



THIRD QUARTER UPDATE

OCTOBER 15, 2023

NALS Apartment Homes is pleased to present our third quarter 2023 financial report and distributions. **Operating distributions for the third quarter were \$26.4 million, or 4.1% of the limited investment, with all 46 properties earning a distribution.** This record level of distributions comes as we are also reinvesting over \$9.0 million in capital improvements. Year-to-date, we have distributed \$75.5 million, or 11.6% of the limited investment while reinvesting \$24.6 million in capital improvements.

Our same store collected rents for the third quarter declined 0.2% from the second quarter of this year, but remains 2.1% above the third quarter of 2022. While the growth in our collected rents has noticeably slowed, it remains 30.5% above the first quarter of 2020 (pre-pandemic). The multifamily industry is experiencing significant challenges in the form of declining rents, increasing operating expenses brought on by inflation, significant escalations in insurance costs, and rapidly rising interest rates. While we are not immune to the effects of these economic headwinds, we are insulated from the direct effects of rising interest rates affecting our competitors thanks to our decision to finance our relatively low-leverage portfolio using only long-term, fixed-rate debt. In addition to this, we have a seasoned management team of long-term employees, whose experience managing through the 2009 recession provides valuable skills in navigating deteriorating operating conditions. Their careful attention to the upkeep of our properties has also resulted in us having a remarkably low-loss history, which has helped reduce the impact of rapidly rising insurance premiums on our operating income relative to our competitors.

The recent reduction in rent growth the multifamily market has experienced is partly a correction from the unsustainable rent growth experienced in the recent years following the COVID pandemic, but is also starting to reflect the large number of new apartment deliveries

that were started during this same period. As a result of these starts, apartment completions have been rising and this rate of new deliveries is expected to continue to increase through 2024 (See Figures 1 and 2). We anticipate the market will continue to slow down in the coming months as the full effect of new supply is realized.

Figure 1

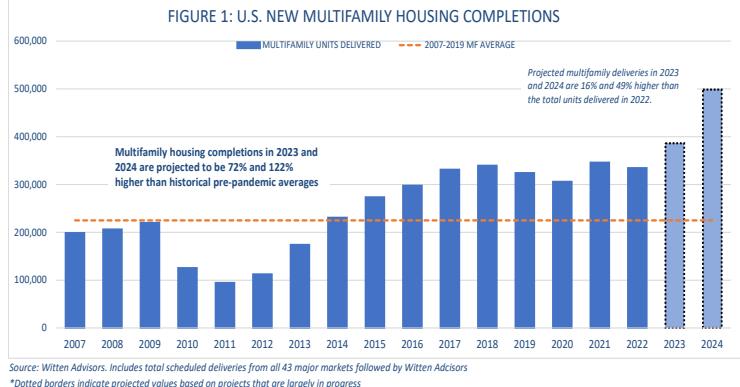
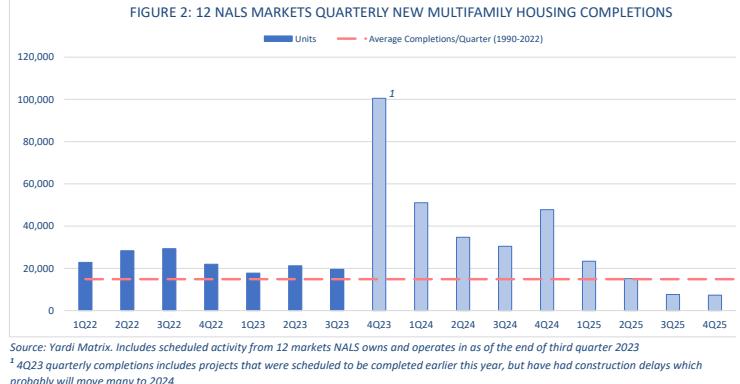


Figure 2



In addition to the downward pressure declining rents have placed on our revenue growth, we continue to face increases in operating expenses of 4-5% attributable to general inflation. On top of inflation, we are also experiencing significant escalation in our insurance costs, which are expected to increase by at least 40-50%, and quite possibly more by the time our policy renewals are finalized in the fourth quarter. While this is a significant increase, it is important to note that over the twelve

THIRD QUARTER UPDATE CONT'D...

months, total insurance expense only represented about 2% of our total income. Despite our unusually favorable 10-year loss history (7.3% of our premium on our property insurance), the overall insurance markets are experiencing massive dislocation, affecting apartment owners nationwide (See: [WSJ: Commercial Real Estates Next Big Headache: Spiraling Insurance Costs](#)). While we are not alone in this rapidly rising expense environment, we anticipate many operators of apartments will be experiencing significantly heavier operating challenges as they realize the effects of recent interest rate increases. This is especially true for owners who elected to use short-term, variable interest rate debt the past couple of years, and will need to refinance in the coming months. During the past two years, the underlying short-term government interest rates (which are the benchmark rates used for variable-rate loans), have increased from 0.5% to 5.5% while long-term interest rates increased from 1.5% to 4.7% as of the writing of this letter. After incorporating lender spreads to these increases in benchmark rates, short-term apartment borrowing costs have tripled for variable-rate borrowers and are up 2.5x for long-term borrowers. Federal Reserve sentiments expressed during the last quarter meeting suggests interest rates are likely to stay higher for longer which was reflected in the most recent 100 basis point move in the ten-year treasury rate. As one could imagine, this is devastating news to the buyers responsible for the large number of transactions that occurred during 2021 and 2022 at historically high valuations using variable interest rate debt.

While declining revenue growth may be unwelcome from an operational standpoint, it does present potential opportunities for new acquisitions. The multifamily market is still dealing with the disconnect between buyer and seller expectations, leading to more price discovery in every market. Rising interest rates have already placed significant pressure on cash flow for many apartment owners, and this stress has been further exacerbated by increases in operating expenses and slowing rent growth. Recently, we have seen a noticeable increase in apartment sale listings as owners have struggled to contend with these shifts in market conditions. The full effect of new supply and increases in interest rates does not appear to be reflected in pricing yet, and the 20-30% decrease we have seen in apartment values relative to their peaks in 2022 is likely to grow as price deterioration continues over the next few

months. We continue to underwrite current listings and monitor market conditions as today's economic issues unravel, however it is apparent we are not alone in this strategy, as there is a large amount of equity in today's market actively seeking new investment opportunities. We believe our decisions over the past few years have positioned us well to potentially benefit from an any economic slowdown affecting our industry. We elected to not purchase any assets over the past few years as we could not reasonably justify paying the inflated pricing the markets experienced through their peaks in 2022. Additionally, our fixed interest rate debt strategy and the well timed 2020/2021 refinances largely shield us from the interest rate problems many of our peers are likely to experience over the next couple of years. We maintain an exclusively **fixed-interest rate** debt portfolio with an extraordinary **4.80x debt coverage ratio** (amount of net operating income generated relative to mortgage payments), along with substantial cash reserves, and an **average maturity duration of 5.8 years**. This has allowed us to remain relatively unaffected by the Federal Reserve's decision to raise rates at a historic rate to combat inflation, especially compared to buyers who elected to take out short-term, high-leverage, variable-rate debt to acquire new assets over the past few years. As these loans begin to mature over the next few years, these owners may not be able to refinance, and this in turn may allow us to acquire new properties at a discount to replacement cost and the peak pricing paid in recent years.

Despite our cautious outlook for the rest of this year and 2024, our NOI growth is expected to remain positive versus last year and we view our **annual distribution run rate of \$100 million (15% cash-on-cash) to be sustainable**. We have continued to strengthen our long-term operations by reinvesting in our assets to provide our residents with a quality living experience and preserve our assets for long-term ownership.

For those investors who have elected to receive funds electronically via ACH, we are pleased to be able to send your second quarter distributions by October 14th. For investors who have not switched to ACH deposit yet, your checks will be mailed to you.

We are grateful for your continued partnership. Should you have any questions, please do not hesitate to contact us.

CURRENT PROPERTY DISTRIBUTIONS

MOUNTAIN	Purchase Date	Limited Investment	2022 Distributions		2023 3rd Quarter		2023 YTD Distributions		Total Distributed to Date	
SKY HARBOR-40 (Recap)(4)	06/30/20	35,725,000	3,304,563	9.25%	803,813	2.25%	2,500,750	7.0%	9,020,563	25.25%
PINNACLE HIGHLAND-80	03/26/09	12,600,000	3,969,000	31.5%	1,008,000	8.0%	3,213,000	25.5%	26,901,000	213.5%
LAMBERTSON FARMS-86	10/05/10	15,000,000	3,075,000	20.5%	825,000	5.5%	2,325,000	15.5%	27,900,000	186.0%
COURTNEY DOWNS-89	04/12/12	12,800,000	2,624,000	20.5%	768,000	6.0%	2,112,000	16.5%	22,016,000	172.0%
REDSTONE RANCH-93	02/11/14	19,000,000	3,325,000	17.5%	950,000	5.0%	2,755,000	14.5%	21,375,000	112.5%
IRONHORSE-96	09/09/15	18,500,000	1,665,000	9.0%	370,000	2.0%	1,110,000	6.0%	10,082,500	54.5%
OVERLOOK-103	02/26/19	27,800,000	2,015,500	7.25%	486,500	1.75%	1,459,500	5.25%	8,062,000	29.0%
BRIAGATE-104/104H	02/17/20	30,000,000	2,025,000	6.75%	450,000	1.5%	1,350,000	4.5%	6,300,000	21.0%
SUBTOTAL MOUNTAIN		171,425,000	22,003,063	12.8%	5,661,313	3.3%	16,825,250	9.8%	131,657,063	76.8%
NEW MEXICO										
RIVERWALK-31R (Recap)(4)	03/31/20	17,400,000	1,087,500	6.25%	391,500	2.25%	1,131,000	6.5%	4,089,000	23.5%
LA PAZ-35R (Recap)(4)	03/31/20	17,400,000	1,305,000	7.5%	435,000	2.5%	1,218,000	7.0%	4,393,500	25.25%
DEL RIO-63	04/12/00	3,150,000	1,669,500	53.0%	472,500	15.0%	1,417,500	45.0%	14,931,000	474.0%
EAGLE RANCH-67	08/23/01	5,750,000	2,760,000	48.0%	747,500	13.0%	2,156,250	37.5%	25,300,000	440.0%
LA MIRAGE-69	09/30/03	5,600,000	2,548,000	45.5%	672,000	12.0%	1,820,000	32.5%	23,772,000	424.5%
LADERA VISTA-87	03/11/11	3,400,000	714,000	21.0%	221,000	6.5%	629,000	18.5%	4,743,000	139.5%
TALAVERA-56	12/02/98	3,300,000	2,673,000	81.0%	759,000	23.0%	2,161,500	65.5%	23,331,000	707.0%
RANCHO-91	12/06/12	4,500,000	1,800,000	40.0%	495,000	11.0%	1,440,000	32.0%	10,372,500	230.5%
SUBTOTAL NEW MEXICO		60,500,000	14,557,000	24.1%	4,193,500	6.9%	11,973,250	19.8%	110,932,000	183.4%
TEXAS										
MACARTHUR RIDGE-62	02/25/00	4,000,000	1,200,000	30.0%	240,000	6.0%	820,000	20.5%	10,120,000	253.0%
COURTS-64	03/30/00	7,450,000	1,527,250	20.5% (1) (2)	111,750	1.5% (2)	335,250	4.5% (2)	14,713,750	197.5%
ECHO-101	04/10/18	12,500,000	906,250	7.25% (1)	218,750	1.75% (1)	656,250	5.25% (1)	2,625,000	21.0%
CHANDLER PARK-98	12/06/16	20,000,000	1,150,000	5.75% (1)	300,000	1.5% (1)	1,050,000	5.25% (1)	7,300,000	36.5%
BRIAR FOREST-102	09/05/18	29,400,000	1,249,500	4.25% (1)	367,500	1.25% (1)	1,102,500	3.75% (1)	7,056,000	24.0%
SUBTOTAL TEXAS		73,350,000	6,033,000	8.2%	1,238,000	1.7%	3,964,000	5.4%	41,814,750	57.0%
SOUTHWEST										
SONORAN-51 (Recap)(4)	12/31/20	34,300,000	2,315,250	6.75%	686,000	2.0%	1,972,250	5.75%	6,174,000	18.0%
FINISTERRA-79	07/24/08	10,250,000	2,152,500	21.0%	563,750	5.5%	1,691,250	16.5%	13,683,750	133.5%
LEGENDS-90	06/19/12	13,800,000	2,208,000	16.0%	414,000	3.0%	1,242,000	9.0%	11,937,000	86.5%
TOWNE SQUARE-65	10/25/00	8,000,000	4,000,000	50.0%	1,000,000	12.5%	2,800,000	35.0%	35,320,000	441.5%
SAGE STONE-81	04/28/09	8,300,000	2,365,500	28.5%	664,000	8.0%	1,867,500	22.5%	16,600,000	200.0%
SAN TROPEZ-82	08/07/09	11,500,000	2,587,500	22.5%	747,500	6.5%	2,070,000	18.0%	20,470,000	178.0%
RIDGEGATE-85	04/29/10	6,500,000	1,592,500	24.5%	357,500	5.5%	1,137,500	17.5%	10,270,000	158.0%
WATERFORD-95	12/01/14	10,200,000	1,479,000	14.5%	459,000	4.5%	1,275,000	12.5%	9,537,000	93.5%
CAVE CREEK-97	09/29/16	13,300,000	1,795,500	13.5%	465,500	3.5%	1,330,000	10.0%	8,312,500	62.5%
VERSANTE-99	08/29/17	17,500,000	2,275,000	13.0%	525,000	3.0%	1,487,500	8.5%	9,362,500	53.5%
OASIS VISTA-59	09/30/99	3,100,000	1,333,000	43.0%	387,500	12.5%	821,500	26.5%	16,244,000	524.0%
VINTAGE-92	04/23/13	13,000,000	2,210,000	17.0%	455,000	3.5%	1,430,000	11.0%	14,235,000	109.5%
CENTENNIAL-94	07/22/14	13,700,000	2,260,500	16.5%	548,000	4.0%	1,712,500	12.5%	14,796,000	108.0%
SUBTOTAL SOUTHWEST		163,450,000	28,574,250	17.5%	7,272,750	4.4%	20,837,000	12.7%	186,941,750	114.4%
WEST										
WOODCLIFFE-50 (Recap)(4)	07/31/20	36,875,000	2,120,313	5.75%	553,125	1.5%	1,659,375	4.5%	6,545,313	17.75%
MARINERS GLEN-68	11/30/02	3,800,000	3,059,000	80.5%	798,000	21.0%	2,147,000	56.5%	25,840,000	680.0%
COLONNADE-83	09/24/09	7,250,000	2,718,750	37.5%	543,750	7.5%	1,740,000	24.0%	21,822,500	301.0%
MILL PLAIN-84	09/24/09	6,500,000	2,860,000	44.0%	812,500	12.5%	2,047,500	31.5%	24,537,500	377.5%
KIELO-105	12/10/20	34,300,000	2,829,750	8.25%	686,000	2.0%	2,058,000	6.0%	7,117,250	20.75%
ROLLING OAKS-88	11/30/11	16,200,000	3,240,000	20.0%	810,000	5.0%	2,349,000	14.5%	23,247,000	143.5%
SUBTOTAL WEST		104,925,000	16,827,813	16.0%	4,203,375	4.0%	12,000,875	11.4%	109,109,563	104.0%
SOUTHEAST										
ARBORS-72	11/15/04	7,200,000	3,744,000	52.0%	1,332,000	18.5%	3,168,000	44.0%	23,472,000	326.0%
PARK TRACE-74	08/09/05	3,750,000	1,556,250	41.5%	487,500	13.0%	1,293,750	34.5%	10,406,250	277.5%
GARDENS-75	08/22/05	15,950,000	2,073,500	13.0%	638,000	4.0%	1,595,000	10.0%	19,379,250	121.5%
GLEN PARK-77	12/01/06	12,200,000	3,111,000	25.5%	549,000	4.5%	1,830,000	15.0%	15,982,000	131.0%
DRUID HILLS-78	03/11/08	11,500,000	690,000	6.0% (2)	402,500	3.5% (2)	747,500	6.5% (2)	10,235,000	89.0%
VININGS-100	09/07/17	25,500,000	1,657,500	6.5% (1)	382,500	1.5% (1)	1,275,000	5.0% (1)	7,267,500	28.5%
SUBTOTAL SOUTHEAST		76,100,000	12,832,250	16.9%	3,791,500	5.0%	9,909,250	13.0%	86,742,000	114.0%
TOTAL		\$649,750,000	\$100,827,375	15.5%	\$ 26,360,438	4.1%	\$75,509,625	11.6%	\$667,197,125	102.7%

(1) GENERAL PARTNER DISTRIBUTIONS DEFERRED.

(2) LIMITED PARTNERSHIP DISTRIBUTIONS REDUCED AS PROPERTY PAYS DEFERRED GP DISTRIBUTION.

(3) PERCENTAGE CALCULATED BY INCLUDING EQUITY OF PROPERTIES ONLY DURING THE PERIODS OWNED.

(4) RIVERWALK AND LA PAZ WERE RECAPITALIZED IN MARCH 2020, SKY HARBOR IN JUNE 2020, WOODCLIFFE IN JULY 2020, AND SONORAN TERRACES IN DECEMBER 2020.

DISTRIBUTION % BASED ON THE NEW LIMITED INVESTMENT. SEE SALE SCHEDULE FOR PRE-RECAP HISTORY.

SOLD PROPERTY DISTRIBUTIONS

Sold Properties	Purchase Date	Sold Date	Hold Period (Years)	Limited Investment	Operating Distributions		Profit From Sale (1)	IRR	
					\$0	0.0%	\$315,000	70.0%	25.6%
SUNNYVALE-28	03/29/91	07/26/93	2.3	\$450,000	\$0	0.0%	\$315,000	70.0%	25.6%
WESTPOINTE-25	09/29/90	08/11/94	3.9	390,000	249,600	64.0%	641,550	164.5%	41.3%
CASTLERIDGE-26	12/01/90	05/30/96	5.5	840,000	604,800	72.0%	1,167,583	139.0%	27.5%
OAKMEADOWS-23	01/31/90	09/26/96	6.7	750,000	618,750	82.5%	1,807,860	241.0%	26.9%
CLOVERLAND-24	06/30/90	09/29/97	7.3	1,100,000	1,391,500	126.5%	2,920,500	265.5%	31.4%
MISSION VALLEY-42	06/16/94	12/09/99	5.5	3,700,000	1,498,500	40.5%	3,065,774	82.9%	17.5%
FOUNTAIN VIEW-48	10/20/95	01/26/00	4.3	2,600,000	234,000	9.0%	1,861,423	71.6%	15.3%
RIVER OAKS-39	07/21/93	02/29/00	6.6	2,200,000	1,122,000	51.0%	800,800	36.4%	12.8%
BELMONT-53	08/08/97	04/30/01	3.7	2,600,000	845,000	32.5%	3,710,200	142.7%	33.7%
FOXWOOD-54	08/08/97	04/30/01	3.7	2,150,000	559,000	26.0%	3,313,150	154.1%	34.2%
ALTAMIRA-45	04/17/95	01/30/02	6.8	1,450,000	587,250	40.5%	761,250	52.5%	11.6%
CAMBRIDGE-43	03/16/94	08/21/03	9.4	1,700,000	1,258,000	74.0%	1,105,000	65.0%	12.3%
COVEWOOD-34	06/19/92	12/12/03	11.5	600,000	1,158,000	193.0%	1,890,000	315.0%	23.3%
SHADOW CREEK-49	03/13/96	02/23/05	9.0	2,350,000	1,668,500	71.0%	4,535,500	193.0%	19.9%
SCOTTSDALE-66	06/01/01	05/25/05	4.0	5,400,000	756,000	14.0%	8,964,003	166.0%	30.7%
AUSTIN TRAILS-61	02/02/00	07/29/05	5.5	1,550,000	38,750	2.5%	868,000	56.0%	8.9%
FOREST PARK-27	09/15/90	11/11/05	15.2	60,000	531,300	885.5%	508,500	847.5%	44.2%
WHISPERING SANDS-58	08/20/99	08/29/06	7.0	800,000	768,000	96.0%	2,736,000	342.0%	31.8%
CEDAR HEIGHTS-52	11/08/96	03/29/07	10.4	5,500,000	4,317,500	78.5%	20,900,000	380.0%	20.5%
THE MILL-46/47	05/15/95	07/26/07	12.2	7,775,000	9,017,376	116.0%	47,537,500	611.4%	22.2%
WINSTON-44	01/26/95	11/16/10	15.8	1,050,000	648,165	61.7%	850,500	81.0%	7.9%
OAK RUN-57	05/11/99	12/08/10	11.6	3,850,000	3,330,250	86.5%	4,889,580	127.0%	13.1%
FOXFIRE-37	11/05/92	08/01/12	19.7	2,000,000	4,080,000	204.0%	6,070,000	303.5%	17.8%
ENCLAVE-55	11/19/98	08/10/12	13.7	2,450,000	3,895,500	159.0%	4,508,000	184.0%	15.8%
DEERFIELD-70	11/18/03	08/21/12	8.8	6,100,000	2,897,500	47.5%	8,631,500	141.5%	14.4%
LANDINGS-76	12/12/05	12/16/13	8.0	6,200,000	2,077,000	33.5%	3,782,000	61.0%	9.7%
THORNHILL-29	06/04/91	07/10/15	24.1	1,300,000	7,013,500	539.5%	14,716,000	1132.0%	21.6%
HUNTINGTON-71	04/06/04	08/07/17	13.3	5,200,000	4,238,000	81.5%	16,224,000	312.0%	15.2%
TIERRA POINTE-32	01/09/92	01/17/18	26.0	825,000	6,298,876	763.5%	9,087,375	1101.5%	30.4%
LOS VOLCANOS-41	06/30/93	01/17/18	24.6	900,000	4,486,500	498.5%	5,922,000	658.0%	19.7%
COBBLE CREEK-36	11/12/92	08/14/18	25.8	3,500,000	20,947,500	598.5%	43,995,000	1257.0%	17.9%
SOMBRA DEL OSO-30	01/09/92	01/23/19	27.0	2,225,000	16,075,625	722.5%	19,691,250	885.0%	21.7%
HUNTERS RIDGE-33	01/09/92	09/17/19	27.7	825,000	7,309,501	886.0%	10,312,500	1250.0%	25.5%
SADDLE RIDGE-38	02/01/93	09/17/19	26.6	1,700,000	9,290,500	546.5%	16,303,000	959.0%	17.6%
BELMONT-73	12/08/04	11/03/20	15.9	3,600,000	2,700,000	75.0%	14,760,000	410.0%	12.7%
REMINGTON-60	11/08/99	06/29/21	21.6	2,450,000	6,602,750	269.5%	7,778,750	317.5%	14.2%
Subtotal Sold			12.5	\$88,140,000	\$129,114,993	146.5%	\$296,931,048	336.9%	18.6% (2)
RECAPITALIZATIONS (3)		Recap Date							
RIVERWALK-31	01/09/92	03/31/20	28.2	1,725,000	13,627,500	790.0%	19,147,500	1110.0%	22.3%
LA PAZ-35	08/20/92	03/31/20	27.6	1,800,000	13,653,000	758.5%	18,180,000	1010.0%	20.4%
SKY HARBOR-40	07/16/93	06/30/20	27.0	3,400,000	25,041,000	736.5%	42,840,000	1260.0%	21.3%
WOODCLIFFE-50 (4)	03/27/96	07/31/20	24.3	2,325,000	21,401,625	920.5%	44,175,000	1900.0%	25.3%
SONORAN TERRACES-51	08/13/96	12/31/20	24.4	5,200,000	16,978,000	326.5%	40,820,000	785.0%	14.3%
Recapitalizations			26.3	\$14,450,000	\$90,701,125	627.7%	\$165,162,500	1143.0%	19.3% (2)
TOTAL			14.2	\$102,590,000	\$219,816,118	214.3%	\$462,093,548	450.4%	18.8% (2)
Investment Reconciliation									
	Current Properties			Limited Investment	\$649,750,000	Current Properties			
						Operating Distributions			\$667,197,125
	Sold Properties			Limited Investment	88,140,000	Sold Properties			
						Operating Distributions			129,114,993
						Sale Profit and Return of Capital			385,071,048
						Total Sold Properties			514,186,041
	Recapitalizations			Limited Investment	14,450,000	Recapitalizations			
						Operating Distributions			90,701,125
						Sale Profit and Return of Capital			179,612,500
						Total Recapitalizations			270,313,625
	Total Limited Investment				\$752,340,000	Total Distributions			\$1,451,696,791
									193.0%

(1) RETURN OF CAPITAL NOT INCLUDED.

(2) WEIGHTED AVERAGE BY HOLD PERIOD AND LIMITED INVESTMENT.

(3) THE 2020 RECAPITALIZATIONS PROVIDED EXISTING INVESTORS AN OPTION TO RECEIVE CASH AT THE SALE EQUIVALENT RECAP VALUATION OR RECEIVE A DISTRIBUTION OF A PORTION OF THEIR RETURN AND NEW LIMITED INVESTMENT IN THE RESTATED PARTNERSHIP.

(4) WOODCLIFFE INVESTORS WHO PARTICIPATED IN THE RECAPITALIZATION RECEIVED A 2100% VALUATION AS THEY DID NOT HAVE TO PAY THE WASHINGTON REAL ESTATE EXCISE TAX THAT WOULD HAVE BEEN DUE HAD AN ACTUAL SALE OCCURRED.

NALS FEATURED CLUBHOUSE RENOVATION

Glen Park, Smyrna, GA (415 units)



COLLAGE OF NALS PROPERTIES



Arbors- 72



Riverwalk- 31



Macarthur Ridge- 62



Towne Square- 65



Mariners Glen- 68



Vinings- 100

