TwinRock Partners

QUARTERLY NEWSLETTER | Q4 14

IN THIS ISSUE:

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TwinRock Investors,

Welcome to the Third Issue of the TwinRock Quarterly Newsletter. First and foremost, we would like to offer our thanks for your continuing loyalty, support and trust.

The Fourth Quarter of 2014 has been both productive and exciting for TwinRock. Our funds continue to perform and we were able to acquire another multifamily property in Oklahoma City, Oklahoma.

In the previous quarter, we heard favorable news regarding our HOA Foreclosure strategy as the Nevada Supreme Court came out with a positive ruling regarding extinguishment of a mortgage by an HOA Foreclosure sale. We continue to monitor the legal landscape as it unfolds.

Our upcoming investment pipeline continues to reflect our confidence in the growth prospects of selected markets in the Western and Midwest Region as we continue to target B & C class properties in Nevada, Oklahoma and other parts of the country. We are confident in the investment outlook of our target acquisitions as Freddie Mac alone underwrote $21.2 billion of debt on apartment buildings in the second half of 2014, triple the total in the first six months, almost surpassing the larger Fannie Mae last year to become the biggest provider of U.S. apartment financing. David Brickman, head of multifamily operations for Freddie Mac, recently said “Nobody is building Class B properties.” “Vacancies continue to be very low.” This goes to the core of our belief that outside the top tier apartments in the most demand markets, there is still upside in the properties we look to acquire.

Sincerely,

Alexander Philips
Chief Executive Officer

HOA LEGAL UPDATE AND TRP FUND V

In the beginning of 2013 and early half of 2014, TwinRock Partners began purchasing Nevada homes at HOA Foreclosures with the expectation and strategy that an HOA lien would extinguish a first deed of trust. Our confidence in the strategy was a result of extensive research on Nevada law and our experience in executing the strategy. TRP Fund III began allocating a portion of its portfolio to buying homes at HOA Foreclosures at 11% of Fair Market Value. With increasing confidence as the legal landscape unfolded, TwinRock, in 2014, started TRP Fund IV and later TRP Fund V, Funds only invested in HOA Foreclosures.

TRP Fund V is currently in the acquisition phase with 5 homes purchased at 56% of fair market value. The Fund is raising an additional $1,000,000 for its next tranche of homes.

Last year, investors scored a major legal victory as a result of the Nevada Supreme Court's determination that an HOA super priority lien is a true priority lien and that foreclosure of an HOA lien extinguishes a first deed of trust and that an HOA does not need to file a judicial action to foreclose on its lien, instead approving of the non-judicial process used in our cases. The Funds are now focused on monitoring the legal landscape.

Various title companies have determined the need for a Quiet Title decree from the Court for each property before issuance of title insurance on HOA foreclosure properties. Anticipating such an outcome, our counsel has been taking a proactive approach in gathering documents and determining on a property by property basis whether proper noticing occurred. If we have sufficient proof of proper notice compliance, for properties already in litigation, we intend to instruct counsel to file motions for summary judgment requesting the court to summarily issue an order quieting title in our favor. In those cases where notice is unclear, further discovery will be required. The latter scenario may actually be addressed in other cases currently before the Nevada Supreme Court. For homes where we have not filed for Quiet Title, management will take a wait and see approach as we let issues settle.

Management expects the pace at which Quiet Title will be granted to gain speed as judges become more familiar with the issues and arguments. Many of the cases that were originally put on hold pending direction from the Supreme Court have either had their stays lifted or are in the process of doing so.

On the 15th and 25th of September 2014, a Federal Court Judge issued two decisions that have no precedential value but could affect clean title to HOA foreclosure homes owned by HUD or that have FHA-insured loans. This decision has been appealed to the Ninth Circuit Court and is pending a mediation session expected to take place in March 2015. On behalf of the Fund, our counsel defeated this argument recently in State Court.

Furthermore, with a decision having been reached and ambiguity with regard to the status of the first deed of trust removed, the free market is now going to work, with HOA Foreclosure sales heading towards market value . As we continue to monitor foreclosure sales, we are seeing less activity as a result of the banks protecting their interest and paying their HOA assessments. Our primary source of HOA Foreclosure homes is now through third parties (previous successful bidders who bought homes prior to the Nevada Supreme Court decision.

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Recent Acquisitions

The Esperanza



Tuscan Villas



The Esperanza Apartments closed on December 18, 2014. Tuscan Villas, the adjacent property in Oklahoma City, Oklahoma is scheduled to close in the beginning of March. TwinRock Partners was able to successfully aggregate Tuscan Villas, an off market property that has been fully renovated, to the current Esperanza project. By aggregating the two adjacent properties, management will realize operational efficiencies and cost savings to both properties through economies of scale. The Esperanza will be upgraded with new gated fencing and apartment interiors renovated to meet or exceed rents being achieved at Tuscan Villas.

The Esperanza is a 254 unit complex consisting of 28 residential buildings, clubhouse and 2 standalone laundry facilities. Tuscan Villas is a 48 unit complex consisting of 3 residential buildings. Both are located in the heart of the Interstate 240 Corridor in South Oklahoma City near major retail development. Large employers such as State and Federal Government, Chesapeake Energy, OG&E Energy Corp., OU Heath Sciences, Devon, Integris, Cox Communications and are within a short commute of the properties. Boeing is relocating approximately 900 jobs to Oklahoma City to its campus less than 9 miles from Carriage Square. Both properties represent a solid investment with high in-place cash flow and value-add opportunity.

The property has frontage and high visibility on I-240, a major retail and restaurant corridor that carries 100,000 vehicles daily and is within walking distance to shopping centers. There is a pedestrian bridge adjacent to the properties that leads to a $45 million retail development owned by Inland American.

External Links: *Aerial Video Presentation*

Investment Pipeline

Nevada Royale Apartments

TwinRock Partners is in contract to acquire Nevada Royale Apartments, located in Stateline, Nevada (South Lake Tahoe). Nevada Royale is a 38 unit complex consisting of 28,310 SF situated on 1.1 acres being acquired through bankruptcy court.

The property represents a value add opportunity in a supply constraint market next to Edgewood Tahoe Golf Course where the #1 Celebrity Sports Golf Tournament is held and is less than a mile to downtown casinos.

TwinRock Partners will improve the property and reposition Nevada Royale as a higher quality complex in the Lake Tahoe area. This property is one of the larger complexes on the Nevada side of Lake Tahoe.

Stonecrest Apartments

TwinRock Partners decided to cancel escrow and not acquire Stonecrest Apartments, a 293 unit complex located in Tulsa, Oklahoma. The property, built in 1983 consists of 17 residential buildings, and 1 club-house/leasing office.

TwinRock Partners had intended to implement a strategy to rebrand and reposition the property. During escrow, after extensive research and negative findings, management decided not to move forward. Following a property inspection report, lease and file audit, along with area research, management found inconsistencies during the on-site file and lease audit. Management also discovered a disproportionate amount of crime on the property following crime reports, interviews with the local police department, security firms in the area, and local property managers.

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Update on 2014 ACQUISITIONS

Southern Elms

Southern Elms is a 78 unit apartment complex located in Tulsa, OK.
The property was built in 1964 and consists of 4 two-story buildings and an office/clubhouse.

The property has highway frontage in the Central Submarket and is experiencing high rental demand and cash flow. Current occupancy stands at 99% with increased asking rents from acquisition.

The property is exceeding projections.

YaleTowne

YaleTowne is a 544 unit apartment complex located in Tulsa, OK.
It consists of 32 two-story buildings and an office/clubhouse with good visibility on a high traffic arterial street. The property was built in 1978.

Over the past year, management and a new on-site management team has implemented its strategy to rebrand and renovate the property. With an improving property, management is gradually increasing rental rates and seeing better leasing velocity with all upgraded units currently occupied at projected asking rents.

Management plans on introducing a new 24/7 Concierge Service to the property in the upcoming quarter to further improve the amenities.

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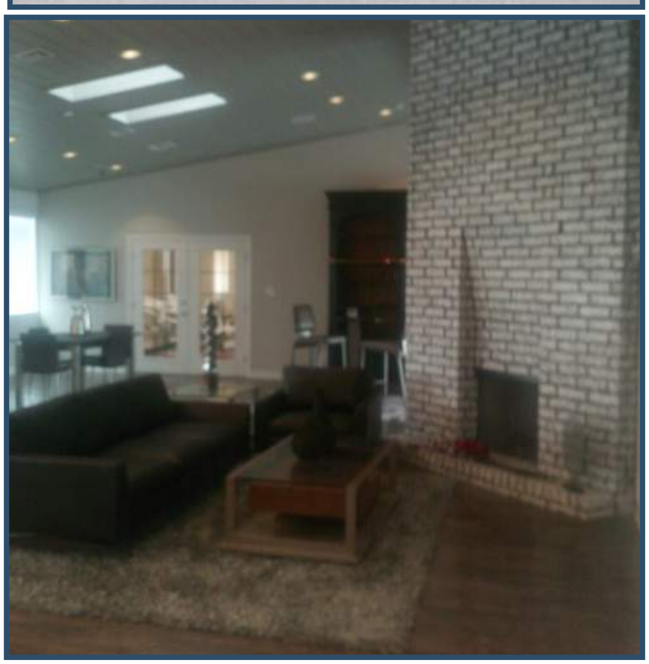
Update on 2014 ACQUISITIONS



The Chelsea

TwinRock Partners acquired its 3rd property in Oklahoma during the Quarter. The Chelsea (formerly Artisan Ridge Apartments) is a 312 unit complex consisting of 36 residential buildings and 1 single-story office/clubhouse building, located in Oklahoma City, Oklahoma that closed on October 28, 2014. The purchase price was $12,175,000 or $39,022 per unit. Based on the current NOI, the cap rate on the purchase price was 8.8% and 7.5% on total cost.

TwinRock Partners has rebranded and is in the midst of repositioning The Chelsea. Currently, the property is undergoing extensive renovation. The clubhouse and office remodel is almost complete. TwinRock is currently implementing the interior unit upgrade schedule along with overseeing improvements to the fascia, pavement, new pool area, playground and landscaping

External Links: *Aerial Video Presentation*

TRP HOUSING FUND MARKET OVERVIEW

Inland Empire

The median sales price of single-family homes in Riverside and San Bernardino Counties increased 4.3% in the quarter to $289,900, up from $278,000 as of September 2014; representing an increase of 7.4% year-over-year, up from $270,000 as of December 2013. The overall year-over-year price increases in the Fund's general housing market indicate healthy price appreciation for the Fund's underlying assets.

Home sales in Riverside and San Bernardino Counties during the Fourth Quarter totaled 10,301, down 8.4% from last quarter; however, up 14.3% quarter-over-quarter from 2013.

Homes available for sale in Riverside and San Bernardino Counties at Fourth Quarter end decreased by 14.0% from the end of last quarter. Year-over-year, number of houses available increased by 18.1% as the supply of new listings outpaced the number of sales over the past year. The "months supply" of inventory remained decreased to 4.4 for the month of December 2014 compared to 4.9 at the end of last quarter and increased 4.0% year-over-year from 4.2 months in December 2013.

The dynamics that pushed home buyers to the Inland Empire in droves last decade are developing once more. The median home price in Riverside County in November was $305,000 — one-third lower than the $455,000 in Los Angeles County and barely half the $585,000 found in Orange County. "That bodes well for points east," said John Husing, Chief Economist of the Inland Empire Economic Partnership. "A huge portion of the coastal counties market is priced out of the ability to buy a home," Husing said. "Those are the facts that have always driven the market inland before." Husing is optimistic that lower down-payment requirements being rolled out by Fannie Mae and Freddie Mac will help more buyers. As prices keep climbing on the coast, he predicts, more and more people will swallow the commute. It just might take them some time. "2015 will be better than '14, which was better than '13," Husing said. "By 2016 or 2017, I think we're more likely to see a market that we think of as normal."

Lower gasoline prices will also have a positive impact on the Inland Empire. "For economies like the Inland Empire, where 22.5% of households earn less than $25,000 and where propensity to consume is likely 100%, this means an increase in the standard of living of numerous families as they will be able to spend more on non-fuel goods and services. This should increase local consumer optimism which is a key factor for an economic recovery," Husing said.

Antelope Valley

The median sales price of single-family homes increased by 2.3% in the quarter to $220,000, up from $215,000 as of September 2014; representing an increase of 13.9% year-over-year, up from $193,200 as of December 2013. The overall price increases the past year indicate healthy price appreciation for the Fund's underlying assets in this region.

Home sales in Lancaster, Palmdale, and Quartz Hill during the Fourth Quarter decreased 3.7% from last quarter. Houses available for sale in Lancaster, Palmdale and Quartz Hill at Fourth Quarter-end decreased 23.9% from the end of last quarter and the number of houses available for sale increased 31.0% year-over-year. The "months supply" of inventory on the market decreased to 3.5 for the month of December 2014 compared to 5.1 from the end of last quarter and is down 33.3% year-over-year from 5.2 months .

Southern Nevada (Las Vegas), Nevada

Greater Las Vegas Association of Realtors ("GLVAR") reported the median price of homes sold during December was $204,000, up 1.0% from November and up 10.3% from a year ago.

According to GLVAR, the total number of existing local homes and condominiums sold in December was 2,734, up from 2,482 in November, but down from 2,915 one year ago. At the current sales pace, Southern Nevada continues to have less than a four-month supply of available homes.

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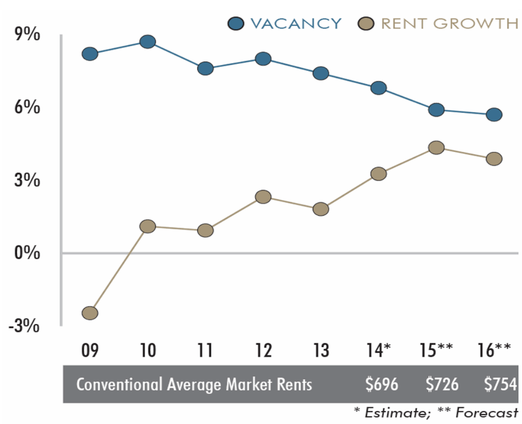
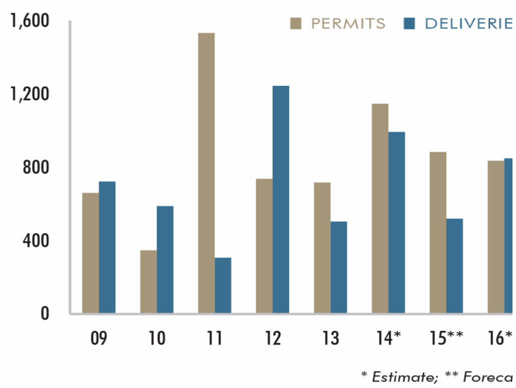
2014 OKLAHOMA MARKET OVERVIEW

Tulsa

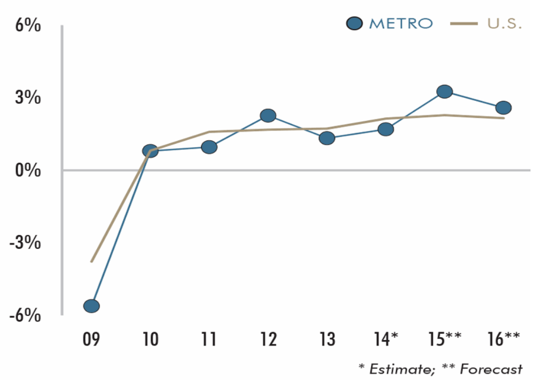
Vacancy



New Permits



Employment Growth



The Tulsa apartment market strengthened measurably in 2014 following broad-based hiring. Blue-collar sectors, in particular, supported occupancy and rent improvements. Local businesses added 7,400 workers last year, expansion of 1.7%. The manufacturing and the trade, transportation and utilities industries provided the largest boost to the local economy, hiring 2,200 workers and 2,000 personnel, respectively, in the past 12 months. Leisure and hospitality, government, education and health services sectors also contributed a combined 4,300 jobs. Although the professional and business services segment was the biggest weight on hiring with the loss of 1,800 positions last year, the 250 new call-center workers at Data Exchange lessened layoffs in the sector.

Rising staffing levels and pent-up demand for new apartment product are maintaining leasing activity. In the past four quarters, operators have notched positive absorption of 1,280 units, compared to 860 newly occupied units in 2013.

Following a lull in completions in 2013, builders ramped up deliveries nearly 100% last year. Marketwide inventory increased by 990 units since January of 2014. Supply growth was elevated in the Central Tulsa and Arkansas River Southwest submarkets, with 500 new units added to stock between the Enclave at Brookside and The Reserve at Elm.

Capitalizing on healthy absorption, developers augmented the planning pipeline in 2014. Builders filed permits for 1,150 multifamily units in the previous 12 months, after permitting averaged 725 apartments annually in the preceding two years.

By the end of the fourth quarter, Tulsa-area vacancy was 6.8%, 60 basis points below December of 2013 and the lowest year-end level since 2008. Demand was healthy in Wagoner County, supporting a 240-basis-point drop in vacancy.

Operators advanced asking rents an average of 3.2% in 2014, lifting the metrowide rent to $696 per month. Rents appreciated 1.8% during the prior 12 months.

Source: Berkadia Real Estate Advisors Tulsa 2014 Report

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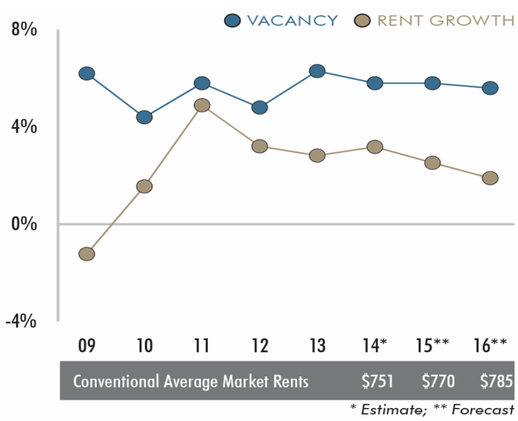
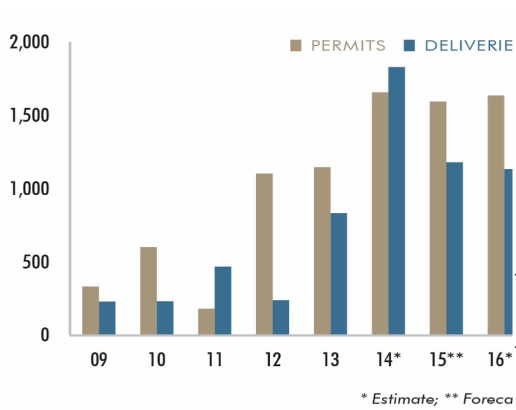
2014 OKLAHOMA MARKET OVERVIEW

Oklahoma City

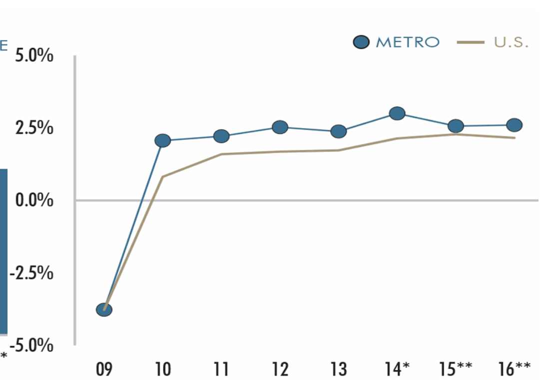
Vacancy



New Permits



Employment Growth



Job-market strength pushed leasing to a 10-year high in 2014, as positive net absorption reached 2,120 units. Oklahoma City employers continued to add workers at a rate faster than national job creation. Last year, 18,500 positions were created, a 3% gain. The construction sector expanded a metro-leading 13.8%, as businesses created 3,800 jobs. Companies in the high-paying financial activities segment added 2,300 positions, increasing 6.7%. Broad-based employment growth in several key sectors offset the loss of a few hundred jobs in the information and other services sectors.

Absorption surged in 2014, in step with rising deliveries. In the past decade, renters absorbed an average of 700 units annually, one-third of the 2,120 newly occupied units in the past four quarters.

Last year, developers completed 1,830 units, with the majority of the new stock located in the South Oklahoma City submarket. Two large developments were also completed in the East Central submarket, as builders concentrated on expanding rental inventory in the highest-rent submarket in the metro area.

Multifamily developers ramped up requests for permits last year amid elevated employment growth and absorption. Issuance rose to 1,660 apartments, compared to 1,150 units in 2013.

Considerable pent-up demand for apartments was present last year following several years of steady hiring and below-average inventory growth. Brisk leasing activity resulted in a 50-basis-point decrease in vacancy, as the rate reached 5.8% at year-end.

The emergence of new product in the downtown area helped maintain overall rent appreciation of 3.2% last year, lifting marketwide asking rents to $751 per month. Asking rents increased 3.6% in the South Oklahoma City submarket, as operators capitalized on demand for more affordable rental units.

Source: Berkadia Real Estate Advisors Oklahoma City 2014 Report

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Single Family Residential Investment Outlook

Housing starts are at their highest since the recession.

According to the Mortgage Bankers association, SFR starts in 2014 averaged 648,000. Annualizing the starts in December of 2014 results in an even higher rate of 728,000 units per year, which is the fastest pace since

“Spec” Inventory is also at its highest since the recession.

In December, there were 218,000 “spec” homes on hand - homes that are built before a buyer is found to purchase them. This is the highest December total since 2009.

Yet economists are not concerned about overbuilding.

In December of 2014, there was a 5.5 month supply of homes on the market, a 10.7% drop from the previous December and an 11.4% drop from November. According to the National Association of Realtors, a stable market should have a 6 month supply of homes. In addition, housing starts are still low compared to what they have been historically.

Annualized Statistics for December 2014

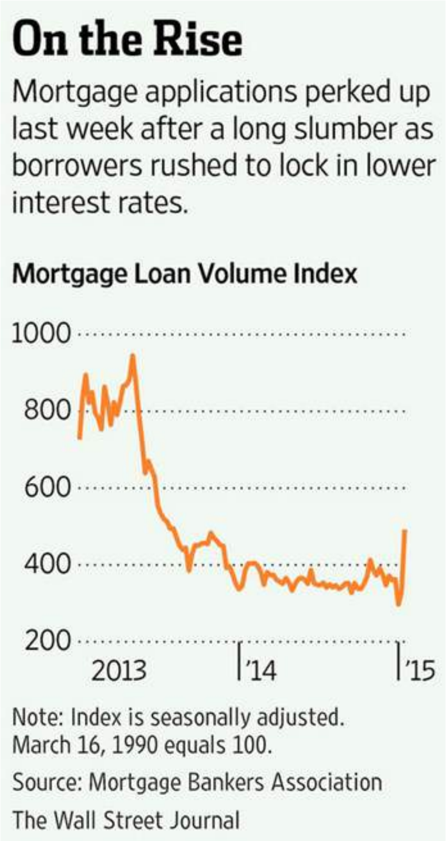
667,000 SFR building permits authorized

728,000 SFR housing starts

667,000 SFR housing completions

218,000 SFR spec home inventory

Single Family Residential Investment Outlook



Mortgage applications have been falling since the Recession but just ticked up.

In December, the average rate on a 30-year fixed mortgage dropped below 4% for the first time since 2013. A corresponding uptick in mortgage applications was seen, but mostly attributed to refinancing.

CFPB Rules are changing the landscape.

The Consumer Financial Protection Bureau (CFPB) was created in 2011 after the Dodd-Frank Wall Street Reform and Consumer Protection Act was passed in 2010. The CFPB created rules to make sure that lenders perform due-diligence and ensure their borrowers can afford the loans they borrow.

Lenders must ensure borrowers can afford their loans.

Lenders must now verify and document at least eight specific criteria, including income, assets, credit history, other debt obligations, and employment status, to determine whether a borrower has a reasonable chance of repaying the loan. If the lender doesn't do all that, a homeowner who has trouble repaying the loan has grounds for a lawsuit.

CFPB Rules have softened to include Qualified Mortgages (QMs).

The CFPB requires that banks keep 5% of the loans they originate except for loans where borrowers have paid 20% down or where the loans have been shown to be qualified. Qualified loans have limits on what points and fees can be charged. Qualified loans cannot have features like negative amortization or interest-only payments. And borrowers must be able to afford their loans.

FHA loans currently allow 3.5% down

FHA loans allow buyers to finance their primary residence with only 3.5% down payments as long as their credit scores are 580 or higher.

New programs from Freddie & Fannie will allow 3% down for buyers with credit scores of 620 +

Fannie Mae recently started a new program to guarantee loans for first time homeowners or buyers who haven't owned a home for 3 years.

Freddie Mac will begin a program in March 2015 to guarantee loans for buyers who earn less than the median income in their respective neighborhoods.

Save the Date - September 11th, 2015

TwinRock Partners is gearing up for our second annual philanthropic event, taking place on September 11th, 2015. Every year we select and honor a different public service to support, and this year we have chosen the Orange County Sheriff Department's K-9 Unit. Initiated in 1985, this program has reduced the manpower needed to search large buildings and open rural areas by over 50%. The use of canines has decreased the number of injuries to deputies, and multiplied the number of arrests. These valuable canines are purchased entirely through public donations, so please mark your calendars for Friday, September 11th, at the Newport Beach Vineyards and Winery. We will enjoy exceptional locally-grown wines as we assist in helping the K-9 Unit continue to grow and thrive.

Date: 9/11/2015

Time: 6:00 - 9:00PM

Location: Newport Beach Vineyards & Winery

You are here: Home > Daily News > On Taking Risks and Being Contrarian

Last Updated: January 16, 2015

On Taking Risks and Being Contrarian

By Carrie Rossenfeld | Orange County

Meet the SoCal CRE leadership at ***RealShare INLAND EMPIRE on January 29 and at RealShare LOS ANGELES on March 19.***

Philips: "By planting our investment flag in markets such as Tulsa and Oklahoma City, we are realizing the value of long-term, high job and population growth."

NEWPORT BEACH, CA—Seeking tertiary markets and focusing on **distressed** assets has helped **TwinRock Partners** sidestep the competition and achieve greater upside value, its principals say. In 2014, the Newport Beach-based firm acquired roughly 1,300 **apartment** units in the Tulsa and Oklahoma City markets with plans for its most recent Oklahoma **acquisition** to upgrade image, install new management, renovate interiors and brand where necessary. In doing so, "we expect to achieve above-average occupancy and rents compared to other **multifamily** properties in the surrounding neighborhoods," says **Alex Philips**, the firm's CEO and investment officer.

While TwinRock has its eye on several out-of-California markets—many of which are probably not high on the list of major real estate investors—Oklahoma has proven to be one of its prime areas of opportunity that has performed beyond expectations. In fact, taking risks in less-popular markets is one of TwinRock's key investment strategies. According to Philips, "Our firm's investment strategy was and still is to identify and take advantage of the continuing unsettled market conditions that resulted from the soft economic environment over the past several years. By planting our investment flag in markets such as Tulsa and Oklahoma City, we are realizing the value of long-term, high job and population growth. Based on our research and analysis, we expect these and our other target markets to recover at a faster rate than the nation as a whole. Our investment pipeline continues to reflect our confidence in the growth prospects of selected markets in the Midwest region as we continue to target properties in Oklahoma and other parts of the country."

Being contrarian in its investments is another key strategy for the firm that goes against the grain. TwinRock was formed as a real estate investment entity at the beginning of the Great Recession by **Michael Meyer**, chairman, and Philips, who decided their best bet was uncovering multifamily opportunities in more-affordable, out-of-the-way markets with a strong potential for future market improvement. "Our investors understand and appreciate our contrarian strategy since it's reaping significant returns on investments in all our funds," says Meyer. "They like the concept of finding good multifamily properties in good locations in markets without a lot of investor competition that show signs of employment growth but may have less-than-adequate apartment inventory to house new workers and their families. Our goal is to find the special properties that we believe will benefit from renovation and repositioning in their marketplace to increase rental income and create greater asset value as the local economy improves and employment grows."

Also during the recession, TwinRock also chose to invest in about 100 **distressed** homes in the greater Las Vegas metropolitan area, a region with a national reputation for being pummeled by the economic downturn, with the intention of fixing them up, renting them and eventually selling them for profit. A **lawsuit decision by the Nevada Supreme Court** in favor of HOAs in owner delinquencies turned out to benefit TwinRock in this situation as well—another risk that paid off for the firm. "Our guiding mission is to find opportunities in markets such as Tulsa and Las Vegas that are undervalued product types that include market situations in which an asset's acquisition basis compares favorably to its perceived intrinsic value," says Meyer. "We are actively pursuing opportunities where we believe we can rehabilitate, reposition or completely convert an asset to improve the property's physical characteristics and/or market value. Additionally, we continue to seek unique opportunities such as the HOA situation where regulatory, legal or other issues may be in play with a potential upside potential that we believe cannot be ignored due to the possible risk."

Where is the market heading? *Get the answers at* ***RealShare Conferences*** *and meet the commercial real estate elite.* ***Check out the schedule of events.***

Related Topics: West

About Our Columnist

Carrie Rossenfeld is a reporter for the West Coast region of GlobeSt.com and Real Estate Forum. She was a trade-magazine and newsletter editor in New York City before moving to Southern California to become a freelance writer and editor for magazines, books and websites. Rossenfeld has written extensively on topics including commercial real estate, running a medical practice, intellectual-property licensing and giftware. She has edited books about profiting from real estate and has ghostwritten a book about starting a home-based business.

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Impact of Lower Oil Prices on Oklahoma

Dear Alex,

There is much chatter in real estate circles and in the news and industry media about the impact that lowering oil prices is having on housing and other values in states and metro areas where the petroleum industry is a dominant part of the economy. While there is no doubt that oil-centric cities such as Houston and Bakersfield are feeling the effects of falling oil prices, Oklahoma's diverse economy as well as the local economies of Tulsa and Oklahoma City - where we have our multi-family investments -- appear to be cushioned from the precipitous drop based on the most current indices.

We take time daily to keep up with research and reports on the overall impacts of oil and gas prices and a day hasn't gone by without articles in leading business publications such as the Wall Street Journal and Forbes explaining the pros and cons of lower oil and gas prices. While the jury is still out on whether the drastic fall in energy prices is a signal for a change ahead in the economy for either good or bad, based on the high volatility index in oil, I do think the job growth rate may slow in Oklahoma City and other metro areas where oil is part of the economy, but not nearly to the extent that you see in Houston.

Statewide, according to the Bureau of Labor Statistics, Oklahoma's unemployment rate in November was still one of the lowest in the nation at 4.4% compared to 5.5% a year ago, and payroll employment was up 2.2%, approximately 36,000 from October 2013. While petroleum certainly plays an important role in the state's economy, it's not the dominant segment. Looking at Gross Domestic Product, as of the 4th quarter 2013 the largest generator of the state's GDP, according to the Oklahoma Economics Indicator Report published November 2014, was trade, transportation and utilities at 17.9%, followed by government at 15.5% and financial activities at 13.6%. The energy industry only generated 6.0% of the state's GDP in 2013. For all of 2013, Oklahoma's real GDP was at a level of $164.3 billion in constant 2009 dollars, growing at a rate of 4.2% from 2012. That was the fourth-highest annual GDP growth rate among all other states and the District of Columbia.

Along with a more diverse economy and continuing job growth, Oklahoma is not as dependent on oil taxes as Texas or some other oil centric states. When

Oklahoma went through its oil bust in the 1980s, oil represented 30% of the state taxes. Today it is 6%. You might want to read via this link an informative CNBC online article discussing crude oil prices (CNBC Article) and has a chart on tax revenue that you might find of interest.

The Tulsa Metropolitan Area is also holding its own. According to the Bureau of Labor Statistics, the Tulsa area unemployment rate was 4.4% in November compared to 5.4% a year ago, making Tulsa's unemployment rate among the lowest of major metro areas in the nation. Local companies added more than 6,700 jobs to their payrolls in the last 12 months, a 1.6% gain and hiring surged 7.3% in the manufacturing industry with 3,700 new hires. The city's employment base continues to diversify with a large representation of finance, aerospace and technology companies such as Capital One, Hewlett Packard, NORDAM Group, Helmerich & Payne Inc., and Lufthansa Technik Component Services, adding jobs or announcing hirings.

Tulsa's economic strength and its advantages as a place to do business are recognized outside of Oklahoma. The city's manufacturing sector received notice from Washington, DC-based Change the Equation, a non-profit organization that ranked Tulsa No. 5 of the top five U.S. cities for advancing manufacturing. Kiplinger also ranked Tulsa No. 5 on its list of the "Top 10 Most Affordable Big Cities in the U.S." The city was singled out for its low cost of living, which is nearly 12% below the national average, and a per-capita income that is 11.6% higher than the U.S. norm.

Another point in our favor is that our multi-family assets in Tulsa and Oklahoma City are B & C class properties with in-place tenants who have an average annual income of less than $20,000, so the drop in gas prices will be a direct savings to our tenants, many of whom work in service industries, e.g. retail and restaurants. Whether these and similar businesses are impacted by the oil price situation remains to be seen. At a more macro level, one investment expert quoted in an online WSJ article points out that, "From an individual's standpoint, lower prices at the pump act like a tax cut, giving consumers as a whole increased discretionary cash flow . . . . This dynamic is particularly powerful (or 'stimulatory' to use economics-speak) for lower- and middle-income households for which gas consumption represents a sizable portion of after-tax necessary living expenses."

However, the biggest catapult we see for our multi-family investment portfolio has nothing to do with gas prices. If and when an increase in minimum wage is enacted, we believe it will have a dramatic and positive effect to our tenants' discretionary income.

Finally, we also looked at the financials of the major public oil and gas companies in Oklahoma and all of them, but for maybe one, seem to have staying power. We have discussed the oil price situation at great length internally and we have been in contact with an astute investor to create a senior debt fund targeting the oil industry, which is something we are considering since we don't believe the drop in oil is long term. As you probably know, today's oil prices have a lot to do with strengthening in the dollar and for national and international political reasons that are always difficult to predict going forward. Time will only tell what lies ahead, but we feel that our assets are well insulated.

I'm open for lunch with any investor or potential investor who would like to discuss the impacts of oil prices and our investment portfolio in greater depth.

Respectfully,

Alexander Philips

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