ESJ CAPITAL PARTNERS

2020 Year End Letter

Dear Investors and Partners,

As we collectively approach the end of this unprecedented year that brought us numerous challenges due to the devastating Covid-19 pandemic, I wanted to take this opportunity to express my gratitude for the resolve demonstrated by people across the globe. Most notably, the medical professionals and first responders who have tirelessly worked on the front lines of this health crisis since March.

I am also grateful for advances in the development of Covid-19 treatments and vaccinations and encouraged by signs of what appear to be a V-shaped economic recovery. Finally, I am grateful for the ESJ family which includes our employees, partners, investors, and service providers across our portfolio.

Below are a few highlights from the year and announcements of things to come:

Investment Activity

Given the backdrop of Covid-19, we are pleased that ESJ was able to execute $82.1 million of transactions this year.

- On the acquisition front, two new education facilities, one in Kissimmee, Florida and one in Scottsdale, Arizona, were added to our portfolio with total project costs of $14 million.
- ESJ sold three projects representing $40.6 million of transition volume in multiple asset classes. These dispositions comprised of an education facility in Charlotte, North Carolina for $3.8 million, a 186,664 SF office building in Jupiter, Florida for $31.5 million, and a 77,546 SF retail property in Orlando, Florida for $5.3 million. Of note, the retail disposition was carefully executed during a very turbulent retail market coinciding with the Covid-19 pandemic shutdowns.
- ESJ has also been active in the capital markets having refinanced four existing projects with total loan proceeds of $27.5 million.
- ESJ is under contract on a $64.5 million portfolio of five charter schools located throughout the U.S. conducting due diligence with an anticipated closing scheduled in late January 2021.

Jungle Island

The Covid-19 pandemic clearly created a very challenging year for Jungle Island as operations were negatively impacted by multiple government-mandated closures, capacity restrictions, and weak travel demand including an inoperable cruise industry.

However, these headwinds are all temporary and we utilized this downtime to revamp our business plan and marketing strategy, drastically reduce overhead, double our efforts to construct new revenue-generating attractions, and made significant headway with the entitlement of our hotel. We are very happy to report that Joia Beach - Restaurant and Beach Club is currently open and while not operating with its full schedule, it produced its highest grossing revenue weekend on record during weekend ending December 13, 2020. It's a beautiful time of year in Miami and we are expecting more record-setting weekends as we progress further into our winter season.

As part of the next phases of our Jungle Island business plan, we are aiming to recapitalize existing debt and open the door to new equity partners. Please do not hesitate to contact ESJ should you be interested in participating in this venture.

Covid-19

Covid-19 has impacted lives across the globe changing the way we live, work, educate, and interact with one another. While the losses and challenges from Covid-19 are far reaching and despite some of the troubling recent statistics, we are encouraged by reports that highly effective vaccines from several pharmaceutical companies are in the final stages of FDA approval and should be widely available in the coming weeks and months. Many epidemiologists believe that a critical mass of vaccinations will be available in the U.S. by Spring 2021 which could provide herd immunity as early as Summer 2021.

ESJ's education portfolio has weathered the Covid-19 crisis well. Education facility investments are a resilient asset class and their importance for parents and to society as a whole has been put in greater focus as a result of the pandemic. Looking ahead, we have a healthy pipeline of education investment opportunities that we are evaluating and are expecting to see many more opportunities in 2021.

New School Fund

We are pleased to announce that we will begin fundraising for a new charter school venture in Q1 2021. This will be our third education investment vehicle that will focus on charter schools primarily in the southern portion of the United States. We believe that we can leverage our position as a market leader in the charter school space to secure high-quality investment opportunities and deliver our financial partners attractive risk-adjusted returns and the current pipeline is reflective of this.

This past year will be remembered in the commercial sector for many things, but perhaps most likely for an acceleration of certain trends that pre-dated Covid-19. These changes will benefit some sectors and punish other sectors.

CBRE recently published their 2021 outlook and attached please find our summary of that report which we think you will find of interest.

We wish everyone good health and safety over the holidays this month and a very successful new year.

Sincerely,

Arnaud Sitbon
President & CEO

Summary of CBRE U.S. Outlook 2021

National Economy Highlights:

- Uncertainty surrounding commercial real estate conditions will continue its trend in the first half of 2021
- GDP is expected to end 2020 down by only 4%, followed by a 4.5% rebound in 2021
- Interest rates should remain low for the longer than previously forecasted with many analysts anticipating initial rate increases pushed back several quarters resulting in downward pressure on cap rates
- Disconnect on pricing between buyers and sellers: 61% of buyers are seeking discounts while only 9% of sellers are willing to offer them
- Available capital for real estate investment remains more than $300 billion globally, the majority of which is targeting North America and may lead to increased competition among investors

Major Commercial Real Estate Sectors:

- **Industrial & Logistics**
    - Capturing the strongest investor interest. Year-over-year e-commerce growth went up to 44.5% in Q2 from 14.8% in Q1. Net absorption nationally is projected to reach 250 million sq. ft. in 2021, more than the previous five-year annual average of 211 million sq. ft.
    - Increased new construction and available supply by 29% in 2021.
    - Adaptive reuse of retail buildings for industrial occupiers is expected to accelerate in 2021.
    - Markets to watch are the Southwest (Dallas-Fort Worth, Houston and San Antonio) and Southeast U.S. (the seaport markets of Charleston, Savannah and Virginia, as well as the inland port markets of Greenville, S.C., Atlanta and Central Florida).

- **Office**
    - Recovery expected in the second half of 2021. Demand for office space will be muted as many employees are still working from home and planning for a gradual return in 2021.
    - Suburban office markets are expected to recover faster than CBD due to shifting demographics.
    - Class A properties will experience faster demand recovery due to a better ability to adapt to new standards.
    - Remote working could cut the overall need for office space by 15%, but office-using employment will continue to grow after the recession.
    - Markets to watch are Raleigh-Durham, Nashville, Tampa and Charlotte. These markets will benefit from relatively sturdy demand, lower costs and continued population and employment growth.

- **Retail**
  - Adaptive reuse and conversion will drive the repositioning of Class B and C malls to medical, health and wellness, automotive showrooms and service centers, pet services, franchisee- driven operations and salons.
  - Grocers, convenience stores and quick-service restaurants are expected to grow.
  - Single-tenant net-leased properties in suburban neighborhood and grocery-anchored centers will continue to be the most stable among retail investments, unlike malls and urban-core retailers.
  - Markets to watch are Sun Belt and secondary cities like Phoenix, Austin, Denver, Sacramento and Charlotte (faster office re-occupancy, increased inward migration, less impact to mobility and better access to open- air shopping centers and outdoor spaces to enhance capacities).
  - 20% reduction in total U.S. retail real estate inventory by 2025.

- **Multifamily**
  - Expected to return to pre-COVID vacancy levels and a 6% increase in net effective rents next year, with a full market recovery in early 2022.
  - Suburban submarkets will lead the multifamily sector's recovery in 2021 while urban submarkets will lag.
  - U.S. multifamily investment volume should reach about $148 billion next year, lower than 2019's record level of $191 billion but a 33% gain over the 2020 estimate of $111 billion.
  - Markets to watch are Greensboro, Jacksonville, Richmond and Virginia Beach. Atlanta, Charlotte, Raleigh and Tampa also performed relatively well in 2020 and are positioned for a fast recovery in 2021. Metro areas of Phoenix, Dallas/Ft. Worth and Denver performed at about the national average in 2020 but are expected to rebound in 2021.

- **Hotel**
  - Occupancy should return to pre-COVID levels by 2023.
  - Secondary markets with less urban density and more drive-to availability will recover faster in 2021 than larger metropolitan areas.

- **Data Centers and Alternatives**
  - Total **data center** inventory is forecast to grow by 13.8% in 2021.
  - **Cold storage** is expected to grow from e-commerce expansion.
  - Demand for **seniors housing** began to pick up in Q4 and should improve in 2021 with a full recovery in 2022.
  - The new academic year will bring gains in occupancy and leasing of the student housing.
  - Build-to-rent single-family housing sector (BTR) is a rapidly growing alternative for both multifamily and single-family renters.

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