## STUDENT HOUSING, SAN FRANCISCO, CA

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| Preferred Equity: | **$30.4 million*** |
| Senior Loan: | **$82.6 million** |
| Term: | **36 months** |
| Interest Rate: | **One month LIBOR plus 9.95% (subject to a 2% rate floor)** |
| Fees: | **1% origination fee, $4,000 quarterly fee, 0.5% extension fee** |
| Borrower's Equity: | **$15.8 million (55% of capital stack at closing)** |
| Loan-to-Value Ratio: | **66% fully funded** |

*$12.6 million was advanced at closing with Terra 6 receiving $1.75 million. The remaining $17.8 million is to be advanced in installments subject to terms and conditions. The total cost of acquisition and construction is $123.1 million at completion.

### Location

The property under construction is located on 0.69 acres at 333 12th Street, San Francisco, CA. It will provide off-campus student housing for the 30 colleges located throughout greater San Francisco. It sits one block north of US 101, which connects San Francisco to I-80 and I-280, providing access to Silicon Valley and the East Bay. The property is walkable or within a short bicycle distance to BART, CalTrain, and public buses that connect much of San Francisco. Each university will operate shuttles to their respective campuses generating commute times under 30 minutes, an attractive commute to these universities when compared to available housing options.

### Property

Once complete, the project will stand seven stories tall and include 200 student housing units, totaling 618 beds across 115,142 net residential square feet. The units include a mix of two-, four-, and five-bedroom units. Residents will also enjoy amenities such as a finished rooftop sundeck, a 24/7 attended lobby with a front desk, student lounges on each floor, laundry rooms on each floor, and bike storage. Units will feature interiors and appliances consistent with most newly built student housing facilities.

Based on the construction schedule provided by the Sponsor, the project will be completed by April 2020.

### Borrower

Since 1990, Panoramic has completed 15 mixed-use, infill projects in and around downtown Berkeley and San Francisco — adding more than 689 new units of housing and 100,000 square feet of commercial space. The Berkeleyan Apartments, a mixed-use project built in 1998, was the first new rental housing project by a private developer in downtown

Berkeley since World War II. Panoramic has recently been active in the City of San Francisco as well completing The Panoramic, a 100% master-leased 400-bed student housing facility.

## Opportunity

- **Housing in demand with high barriers to entry** — According to the city's Planning Department, there are 80,000 students enrolled in over 30 colleges in San Francisco, and only 9,000 on-campus beds available to these students citywide. Further, the City of San Francisco is a notoriously difficult market to develop. To get a property properly zoned typically takes years, as has been the case with this project, which took nearly three years to fully entitle and obtain approval. As of year-end 2017, San Francisco was considered the most expensive rental housing market in the United States.

- **The units are 40% pre-leased with a signed LOI for the remaining 60%** — The San Francisco Art Institute ("SFAI") has pre-leased 40% of the market rate units in order to attract more students as it aims to expand enrollment. San Francisco State University ("SFSU"), a public non-profit university within the California State University system with an $83.7 million dedicated endowment, has signed an LOI for the remaining 60%. The Sponsor expects that SFSU will sign the lease by mid-summer 2018, with an outside date of year-end 2018.

- **Attractive investment basis for completed project** — The loan-to-value is 66.5% on the appraiser's as-complete value with university master leases in place, and 73.1% on the appraiser's as-complete value. A general contract is in place guaranteeing construction costs.

- **Repeat borrower with recent delivery of a similar project in San Francisco** — Panoramic specializes in micro-unit multifamily and student housing projects in the San Francisco Bay Area, including a recent delivery within the City of San Francisco. In 2015, the Sponsor constructed 1321 Mission Street, a 160-unit 400-bed property. Terra has already closed a transaction with Panoramic. The previous transaction was another student housing construction deal in Berkeley located at 2539 Telegraph Avenue. Construction is on time and on budget with units fully leased to California College of the Arts and the San Francisco Conservatory of Music.

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We invest in securities that are rated below investment grade by rating agencies or that would be rated below investment grade if they were rated. Below investment grade securities, which are often referred to as "junk," have predominantly speculative characteristics with respect to the issuer's capacity to pay interest and repay principal. They may also be difficult to value and illiquid.

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Our distributions may constitute a return of capital and reduce the amount of capital available to us for investment. Distributions funded from a return of capital are not funded from our net profit. Any profits returned to stockholders through distributions will be distributed after payment of fees and expenses. To date, a significant portion of distributions have constituted a return of capital.

This is a "best efforts" offering, and if we are unable to raise substantial funds, we will be limited in the number and type of investments we may make, and the value of your investment in us may be reduced in the event our assets under-perform. Because our dealer manager is one of our affiliates, you will not have the benefit of an independent due diligence review of us, which is customarily performed in firm commitment offerings; the absence of an independent due diligence review increases the risks and uncertainty you face as a stockholder. Our board of directors may change our operating policies, objectives or strategies without prior notice or stockholder approval, the effects of which may be adverse. There may be conflicts of interest related to obligations our advisor has to our affiliates and to other clients.

Economic activity in the United States was adversely impacted by the global financial crisis of 2008 and has yet to fully recover. These conditions may make it more difficult for us to achieve our investment objectives. Our ability to achieve our investment objectives depends on Terra Income Advisors' ability to manage and support our investment process. If our advisor were to lose any members of its senior management team, our ability to achieve our investment objectives could be significantly harmed. If we overestimate the value or income-producing ability or incorrectly price the risks of our investments, we may experience losses.

As a public company, we are subject to regulations not applicable to private companies, such as provisions of the Sarbanes-Oxley Act. Efforts to comply with such regulations will involve significant expenditures, and non-compliance with such regulations may adversely affect us. Prior to raising significant capital, we may be required to keep a significant portion of our offering proceeds in cash and cash items (including receivables) and U.S. government securities to enable us to acquire assets that meet our desired investment profile and to meet certain RIC qualification requirements. As a result, until we have raised substantial capital, your return may be lower due to the lower rates available on cash and cash items and U.S. government securities. Foreclosures create additional ownership risks that could adversely impact our returns on mortgage investments. Delays in liquidating defaulted mortgage loans could reduce our investment returns. You may have current tax liability on distributions you elect to reinvest in our common stock but would not receive cash from such distributions to pay such tax liability.

We intend to qualify as a RIC for federal income tax purposes but may fail to do so. Such failure would subject us to federal income tax on our taxable income (which would not be reduced by dividends we distribute), which would have a material adverse effect on our financial performance.