertise to yield differentiated returns in other areas, such as legal finance and corporate and structured credit.

In the sections below, we examine the long-term trends that Pretium is focused on, and the unique investment opportunities we see in real estate equity, real estate debt, residential credit, structured and corporate credit and legal financing.


DON MULLEN, Pretium; DR. LARRY SUMMERS, Harvard University

# Trends and Opportunities

## Residential Real Estate

### TRENDS

Throughout the two days of the Symposium, many sessions expanded on the trends in housing supply, demand, and affordability highlighted in the conversation between Mullen and Tett, along with the opportunities created by the retrenchment by regional banks in real estate lending, discussed in a panel led by Pretium Co-President Jonathan Pruzan.

#### Growing Demand

While Baby Boomers are staying in their houses longer, younger generations are reaching their peak household formation years. There's a "demand surge," said Dr. Chris Herbert, Managing Director of Harvard University's Joint Center for Housing Studies, in a conversation with Joanna Zabriskie, President of BH. After a period of lower household formation following the Great Financial Crisis, "Millennials were a pretty big bulge that drove a lot of demand for housing over the  last 10 years," Herbert said. "We're seeing that bulge starting to pass through Gen Z…. We're now forecasting Gen Z will be bigger than Millennials because immigration is filling in."

With the ancillary costs of home ownership growing, these trends are driving demand for rental units. National property taxes and insurance costs jumped 7%[1] and 11%[2] respectively in 2023, noted Josh Pristaw, Senior Managing Director and Head of Real Estate at Pretium. "It's almost $1,100 a month more expensive to be an entry level home buyer than a renter of a single-family home," Pristaw said.  "And that equation has been gapping out not just because of in-


JOSH PRISTAW, Pretium; KAREN KULVIN, Pretium; BRENDAN BOSMAN, Pretium; PAUL STOCKAMORE, Techo Real Estate Capital; SIMON ZIFF, The Ackman-Ziff Real Estate Group

JON PRUZAN, Pretium

terest rates but because of the hidden cost of home ownership—rising real estate taxes, double digit insurance increases—all of which is… stimulating the demand for rentership."

The issue isn't new, but it persists. Annual home-price growth recorded its 14th consecutive record high in July 2024, as measured by the Case-Shiller U.S. National Home Price NSA Index[3]. Further, the relative affordability for homebuyers has decreased by around 40% in many major markets—Atlanta, Denver, Houston, Miami, Phoenix, among them—since 2020.

### A Housing Shortage

As demand for housing grows, Freddie Mac estimates a shortage of between four and five million housing units in the U.S.[4], a fundamental challenge that will define the housing market for years to come, panelists noted.

The supply is particularly weak for single-family rentals, construction of which tailed off dramatically after the financial crisis. From 1964 to 2006, the median single-family starts per capita was 4.5 per thousand, with annual figures dropping well below the median post-2008 financial crisis. Today, the forecasts for 2024 and 2025 are still over 30% below the long-term median[5]. Essentially, "the country isn't building enough homes," said Pristaw pointing to permitting issues, interest rates, rising costs and reduced bank lending to home developers and others in the residential real estate ecosystem. "The building cycle is broken for the next 10 to 15 years."

### A Retrenchment by Regional Banks

Reduced bank lending in residential real estate is a major shift that presents both challenges and opportunities, explained Pruzan. The U.S. banking industry is undergoing a secular transformation, Pruzan said, in which banks "are basically getting squeezed from all sides." He pointed to:

- Increased regulatory burden
- Declining profitability
- A challenging/changing funding environment
- Competition from nonbank players
- Shift in lending/client focus
- Valuations under pressure

As a result of these pressures, "banks are lending less," said Pruzan. "You're seeing them step away from certain asset classes. One of them is residential construction.… Twenty years ago, 8% of the loan portfolio of a bank was construction loans. Today it's half that." The pullback of regional banks in areas like residential construction has created challenges for small- and medium-sized builders. "It's not the largest home builders in the country, who have access to the capital markets…. These are homebuilders who build 300 homes a year… who need loans to do their business," Pruzan said.

John Esposito, Global Head of Financial Institutions at Morgan Stanley, underscored that the banking industry is focused on the enactment of global capital standards under Basel III. "Some of the incremental things that will come post-Basel III around liquidity and long-term debt requirements for regional banks will present incremental earnings pressure—especially the long-term debt requirements for some of the mid-sized regional banks." Other panelists pointed to competition from fintech companies and the threat of AI as an "existential crisis" for banks.

Given these trends, "we believe that private credit is going to become more and more of the providers of capital that build houses in this country," Pruzan said.

### Affordability

As lower income Americans have been especially hard hit by the housing shortage and affordability issues, several Symposium panelists pointed to the Housing Choice Voucher (HCV) program, the most common type of housing assistance in the U.S., as a proven way of addressing affordable housing challenges.

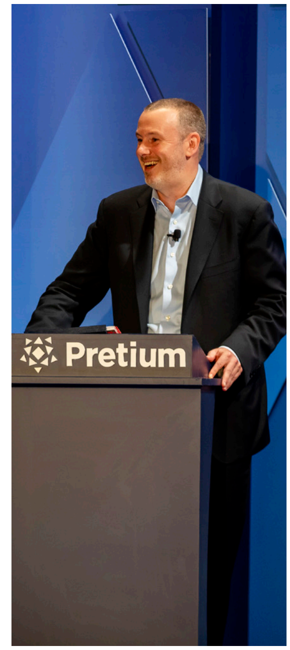
Established in 1974, the program has survived five decades and multiple presidential administrations "because it works," said Michael Stegman of the Urban Institute. The program is a win-win in several categories, he said, enabling both flexibility and stability in the marketplace. Andrea Gift Allan, who leads Pretium's affordable housing investments,

ANDREA GIFT ALLAN, Pretium

JOANNA ZABRISKIE, BH

JOSH PRISTAW, Pretium

SARAH KONG, Pretium




LEE ALEXANDER, Pretium

emphasized that vouchers give low-income rental families more choices in where they live, and they tend to stay longer in their homes. She also underscored "the unique social returns the program provides to families," and the fact that the program provides both housing providers and investors with economy-resilient, stable cash flows.

One of the big issues with the HCV program is that it's not big enough to serve all eligible families, according to Stegman. "We really need to change the voucher program from a lottery to something people that need it most desperately can rely on." For every voucher in use, there are three more eligible households waiting for their chance, Stegman noted.

### Dispersion of Real Estate Subsectors

The relative performance of asset classes and markets within real estate are diverging—and doing so in a number of ways. Since 2020, prices among single-family, apartment, retail, industrial, and office subsectors have varied, with office losing about 10%, while single-family has surged by about 40%. Apartments have been the worst performer since July 2022[6]. The divergence isn't only on the pricing side: The supply picture also varies by asset class. Single-family rentals are the only major real estate category to see a supply decrease over the past five years. Multifamily has had the highest increase, at 12%[7]. But the new supply peak for multifamily is coming to an end—which will create compelling opportunities. That's a stark contrast to the undersupply plaguing the single-family rental business, according to several Pretium presenters.

## OPPORTUNITIES

### Real Estate Equity

Panelists identified several areas of the single-home family rental business as enticing investment opportunities, underpinned by strong numbers. "Strong fundamentals for single-family rental housing and cash-flow growth for investments is one of the reasons we think it's a really compelling entry point for the business," Pristaw said.

Portfolios of leased rental housing and build-to-rent communities are becoming available. "One of the most interesting opportunities we see today is potential acquisitions of single-family rental portfolios," said Kyle Mitts, a managing director at Pretium. "There are a lot of people who really want to get out of the business. They came in for a trade and don't have the scale, they don't have the local market efficiencies, they don't have the investment data, and they don't have the access to financing."

At least 25 small operators lack the benefits of scale, are seeing their costs escalate, and will be leaving the business, creating acquisition targets, according to Pristaw. "It's always been and forever will be a very capital-intensive business," said Brendan Bosman, a managing director at Pretium, who sees potential both in acquisitions and in providing capital to homebuilders.

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>
> JONATHAN PRUZAN, Co-*President of Pretium*

Not all potential targets will make sense. Mitts said it's important to be selective and that Pretium's data provides it with insight to be very methodical about which targets are most attractive. "It comes down to taking a sharp-shooter approach to underwriting individual assets and leverage the data and insights we have to pick the right bets," Mitts said.

Multifamily equity was cited as another opportunity There are elevated levels of supply, especially across the Sun Belt. But multifamily supply is being absorbed faster than many thought—in part due to demand from immigrants. Since 2022, multifamily prices fell as much as 30% at their low in December. Though they have since rebounded, they are still down 22.5% from their peak, creating an attractive entry point[8]. Pretium entered the multifamily space in May 2024, with the acquisition of BH, the ninth largest multi-family rental operator in the country, with over 114,000 units in 30 states. "Our belief at Pretium is you need to be vertically integrated because you need to have that data and analytics to know what are the right markets," Pristaw noted.

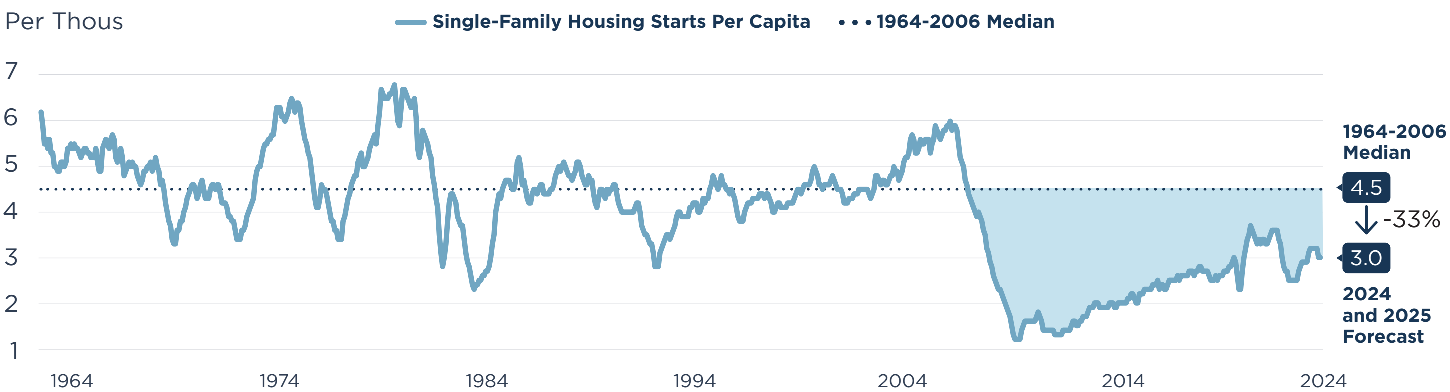
The acquisition of BH included not only the management company, BH President Joanna Zabriskie underscored. It also brought Pretium BH's "strong investment track record, as well as our investment management team and

EXHIBIT 1

# The Country Isn't Building Enough New Homes

Limited homebuilding activity after the financial crisis episode has driven the cumulative supply deficit of 4-5+ million units since 2008

## Single-Family Housing Starts Per Capita[1]




[1]Fannie Mae, MBA, NAHB, U.S. Census, Pretium. Data as of June 2024. Forecasted series is based on a median of the Fannie Mae, MBA and NAHB housing starts forecasts and the U.S. Census population forecast.

our acquisitions team," she said, emphasizing the tremendous potential of Pretium's multifamily investment strategy.

### Real Estate Debt

The pullback on real estate lending by banks "sets up really well for Pretium and the ecosystem that we've built," said Pruzan. He pointed to the unique market access Pretium has through its operating companies Anchor Loans, BH Management, Deephaven Mortgage Progress Residential and Selene Finance.

In single-family homebuilder finance alone, reduced bank lending has created a half-trillion-dollar opportunity, Pristaw pointed out[9]. "Within the homebuilding residential and land development universe, 71% of all loans are on the balance sheet of banks—that's $326 billion," he said. "These are good loans that are getting paid off as homeowners buy homes from home builders. The problem is there's no credit for the builders to backfill that, particularly private builders. And that market is huge, a $500 billion a year market."

When it comes to financing for single-family residential builders, Bosman underscored the critical role that private capital will play in supporting a wide network of homebuilders. "The top 20 largest builders have plenty of capital right now [but] basically everyone else is using bank capital, and they're going to need private capital to continue building these homes."

That opportunity extends to the multifamily space as well. "There's $2 trillion of multifamily debt outstanding," explained Karen Kulvin, a managing director on Pretium's Real Estate Debt team. "Of that $2 trillion, about $500 billion is maturing over the next 15 months," she said. "Private credit is really having its moment of being able to come in and provide financing to these markets," Kulvin added. "There's a huge amount of existing products and a huge opportunity for firms like Pretium. The fundamentals in multifamily real estate are so excellent and that's not what's causing the problem. The problem is the huge valuation compression… which leaves us in a really good situation to invest."

Ultimately, banks reducing their exposure to real estate debt is "creating a whole new industry," Mullen said. "Private credit 2.0 will be all about the real estate debt market. While there's an institutional real estate market already, this fits perfectly into the fat part of what we do."

### Affordable Housing

There are roughly 2.3 million vouchers in use through HUD's HCV program[10], but despite broad support for the program, only approximately 60% of voucher holders searching for a home are able to find one[11].

Pretium is working with public housing authorities to enable families with vouchers to rent single family homes. Historically, affordable housing rental alternatives have been in areas with higher poverty and crime rates. "This is an opportunity set for people who can't afford to buy a house to live in an ownership community," said Mullen. "And [living in] these communities is known to create better opportunities for people to break intergenerational poverty." (Harvard study)

For investors, the potentially available but unutilized vouchers roughly translates into a total addressable market of more than $120 billion in real estate[12]. "From an investment standpoint, we can target non-concessionary returns in affordable housing with market rents, resilient cash flows, and a stable resident base with higher collections and lower turnover," Allan added.

### Residential Credit

One of the world's largest asset classes, valued at more than $14 trillion, residential credit offers relatively high yields and strong portfolio diversification benefits[13]. "We're very bullish on residential credit," said Jonathan Babkow, Senior Managing Director and Head of Residential Credit at Pretium.

Babkow explained that the stable housing market has made residential credit a strong asset class to lend against. Another driver, he said, has been the rise in housing equity,

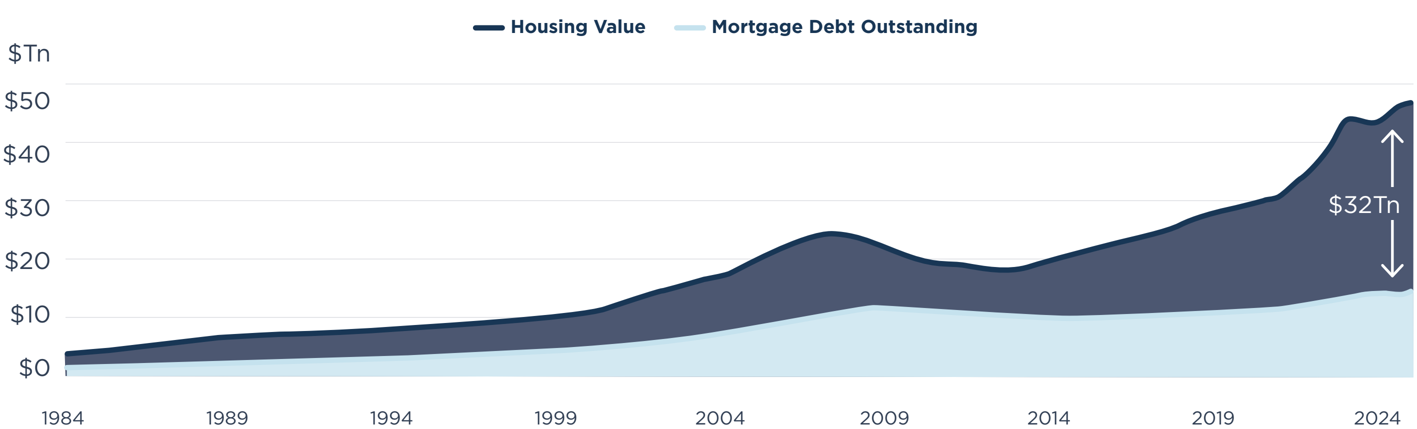

JON BABKOW, Pretium; JIM EGAN, Morgan Stanley; RAY MATHODA, Anchor Loans

EXHIBIT 2

## U.S. Homeowners Have Record Amounts of Housing Equity Which Could be Accessed Through HELOCs

Stable home prices have led to growth in positive housing equity

### Aggregate U.S. Housing Value Vs. Outstanding Mortgage Debt[1]




[1]Federal Reserve H.8, Pretium, data through June 30, 2024.

as home values have increased due to strong demand and supply shortages. “Housing equity is creating lending opportunities, specifically second liens and home-equity loans,” he said. In addition, given the challenges in some sectors of the economy resulting from higher rates and elevated inflation, there are opportunities in loans that are not performing well. “In pockets we’re seeing distressed opportunities to buy assets, do workouts, and create better loans down the road,” Babkow said.

The array of products within residential credit are diversified, allowing investment strategies to perform in different market conditions—whether interest rates are rising or falling or housing prices are up or down. “Diversification in this type of asset class that’s so large is great for investment,” Babkow said.

One sub-sector where Babkow sees particular opportunity is in residential transition loans (RTL), also known as fix-and-flip. “We love the RTL space,” he said. “Houses keep getting older and the need for rehab and refurbishment and updating homes is something that I think is going to grow significantly over the next five to 10 years. There’s plenty of homes 60 and 70 years old, and today’s generations don’t want to live in a 1980s style home.”

Sarah Kong, Managing Director for Residential Credit at Pretium, emphasized that not only are the products diversified within this asset class, so are the returns. “Nominal yields across different products within residential credit are still high, which presents a huge investment opportunity to those with a vertically integrated platform,” she said.

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>
> JONATHAN BABKOW,
> *Senior Managing Director and Head of Residential Credit at Pretium*


TED HUFFMAN, Pretium; IAN BREMMER, Eurasia Group

# Structured Credit and Leveraged Loans

While housing is at the core of Pretium, it's not the only asset class that reflects our differentiated approach to investing. Within structured credit, leveraged loans, and legal finance, we see evergreen opportunities with the potential to generate strong returns replicating our investment processes.

## TRENDS

Price dislocation and elevated default rates create opportunities in the vast collateralized loan obligation (CLO) markets, said Jerry Ouderkirk, Pretium Senior Managing Director and Head of Structured Credit. Armed with a proprietary analytics suite, Pretium LATTICE, the fund can pivot between new issue and secondary CLOs—a roughly $1 trillion market[14]. In his market outlook, Ouderkirk sees increased price dispersion in the bank loan market, rising bank loan default rates, and robust secondary CLO volumes.

Consumer health underpins the housing market and a swath of other investment opportunities. "At Pretium we think that the structured and corporate credit markets are at an inflection point, and one of the key elements driving this is the U.S. consumer," said Roberta Goss, Senior Managing Director and Head of Bank Loans and CLOs at Pretium, who led a panel of sell-side analysts, economists and strategists focused on the topic. Goss pointed to an increase in corporate defaults—not a spike but a pickup—as an indication that we might be heading towards a turning point in the credit cycle.

## OPPORTUNITY

Ouderkirk said Pretium's edge in the CLO sector is "our people, our technology, and our investment strategy." He said the CLO market "is unequivocally large enough to support a dedicated investment program," noting that many competing strategies are too myopic in their investment focus. "Some focus only on their dedicated new issue platform and, in so doing, miss strong relative value opportunities in secondary markets. Some choose to be overly opportunistic, focusing only on secondary and only when there's a period of significant dislocation."

Pretium, on the other hand, operates through all phases of the CLO market cycle. "We lock in term funding via new issues when financing markets are accommodative, and then pivot to the secondary markets to take advantage of mispriced risk when markets become more volatile," said Ouderkirk. "By operating in this fashion, we're able to create an all-weather investment strategy for our LPs, which we believe can outperform in almost any market condition."

JERRY OUDERKIRK, Pretium


ROBERTA GOSS, Pretium; CARLA CASELLA, JP Morgan; DOUG KARSON, Bank of America; RONNIE WALKER, Goldman Sachs; BRADLEY ROGOFF, Barclays

# Legal Opportunities

## TRENDS

The growth of intangible assets such as patents is one of the factors fueling the development of legal finance. Panel participants emphasized how patents underpin every sector in every industry in every country on a global basis. There is an enormous information asymmetry about these assets, giving rise to pricing opacity which we believe creates opportunity. Matthew Cantor, Senior Managing Director at Pretium and Head of our Legal Opportunities Strategy, spoke about the four areas Pretium is focused on within legal finance: providing capital to law firms, distressed and insolvency opportunities, unlawful business practice claims, and patent infringement rights. "This investment strategy is evergreen," Cantor said. "It's another investment discipline like corporate finance or real estate finance where Pretium is focused on pursuing thematic investment opportunities," he said.

## OPPORTUNITY

Pretium provides capital to fund the monetization of legal entitlements, providing non-recourse capital to either the holder of the claim, the owner of the entitlement, or to law firms. The legal finance team sources and underwrites legal risk. There's a significant opportunity set given that the overall market for legal services in the U.S. is increasing, Cantor said. Further, major law firms are increasing their reliance on alternative fee arrangements to boost their profitability and align incentives with clients, he added. Legal finance offers investors uncorrelated risk; returns on legal claims are not only uncorrelated to capital markets and fund investments they also are uncorrelated to one another.


CHARLES SCHMERLER, Pretium; MATTHEW CANTOR, Pretium

# What's Ahead

Looking forward, Mullen outlined the vast opportunity set ahead for Pretium and our investors. "Because we have an industry with strong tailwinds that will persist for many, many years, the combination of that with the improving efficacy of the industry… I think creates great growth opportunities for people."

Those opportunities will be amplified by secular changes in the banking industry, Pruzan emphasized. "We are in some early middle innings of a transformation of the regional banking system that will create significant opportunities in private credit—and for Pretium in particular around the residential ecosystem that we've built, as well as the ecosystem around structured credit and our other businesses."

As Pretium continues to grow and scale our business, we will look for "areas that we have unique value added and adjacencies either to our core [housing] product or to our culture, which is built very much around complexity," Mullen said. "We have a preference for adjacencies to what we do already. And this sector [housing] is so huge that we don't need to go into private equity, we don't need necessarily to be in equities, and we don't need to go into venture capital. We can be in adjacencies to the things we do already and continue to successfully grow the firm and add value to our clients, which is the most important thing," he said.

Whether in housing, structured credit, legal finance or other opportunities, Mullen said that Pretium will always adhere to its core investment approach: "We'll be making sure that our skills can bring value to investors by being in a position that—with the combination of capital, our insight, our operational expertise and scale—we can execute on this and be a leader in the space."

DON MULLEN, Pretium; RYAN MARSHALL, Pulte Homes; JON PRUZAN, Pretium

# End Notes

[1]Attom as of April 2024

[2]S&P Global as of January 2024.

[3]Ruben Caginalp, “Case-Shiller Index: Home price gains reach another all-time high,”Bankrate.com, September 24, 2024.

[4]Freddie Mac, “Housing Supply: A Growing Deficit”, 5/7/2021: Pretium analysis as of 5/31/2023.

[5]Fannie Mae, MBA, NAHB, U.S. Census, Pretium. Data as of June 2024. Forecasted series is based on a median of the Fannie Mae, MBA and NAHB housing starts forecasts and the U.S. Census population forecast.

[6]Indexed based on 1/1/2020 benchmark. Sourced from RCA, MSCI, and CoreLogic through 12/31/2023.

[7]U.S. Census, ACS, 2006-2022 1-Year Estimates; CoStar, as of 10/30/2023.

[8]Green Street as of 8/1/2024.

[9]U.S. Census, Single Family Housing Starts & Average New Home Price, Fannie Mae Housing Forecast, as of 5/31/2024, and Pretium Internal Analysis, data as of 11/30/2023.

[10]Data as of May 2023. HCV counts provided by local Public Housing Authorities and the Office of Public and Indian Housing.

[11]U.S. Department of Housing and Urban Development, “Using HUD Administrative Data to Estimate Success Rates and Search Durations for New Voucher Recipients”, page 6.

[12]Data as of May 2023. HCV counts provided by local Public Housing Authorities and the Office of Public and Indian Housing.

[13]Federal Reserve, Pretium, data as of March 31, 2024.

[14]Bank of America, “CLO Factbook” as of August 9, 2024.