Unison Asset Performance Report 2021

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Introduction

Owner-occupied residential real estate is a high performing, diversifying asset class which represents one of the largest components of wealth in the United States. The total value of all homes by the end of 2020 topped $33tn,[1] accounting for 22% of all US household assets.[2] Yet, the vast majority of this value is held by individual homeowners, who have taken massive amounts of leverage consisting in large part of mortgage debt. Institutional investors can benefit immensely from the diversified exposure and superior risk-adjusted returns of owner-occupied residential real estate investments. By enabling institutional investors to invest in home equity through Unison-originated assets, we curb the systematic risk associated with highly levered homeowners and simultaneously craft better balanced institutional portfolio allocations.

For more than a decade, Unison has proudly delivered institutional access to investment exposure in owner-occupied residential real estate through Unison home equity option contracts. The mechanics of these option contracts are simple. After due diligence is completed on the property and the credit of an applicant, Unison will invest up to 17.5% of the home's value. A homeowner has up to 30 years to sell the home or buy out the contract. Then, the homeowner will return the initial investment plus or minus a share of the change in value of the property. Throughout the life of the investment, the homeowner lives in and maintains the home. As of 2021, over 7,900 investments in US homes have been made across 30 states, helping homeowners nationwide tap into their home equity without monthly mortgage payments and excessive leverage.

Notably, in the first quarter of 2021, the total asset value[3] of Unison residential real estate option contracts surpassed $1bn. By Q2 2021, the total asset value has reached $1.2bn. This important milestone marks the transition of Unison-originated assets into the mainstream. During this transition, as more institutional investors seek to gain exposure to owner-occupied residential real estate investments, it is our responsibility to provide transparency into the performance of the asset class, its fundamental characteristics, and how it fits into the broader institutional portfolio allocation.

18.1%
annual gross return of all assets since 2010

$1.2
bn total asset value as of Q2 2021

In this report, we seek to show:

1 How Unison assets have performed over the past decade compared to other major asset classes

2 What aspects of Unison's origination guidelines best explain the strong historical performance and low default rates of our assets

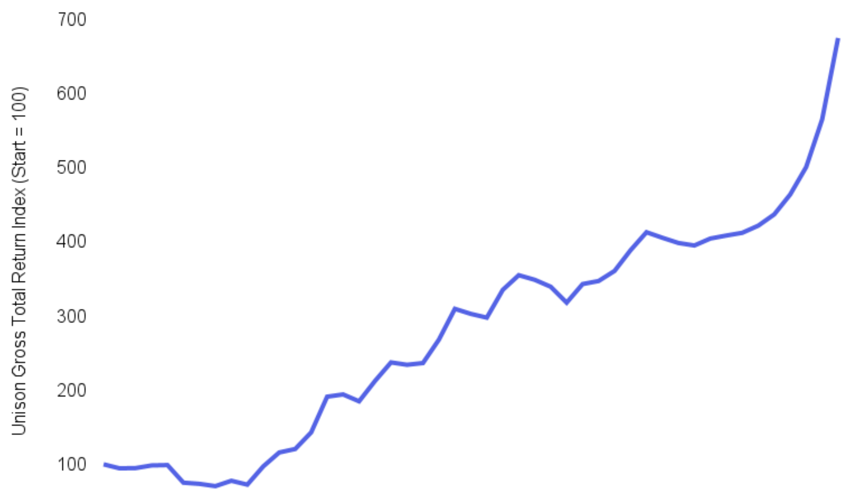
3 What macroeconomic factors are driving the recent bull market in residential real estate

[1] http://www.urban.org/sites/default/files/publication/103746/housing-finance-at-a-glance-a-monthly-chartbook-february-2021_0.pdf
[2] http://www.federalreserve.gov/releases/z1/dataviz/z1/balance_sheet/table/
[3] Total asset value is reported based on Unison-originated assets, using the Discounted Cash Flow (DCF) valuation methodology with the valuation parameter assumptions as of Q2 2021.

Unison's Long Run Performance

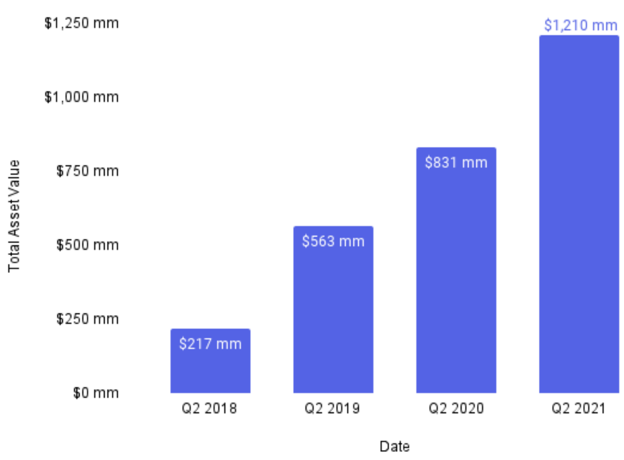
Since January 2010, Unison's assets has achieved a 18.1% annual return, gross of all fees.

Figure 1: Unison gross total return has averaged 18.1% annually since 2010[4]



Strong returns paired with continued origination has resulted in significant growth of Unison's total asset value, increasing five-fold over the past three years. Unison's total asset value has grown to $1.2bn in Q2 2021 up from a value of $217mm in Q2 2018. Over the years, Unison has significantly scaled its origination capacity to bring Unison-originated assets to the mainstream. Looking forward, we believe that investment exposure to owner-occupied residential real estate will be an essential part of all institutional investors' portfolios.

Figure 2: Total asset value has grown to over $1.2bn in Q2 2021

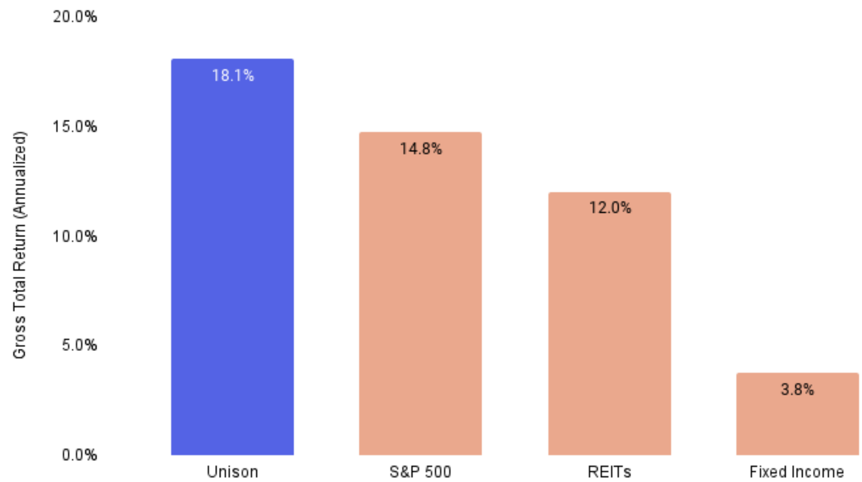


> **Unison's total asset value has grown to $1.2bn in Q2 2021 up from a value of $217mm in Q2 2018**

[4] Gross annual returns are defined as the value weighted total return of Unison-originated assets, gross of fees. The return of a period is computed by the following formula (End of Period Asset Value + Cash Realizations - Beginning of Period Asset Value) / (Beginning of Period Asset Value + Cost Basis of New Originations). Gross annual returns includes both realized and unrealized performance.

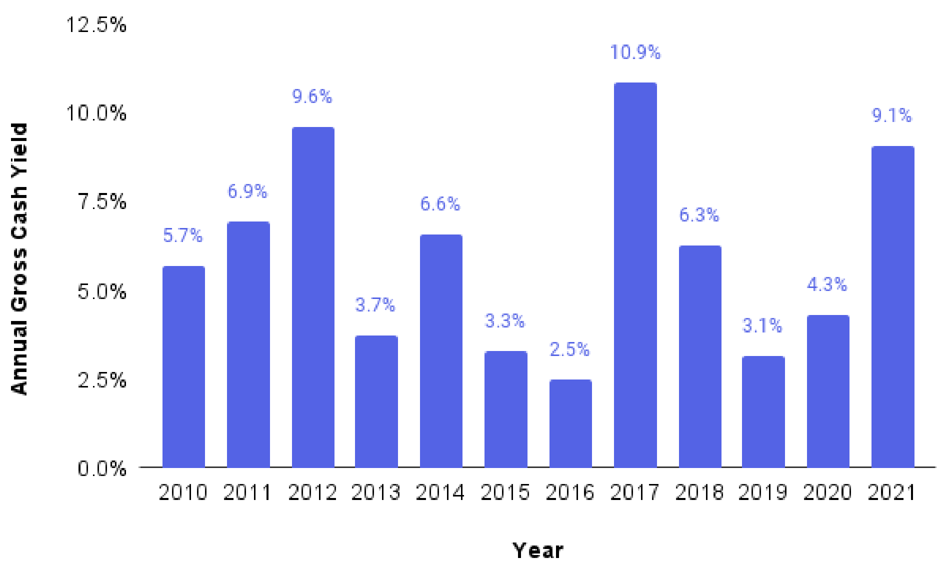
Unison's gross total return (annualized) of 18.1% has outperformed other major asset classes and indices including S&P 500, REITs and fixed income. To show this we have compared Unison's total asset performance to the S&P 500, the FTSE Nareit All REITs U.S. Real Estate Index (REITs), and the Bloomberg Barclays U.S. Aggregate Bond Index (Fixed Income).

Figure 3: Unison gross total return compares well with other asset classes since 2010



In addition to achieving strong returns, Unison's assets have produced a strong average gross cash yield of 6.0% per year.[5]

Figure 4: Gross cash yield of Unison assets has averaged 6.0% per year



[5] Annual gross cash yield is the sum of quarterly gross cash yields, which are calculated as cash proceeds received from assets that have experienced a sale or buyout event, gross of fees, divided by the asset value at the beginning of the quarter. The gross cash yield for 2021 is annualized based on the first two quarters.

The Drivers of Performance

Diversification across 30 states and over 200 metropolitan areas has enabled Unison to originate owner-occupied residential real estate option contracts without excessive risk.

Unison applies a proprietary selection model, Greenlight, to select homes with the highest expected home price appreciation. In addition, diversification across 30 states and over 200 metropolitan areas has enabled Unison to originate owner-occupied residential real estate option contracts without excessive risk. Metropolitan area diversification is consistent with Unison's strategy of originating in dense, urban job centers. Figure 5 shows the distribution of Unison's total asset value across our top 10 metropolitan areas.

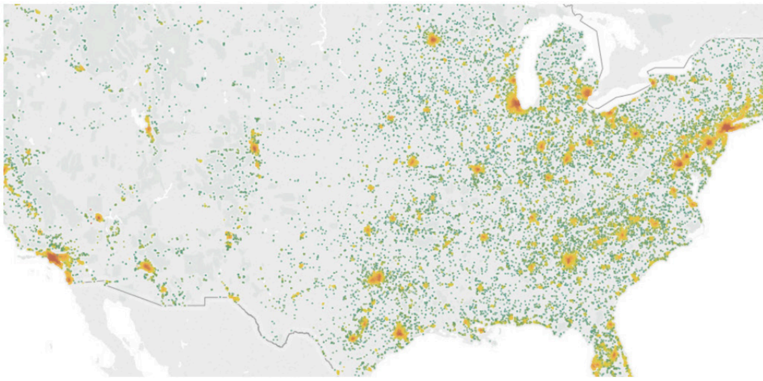
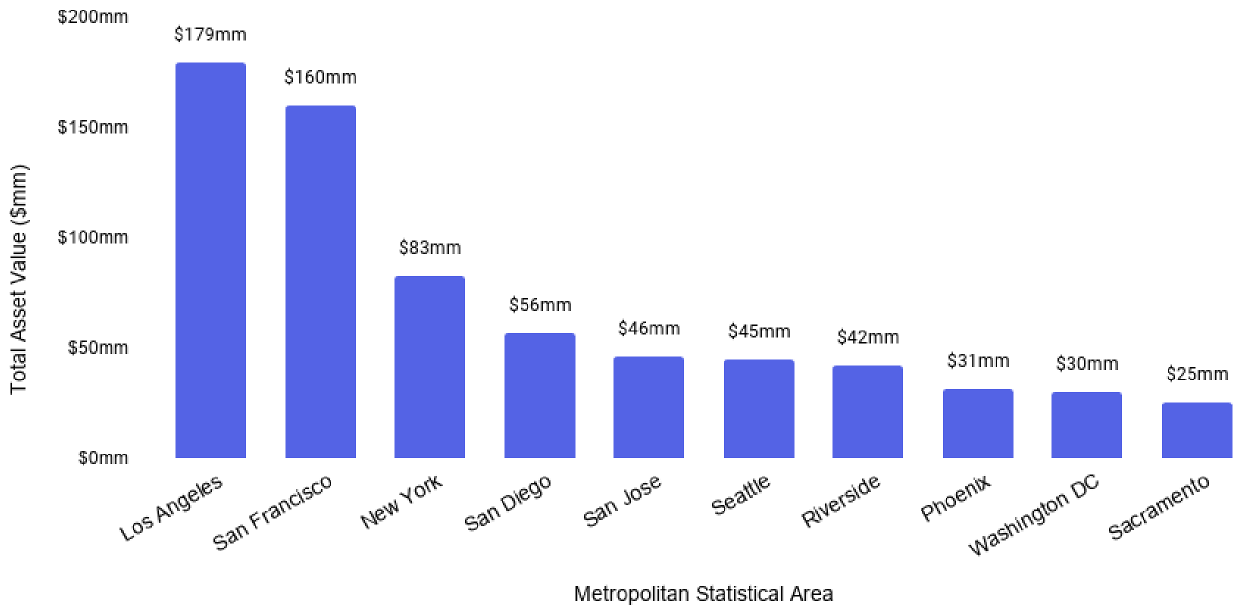


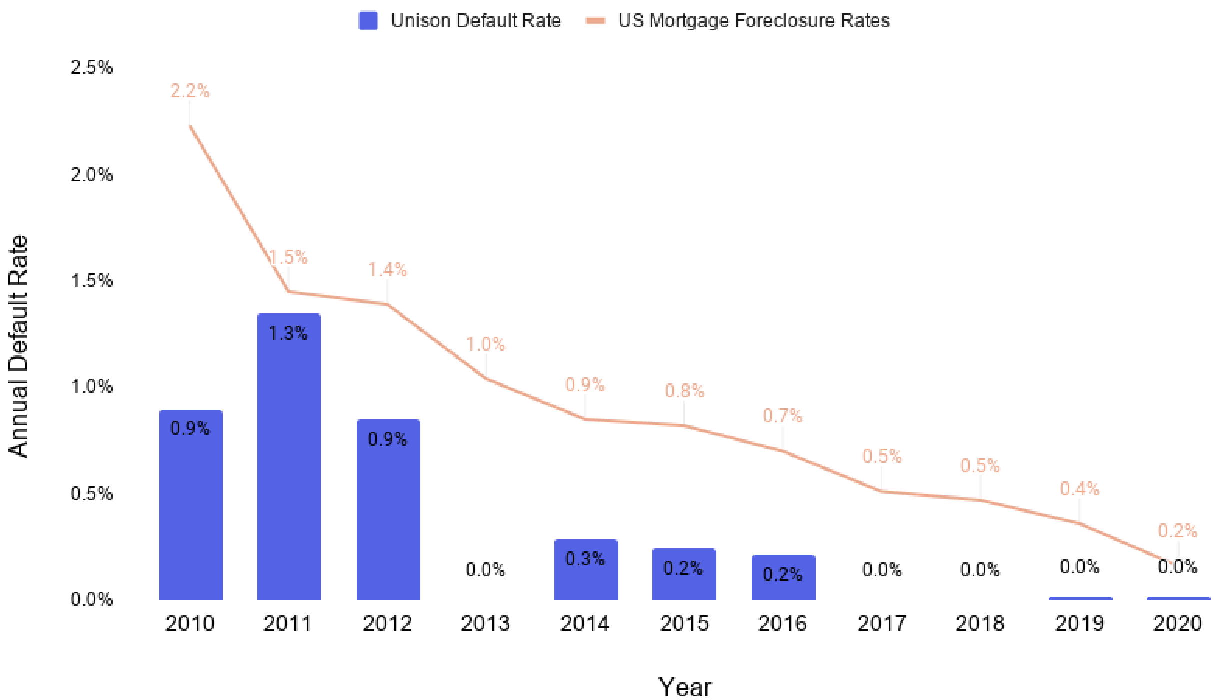
Figure 5: Assets are diversified across a large number of metro areas



Low Default Rates

Throughout Unison's history, only 12 of 7,967 assets have defaulted as of the second quarter of 2021, most of which occured in the aftermath of the Financial Crisis (2009-2013). The average annual default rate since 2010 has been 0.4% which is well below the national average mortgage foreclosure rate of 0.9% per year, over the same time period.

Figure 6: Annual default rate of Unison assets is well below the average US mortgage foreclosure rate[6]



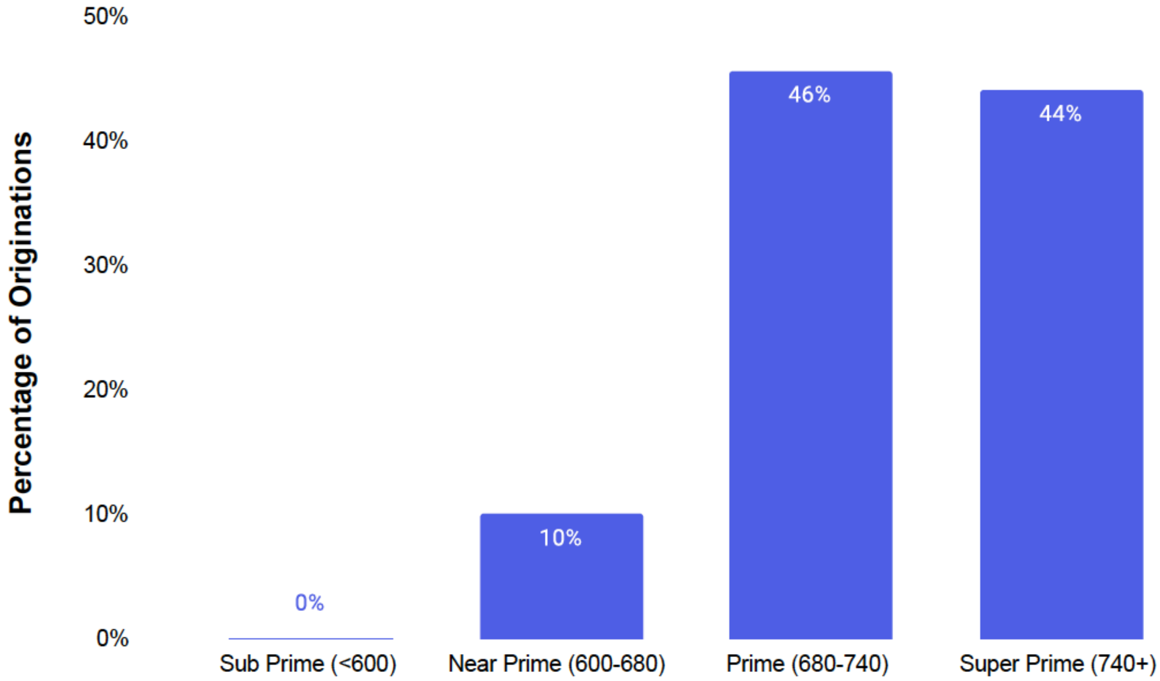
> **"**
> **Only 12 out of 7,967 assets have experienced an event of default**

[6]A default is deemed to have occured if the option contract holder does not receive the full amount required per the contract at maturity of the asset. Mortgage foreclosure rate data is supplied by Attom: https://www.attomdata.com/news/market-trends/foreclosures/attom-data-solutions-2020-year-end-u-s-foreclosure-market-report/

Prime Credit Scores

We have maintained extremely low default rates by focusing on the market of prime homeowners. Figure 7 shows that 90% of Unison's assets are originated with prime or super prime applicants whose qualifying credit scores are at least 680. The median qualifying credit score of applicants who receive financing is 731.

Figure 7: 90% of qualifying credit scores[7] are prime or super prime

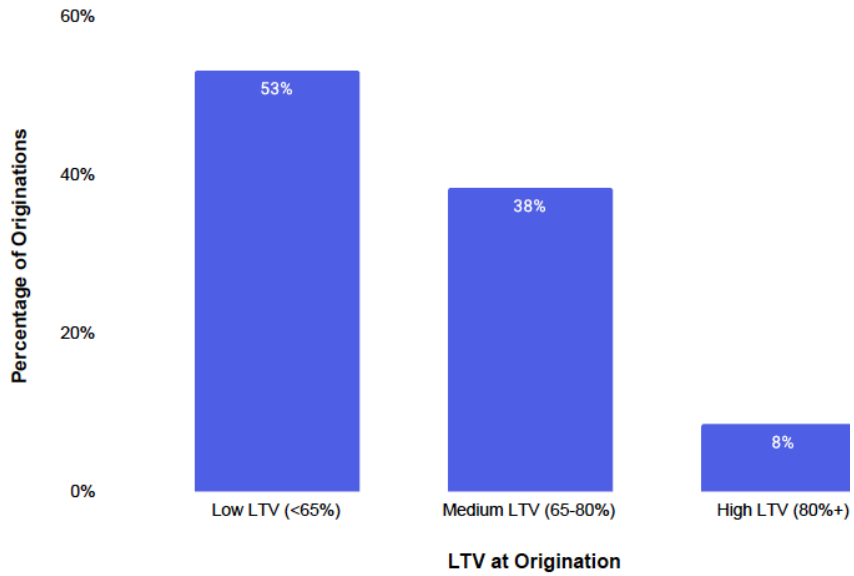


[7] For assets originated prior to December 1st, 2020, the qualifying credit score is defined as the lowest mid-FICO of all applicants whose income was used for qualification purposes. Starting December 1st, 2020, the qualifying credit score at origination is the highest mid-FICO among all title holders.

Homeowners Have Substantial Equity

Unison assets have a median loan-to-value (LTV)[8] of 63.8% at origination. A limited number of High LTV applicants are allowed through our rigorous underwriting only if there are significant compensating factors.

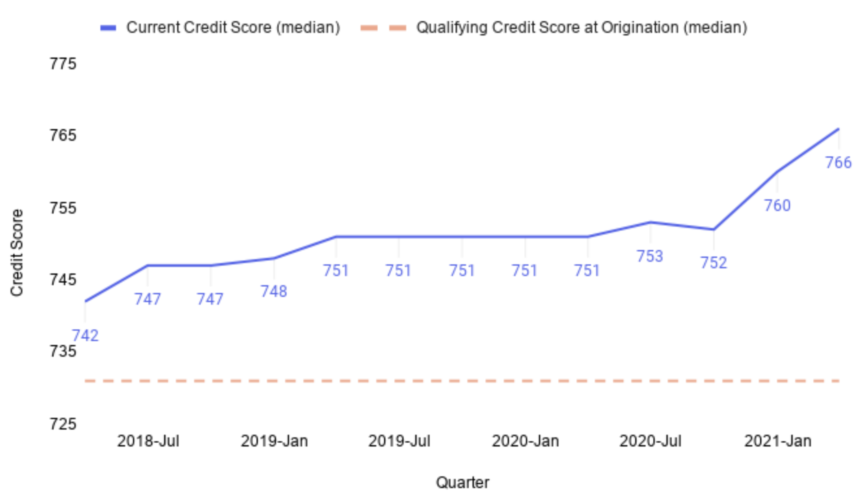
Figure 8: The majority of loan-to-value (LTV) ratios on Unison assets are low (<65%)



Unison monitors the credit score of a homeowner throughout the asset's life. While the median qualifying credit score is 731 at origination, the current median credit score of this same group of assets is currently 766.

Unison customers often use the proceeds from the transaction to reduce debt, which improves their credit health and in turn enhances the overall performance of the Unison assets.

Figure 9: Current credit scores of the homeowners in Unison's assets continue to improve

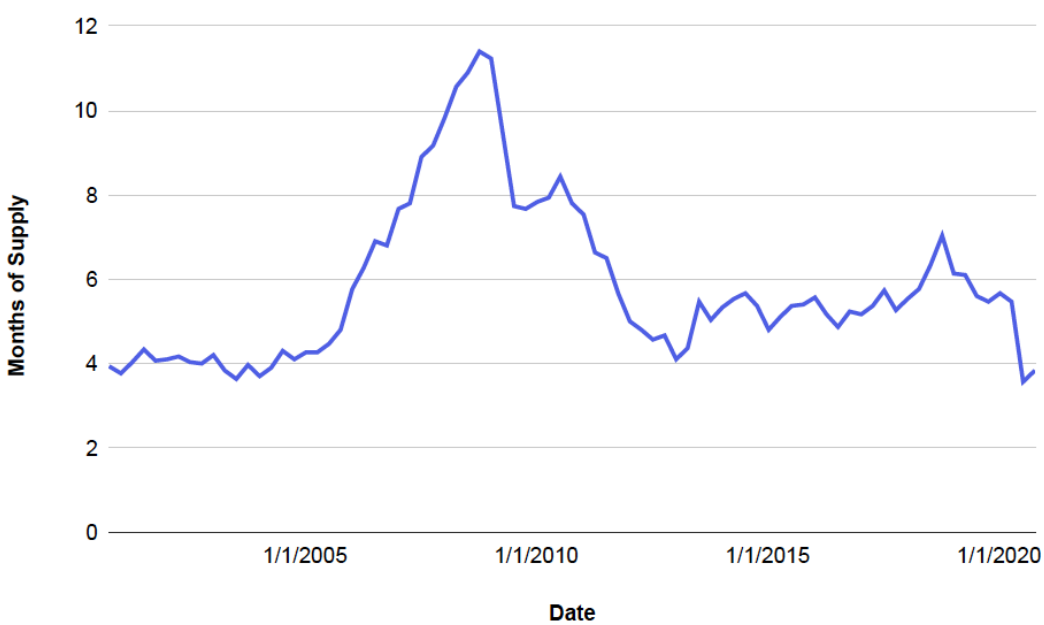


[8] LTV is the ratio of all secured liens senior to Unison position to the value of a property.

State of the Owner-occupied Residential Real Estate Market

Housing supply can be measured by a variety of factors, including outstanding inventory and the number of new listings. As of December 2020, there were only 3.8 months of supply as measured by the total number of homes for sale divided by the number of homes sold per month.

Figure 10: Total months of housing supply is 44% below the historical average[9]



[9] FRED

Historically Low Supply of Active Listings

The number of new listings has remained flat, further constraining the overall supply.

Figure 11: The total number of active listings is declining well below its seasonal adjusted norm[10]

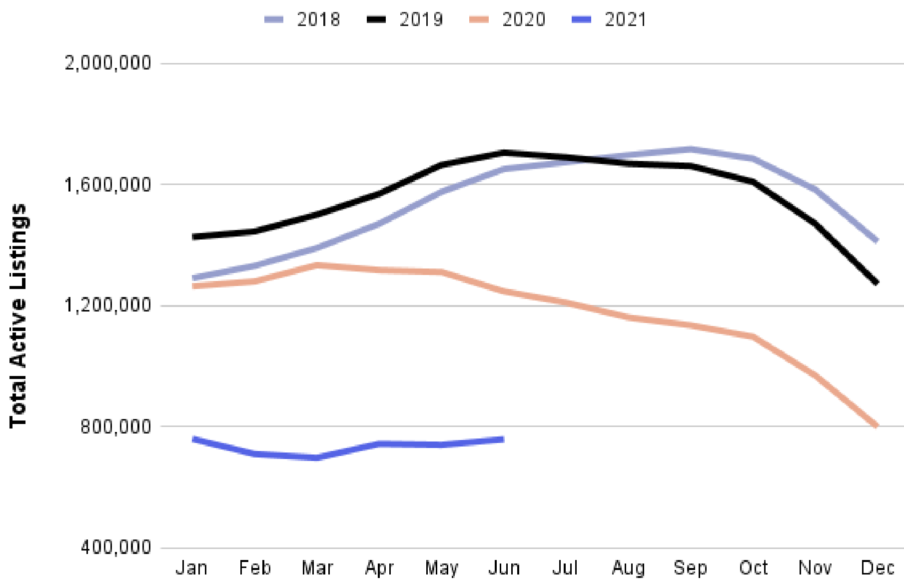
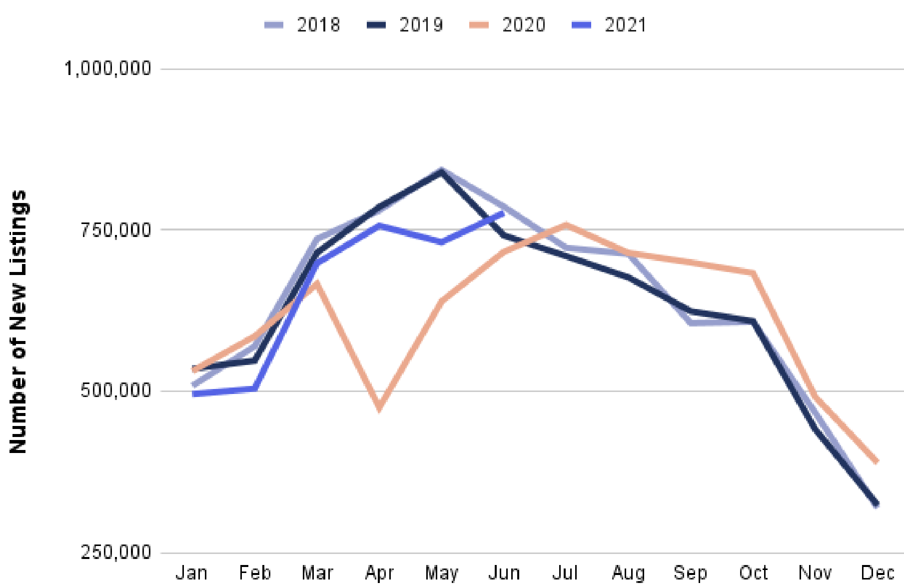


Figure 12: The number of new listings is slightly below the pre-pandemic historical average[11]

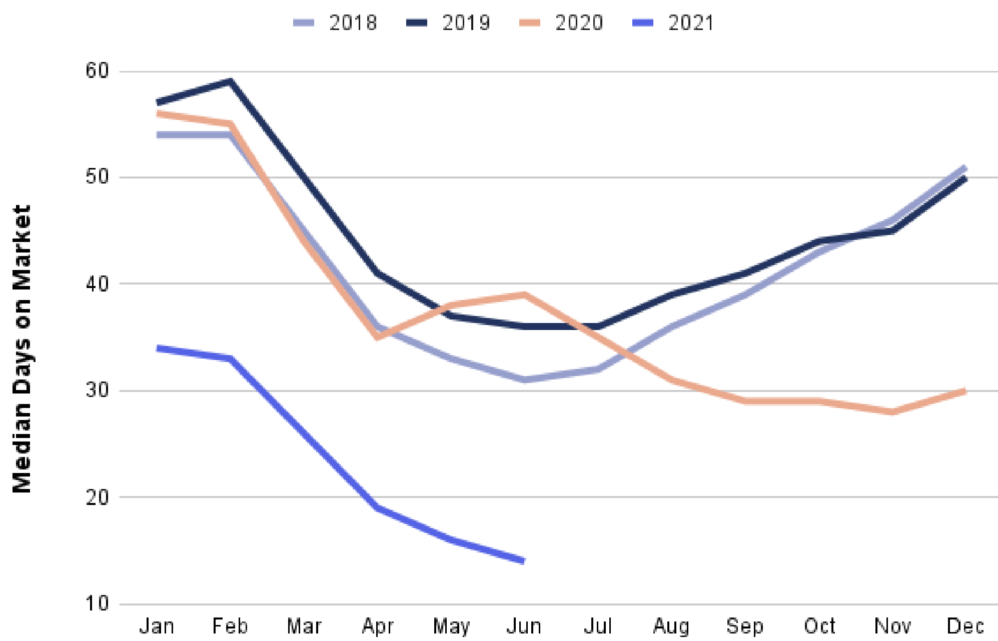


[10] Redfin: All Residential Properties, Non-Seasonally Adjusted
[11] Redfin: All Residential Properties, Non-Seasonally Adjusted

Strong Buyer Demand for Homes

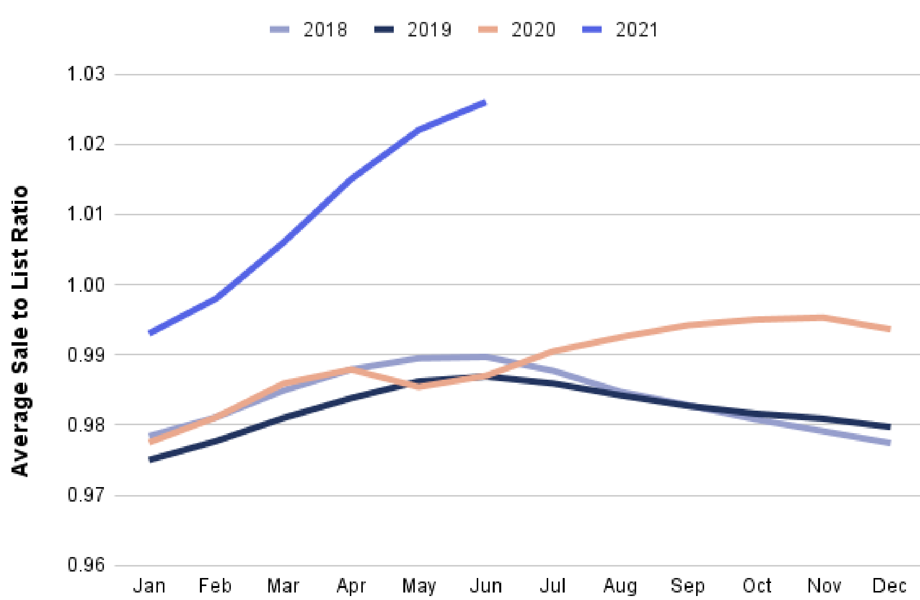
While supply remains constrained, housing demand has been growing. Buyers are quickly taking active listings off the market.

Figure 13: Listings are clearing the market twice as fast as its seasonal average[12]



In addition, buyers are paying a premium of about 2.6% on the listing price which is another strong signal that the growth of demand is outpacing the growth of supply.

Figure 14: Buyers are paying a significant premium on listing prices[13]



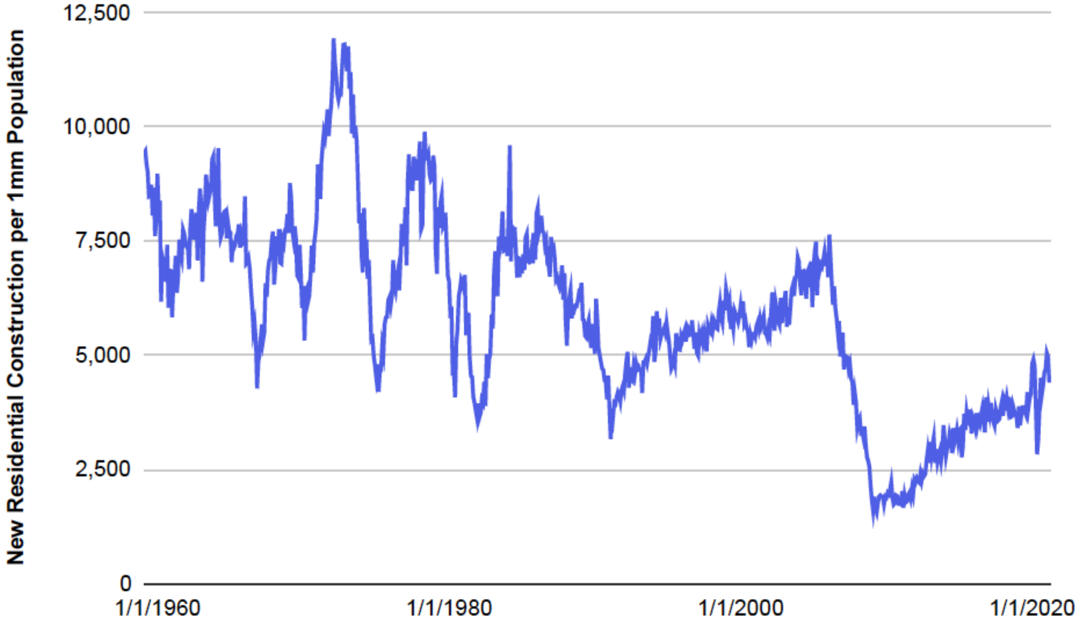
[12] Redfin: All Residential Properties, Non-Seasonally Adjusted
[13] Redfin: All Residential Properties, Non-Seasonally Adjusted

Slow Growth of Housing Stock

Looking at the bigger picture, the number of new units under construction per million people in the US is almost half of the long run historical average. The growth of housing units is simply not keeping pace with our population.

> **The growth of housing units is simply not keeping pace with our population.**

Figure 15: The number of new residential constructions per 1mm people in the US has been steadily decreasing over time[14]



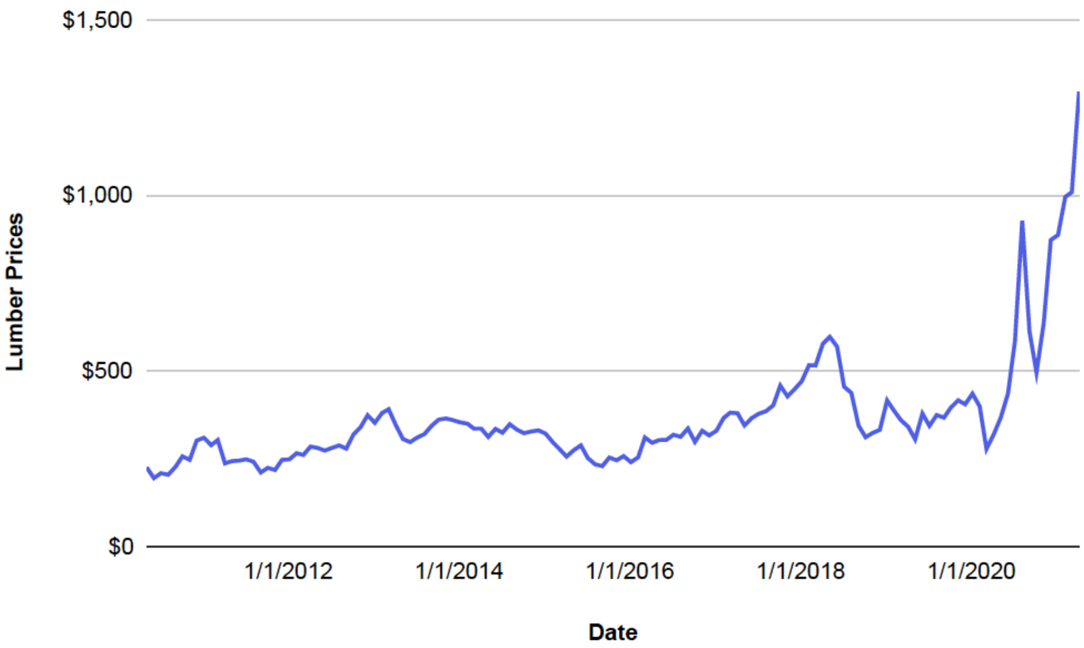
[14] FRED

High Cost of Raw Materials

One final interesting topic relates to the cost of raw materials used to build new homes. Specifically, the price of lumber has skyrocketed 300% over the past year, adding $24,000 of cost to a typical single family home.[15]

> **The price of lumber has skyrocketed 300% over the past year.**

Figure 16: Lumber prices have increased significantly over the past year[16]



[15] National Association of Realtors
[16] Chicago Mercantile Exchange

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About Unison

Unison Agreement Corp. and Unison Agreement AO Corp. (collectively, "Unison") are the market leaders and pioneers in home co-investing, having originated over $1 billion in residential real estate option contracts in terms of current total asset value. Over the last 15 years we have invested in more than 7,967 homes at the equity level across metropolitan and suburban areas that have strong housing demand and limited housing supply. We also enhance home affordability, enable retirement, reduce debt, and deliver a smarter and safer allocation of housing exposure for homeowners and investors.

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For Questions About This Report:

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