LETTER TO PARTNERS

From the desk of Robert Fransen, CEO

TIMBERLAND PARTNERS INVESTMENTS

February 2026

MARKET CONDITIONS AND OPPORTUNITY

We begin the year with a sense that we are currently at or near the bottom of the real estate cycle. The place where developers and their capital providers finally surrender their irrational optimism, which created the current oversupply of new apartments. Consider these quotes:

Real estate is one of the most cyclical industries in the economy. Even when the market does not want new development, developers and investors tend to ignore reality, rationalize, and build anyway. Developers and their investment partners continue to be lulled by the strength of the market during cycle upswings, and extremely high levels of capital continue flooding into real estate – that is until the crash comes.

The result is the bankruptcy of marginal projects and companies and a serious decline in the financial performance of nearly every company and project in the market. Markets always correct themselves on both the downside and the upside as supply and demand return to balance."

-Charles A. Hewlett and Gadi Kaufmann, Strategy for Real Estate Companies

"So where are we today in this real estate cycle? We are at the beginning of the next Growth Phase. Real estate cycles are real and predictable.

-Christopher Lee, Strategic Advantage, CEL and Associates

The Minnesota Real Estate Journal held its annual Apartment Summit on January 8th. Over 600 people were in attendance. The most exciting thing about the conference: six local developers on the "New Development Outlook" panel showed absolutely no enthusiasm for development prospects this year. The reason: newly constructed apartment complexes that cost $300,000 to build are selling for $250,000 per unit or less. Even though returns might be a bit thin initially for buyers of these properties, this provides an opportunity to acquire at a very attractive basis.

2026 will be a year of correction and opportunity in the apartment market. There will not be a crash, but as new construction slows, soft markets will firm up and balanced markets will see gradual rent increases. Developers and others who bought with short time horizons in mind will be encouraged to sell by their lenders.

Values are down 15%-20% from their 2022 peak due to higher interest rates and flat rents. ***Rarely does the apartment market present the opportunity to acquire properties after such a reset. In the past 35 years, this occurred only twice; in the early 1990's after the Savings and Loan Crisis, and in 2011 after the Great Recession.*** We intend to capitalize with a long-term investment horizon in mind.

As we do, we consider the advice of management consultant Peter Drucker: "Until your business returns a profit that is greater than its cost of capital, it is socially irresponsible and a drain on society." We will do our best to contribute to and not be a drain on society.

CHALLENGES

As a company, we have some challenges that we continue to face. Probably the biggest is Fund IX, which acquired two properties in Alabama, one in Florida, and one in Kansas City at the peak of the market in 2022, and continues to face headwinds. Occupancies on the four properties are 94.0%, but revenues are not what we anticipated they would be, and the Fund is not providing the hoped-for returns. We continue to work to shore things up.

SAME-STORE SALES

We currently own and operate apartments in 18 states. Our strongest markets for revenue growth on a same-store sales basis were as follows:

- ***Northwest Arkansas (Bentonville, Rogers) 5.05% (three properties)***
- ***Kansas City 4.52% (seven properties)***
- ***Bismarck 3.68% (one property)***
- ***St. Louis 3.58% (eleven properties)***
- ***Detroit 3.14% (four properties)***

Our softest markets where revenues actually declined were:

- ***Savannah, Georgia -1.49% (one property)***
- ***Central Florida -1.33% (seven properties)***
- ***Des Moines -.67% (four properties)***
- ***Nashville -.61% (seven properties)***

Generally speaking, the Heartland fared better because fewer apartments were added to the supply.

The current occupancy of our 21,453 apartment units sits at 95.2%, but there are pockets where we struggle to maintain 90%. Seven properties in our 94-property portfolio have occupancies below 90%. ***For the portfolio, revenues on a same-store basis increased only 1.88% in 2025.***

A couple of factors that bode well for the apartment market:

- Incomes have been rising considerably faster than rents in recent years. This means that tenants should be able to afford higher rents once the oversupply is absorbed and rents naturally increase again for market-rate apartments due to tightening supply.

- Affordability is an issue in the for-sale market. According to Marcus & Millichap, the median age of a first-time homebuyer is now 40 years old, up from 30-32 in 1993. Home ownership just does not have the same investment appeal it once did, especially with mortgage rates in excess of 6%. With all the amenities available in apartments today and the energy gained from being in proximity to active neighbors, many simply prefer that lifestyle.

TEAM MEMBER NEWS

We are pleased to announce that Anika Nelson has been promoted to Senior Vice President of Property Management with the recent retirement of Mary Kahl. Anika has been with Timberland Partners for ten years and is a 30-year veteran of the industry. Most recently, she was one of our three Regional Vice Presidents overseeing operations in Minnesota, North Dakota, Iowa, Michigan, parts of Nebraska, and parts of Ohio.

Anika's position was filled by Tina Burns, a 27-year veteran of the apartment industry, including eight years at Greystar where she oversaw a nearly 30,000-unit portfolio over eight states. We welcome Anika and Tina to their new roles, and we thank Mary Kahl for over 16 years of service to Timberland Partners.

Our Chief Operating Officer, Erin Fransen, will be installed as Board Chair of the Minnesota Multi-housing Association (MHA) on March 12th. MHA is the trade organization that represents the apartment industry across the state of Minnesota. I am incredibly proud of my daughter and her commitment to serving not only Timberland Partners in a leadership role, but also the entire multihousing industry in Minnesota.

If you ever visit our offices, you will see the Wall of Fame in our lobby, where we recognize team members who have been with us and serving our investment partners for over 10 years. 46 names are on that wall, and seven of them have been serving you for more than 20 years.

We do our best to be the type of organization that attracts and retains the best talent in our industry.

2026 INITIATIVES

Timberland Partners has established four initiatives that will be drivers of our efforts this year:

1. Build Momentum

We intentionally slowed our growth over the past three years as interest rates rose and oversupply of new construction led to flat rent growth, lower occupancy, and declining market values. We believe the prudent course of action at this time is to return to growth mode.

2. Become More Customer-centric

We have two groups of customers: our investment partners and our residents. We will focus on improving our customer service in both areas and do our best to get closer to our customers. Our resident retention rate was 65.14% in 2025, above the national average of 57%. If we serve customers better than anyone else, we will qualify for the growth we are looking for.

3. Get Closer to Our Fellow Team Members

We have 520 team members dispersed across 18 states. It takes an intentional effort to create and maintain a strong culture. Our leadership team will make more trips to various locations around the country to visit the properties and the teams to build these important relationships.

4. Alignment

Each of our 94 apartment communities has an individualized Investment Plan. They may also, to some extent, create their own culture, and the footprint of our portfolio can make it challenging to always be on the same page. By prioritizing alignment, we will ensure everyone is executing the Investment Plan for their community as well as moving toward our shared company goals to improve cohesion, reduce unnecessary bureaucracy, and increase efficiency.

PARTNER EVENTS

Arizona

For our partners spending time in Arizona this winter, please plan to join us for dinner at El Chorro in Phoenix on Tuesday, March 10th. Several of us will be there to share plans for upcoming acquisitions and to thank you for your business. As we work to Build Momentum this year, we see opportunities for new partners to join us and encourage you to invite anyone you believe would be a good fit to become one of Timberland's partners. Watch for your formal invitation.

Texas

A lunch event is also planned for our Texas partners at College Station on May 6th. We appreciate our Texas partners. They are some of the friendliest people you will ever meet. We're hoping to add some new Texas friends to the club this year.

SUCCESS STORIES

Long-term investments in real estate are attractive for a number of reasons, but one is clearly that the refinance proceeds received due to increases in the property's value are not taxed at the time of refinancing. Profits are taxed as capital gains at the time of the sale. Real estate also benefits because tax-deferred exchanges allow us to sell and reinvest, deferring the capital gains into the exchanged asset, something we have done numerous times.

We appreciate and thank those partners who have stayed with us through these refinances and tax-deferred exchange cycles, supporting long-term tax-advantaged wealth creation. Most of the partnerships we formed, going back to the early 1990's, still exist, and some are on their third property. I think our long-term partners would agree that the cumulative effect of compounding tax-advantaged investments after 20 or 30 years is very satisfying.

We were able to refinance five properties and return a significant amount of the original investment back to partners in 2025. They include the following:

Green Mount Lakes | O'Fallon, IL | 240 units

Green Mount Lakes was purchased in 2017 for $30,600,000 and appraised for $52,700,000 this past summer. The increase in value allowed us to return $13,800,000 to partners, or 164% of their original investment. The property is well-located and positioned for another ten-year hold period.

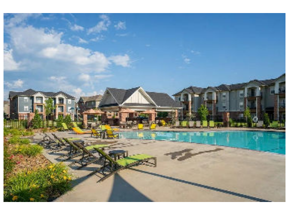
Savannah Creek | Southaven, MS (Memphis) | 204 units

Savannah Creek was purchased in 2019 for $20,750,000 and recently appraised at $34,300,000. The increase in value allowed us to refinance and return $6,230,000, or 81% of the original equity investment of $7,650,000 to our partners.

The DeSoto | Horn Lake, MS (Memphis) | 253 units

The DeSoto was purchased in 2019 for $19,000,000 and recently appraised for $33,100,000. The increase in value allowed us to refinance and return $5,430,000, or 58% of the initial equity investment of $9,350,000 to our partners. Both The DeSoto and Savannah Creek are located within 20 minutes of Elon Musk's planned $20 billion data center investment for his artificial intelligence company xAI.

Sullivan Square | Bentonville, AR | 535 units



The Sully was purchased in 2019 for $63,600,000 and recently appraised for $92,900,000, allowing us to return $13,860,000 or 79% of our original investment of $15,000,000 to our partners. The Sully is a high-quality asset in proximity to the brand-new Walmart Corporate Headquarters. We are positioned for an additional ten-year hold, taking advantage of the strongest rental market in our portfolio, thanks to Walmart.

Forestlake | Daytona Beach, FL | 146 units

Forestlake was purchased in 2015 for $9,050,000 and appraised for $19,500,000 recently. The added equity allowed us to refinance and return $4,800,000, or 188% of the original investment of $2,550,000.

ACQUISITION OPPORTUNITIES

We are currently negotiating on the purchases of three apartment communities that we expect will become part of a three-property investment fund. They are located in three markets where we currently own apartment communities, have a successful track record, and a strong management presence: St. Louis, MO; Dayton, OH; and Tulsa, OK. Details should be available in early March. Feel free to reach out to Sam Eaton, Jessie Clausen, or Kate Long with any questions.

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FINAL THOUGHTS

2026 will be a year when the apartment market stabilizes and firms up. Values have dropped from their 2022 peak. We are at the bottom of the cycle. Our acquisitions activity will increase. We will focus on those deals where owners are being encouraged to sell by their lenders due to loan maturities.

Our average annual growth rate over the past 20 years has been 8.13%, taking us from 4,497 to 21,453 apartment units. This is a rate of growth that required taking some risk, but also allowed for quality control. We have set a goal to grow at an annual rate of 6.94% for the next five years. This won't put us on any of those fastest growing company lists. But it will stretch us, provide opportunities for our partners, growth opportunities for our team members, and provide me with a good reason to get out of bed in the morning.

Onward and upward,

Bob

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