

# F2 | Annual Letter



2023

In Review

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[www.f-two.com](http://www.f-two.com)



Institutional Background.  
Nimble Execution.

## **CORPORATE HEADQUARTERS**

449 South Beverly Drive  
Floor 1  
Beverly Hills, CA 90212

January 03, 2024

### **Dear Valued Investors, Clients, and Readers,**

As we conclude 2023, I find myself reflecting on the journey we've embarked upon together at F2. It is with a profound sense of gratitude that I write to you today, acknowledging the collective effort and trust that has propelled us through one of the most challenging economical periods in recent memory. The past year has indeed been an unprecedented one for the real estate lending sector. The surge in interest rates was more than a mere market fluctuation; it was a transformative force that reshaped the landscape we operate in. Amidst this tumultuous environment, the narrative of F2 has been one of resilience, discipline, and unwavering commitment.

I am proud to share that, despite the adverse conditions, our firm has not only sustained but thrived. Our strategy of being exceptionally selective with our investments has proven its merit more than ever. This cautious approach allowed us to successfully exit five positions, a significant achievement that underscores the strength and acumen of our team. Even more reassuring is the fact that our portfolio remains robust, with no investments in default. This is a remarkable feat and speaks volumes about the diligence and foresight with which we manage our resources and risks. However, our successes are not solely measured by these achievements. They are also reflected in the trust and satisfaction of our clients, the dedication of our team, and the integrity of our operations. We understand that in the world of finance, especially in real estate lending, the terrain is ever-changing. New challenges emerge just as old ones recede. But it is our adaptive and proactive approach that ensures we not only anticipate these changes but also position ourselves to capitalize on the opportunities they present.

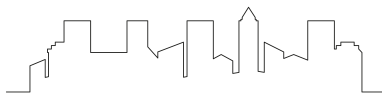
Looking forward, we are acutely aware that the path ahead may hold its share of uncertainties. However, the experiences of this past year have fortified our confidence in our ability to navigate any situation. We remain committed to our principles of rigorous due diligence, conservative portfolio management, and transparent communication. As we move into the new year, I want to reaffirm our pledge to you. We will continue to strive for excellence, maintain the highest standards of integrity, and seek out the best opportunities that align with our vision and values. The trust you place in us is not taken for granted; it is the fuel that drives us to do better, to be better.

In closing, I extend my sincerest thanks to each of you. Your support and belief in F2 have been instrumental in our journey thus far. Together, we have built a firm that stands resilient, ready to embrace the future, no matter what it holds. Thank you for being an indispensable part of our story.

With deepest appreciation,



**Jonathan Jacob Fhima**  
Chief Executive Officer & Founding Principal



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Rome wasn't built in a day

## **F2 Portfolio Exits | 2023**

This year, we successfully navigated and exited five significant deals. Each one presented its unique challenges and opportunities, which we skillfully managed. These accomplishments reflect our firm's commitment to excellence and strategic foresight in the dynamic market.

### **44th Ave**

Underlying Asset Class: Multifamily & Industrial

Investment Period: 5 Months

Exit Date: 01/19/2023

Realized Unlevered IRR: 11.6%

Monthly Investor Distribution: Yes

### **56th St Portfolio**

Underlying Asset Class: Multifamily

Investment Period: 16 Months

Exit Date: 02/16/2023

Realized Unlevered IRR: 9.4%

Monthly Investor Distribution: Yes

### **177th St**

Underlying Asset Class: Mixed Use

Investment Period: 8 Months

Exit Date: 05/26/2023

Realized Unlevered IRR: 13.2%

Monthly Investor Distribution: Yes

### **Queens Portfolio**

Underlying Asset Class: Multifamily

Investment Period: 24 Months

Exit Date: 10/16/2023

Realized Unlevered IRR: 10.2%

Monthly Investor Distribution: Yes

### **Williamsburg**

Underlying Asset Class: Industrial

Investment Period: 22 Months

Exit Date: 11/30/2023

Realized Unlevered IRR: 10.1%

Monthly Investor Distribution: Yes

## **F2 Technical Milestones & Updates | 2023**

As we reflect on the non-financial milestones achieved this year, we are proud to highlight a couple of significant accomplishments. The release of our new website marked a pivotal step in enhancing our digital presence and user experience. Additionally, the development of a comprehensive payment portal on Yardi for our clients has revolutionized the way they manage and interact with their loan information. These milestones not only signify our commitment to innovation and client service but also represent the continuous evolution and growth of our firm.

### **Website Makeover**

Updating our website this year was a crucial step in enhancing our client experience and showcasing our corporate identity. By integrating elements from our corporate book, detailing completed deals, and providing comprehensive information about our investment platform, we've created a more user-friendly and informative online presence. The addition of all our press releases and other vital information ensures that clients have immediate access to the most current and relevant data about our firm. This transformation not only reflects our commitment to transparency and accessibility but also serves as a valuable resource for clients, investors, and partners seeking to understand and engage with our business more deeply. Visit [www.f-two.com](http://www.f-two.com).

### **Payment Portal**

Implementing a payment portal on Yardi this year has significantly enhanced the borrower experience by providing a seamless and efficient way to manage their loans. By allowing borrowers to access a comprehensive portal directly from our website, we've empowered them with real-time information about their loan details, cash flows since inception, and more. What's more, borrowers can now make payments through the portal. The integration of this technology is a testament to our dedication to adopting advanced solutions that improve service quality and client satisfaction. The portal is built; we plan on launching it Q1 2024.

### **Banking Change**

This year, in light of the small regional banking crisis, we made the strategic decision to transition the majority of our banking and financial operations to JPMorgan Chase. Recognizing the importance of stability and security in these tumultuous times, we believed this shift to a more robust and well-capitalized institution was the prudent course of action. JPMorgan Chase's strong reputation and extensive resources offer a safer harbor for our assets and transactions, ensuring our operations continue smoothly and without undue risk. This move reflects our commitment to safeguarding our financial health and maintaining the trust of our clients and partners. As we continue to navigate a challenging economic environment, our partnership with JPMorgan Chase stands as a testament to our proactive and vigilant approach to risk management.

## **F2 Press Features | 2023**

We have been included in world-renowned media outlets and industry publications totaling 4M+ readers in the last 12 months. This earned media is a result of our unique perspective in the industry, a compelling Founder's story, and an aggressive strategy for brand story-telling:

**Los Angeles Times**

**Commercial Mortgage Alert**

**Los Angeles Business Journal**

**The Real Deal**

**Commercial Observer**

**Scotsman Guide**

**Green Street Advisors**

**Traded LA**

**Authority Magazine**

**Commercial Property Executive**

**Traded NY**

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## **F2's Third Party Partners | 2023**

We would like to extend a heartfelt thank you to our third-party trusted partners. Your expertise, support, and collaboration have been invaluable to our success and are deeply appreciated by everyone at F2.

### **Business Banking**

JP Morgan Chase

### **Valuation**

CBRE

JLL

Bowery Valuation

Marcus & Millichap

### **Legal Counsel**

Mavrides, Moyal, Packman & Sadkin LLP

### **Property Condition**

Newbanks

### **Environmental Reports**

Partners

### **Background & Credit Checks**

Spring 11

Intelligo

### **Press & Media**

DB&R Marketing Communications

### **Payment Portal**

Yardi

## Where We Fell Short | 2023

As we reflect on the year, it's crucial to acknowledge where we fell short of our ambitious objectives set forth in 2022. While F2 maintained a solid portfolio with no capital at risk, we did not achieve some of the lofty goals we aimed for. Recognizing these shortcomings is not an admission of failure but an acknowledgment of the challenging environment we navigated and a testament to our commitment to maintaining the highest standards.

One of the primary objectives we set out to achieve was to raise nine figures of programmatic capital. The capital markets environment this year was extraordinarily brutal, with investor sentiment reaching an all-time low. Raising capital was an uphill battle, and while we did not reach our targeted figure, this shortfall does not diminish the immense efforts and dedication put forth by our team. We remain grateful for having no material issues at F2, understanding that our pitfalls were not failures but unmet aspirations amid a turbulent financial landscape.

Despite these challenges, our resolve has only strengthened. We are diligently putting the pieces in place to accomplish this goal in 2024. Our aim is not merely to reach a financial target but to scale and enhance F2's stature in the industry. We are poised to leverage our learnings from this year to refine our strategies, cultivate stronger relationships, and seize the opportunities that lie ahead.

The second significant shortfall was our inability to meet our deployment goal for the year. Despite having the capital partners at our disposal, we did not find enough lending opportunities that aligned with our stringent criteria and convictions. This shortfall was not a result of inaction but a deliberate choice to uphold our commitment to prudent investment and risk management. In a year marked by economic uncertainties and market volatilities, our priority was to safeguard the interests of our investors and maintain the integrity of our portfolio.

We firmly believe that this conservative approach, though it has led to unmet deployment targets, is a cornerstone of our enduring success and stability. It reflects our dedication to making strategic, well-considered investments rather than pursuing growth for growth's sake. As we move forward, we are refining our deal-sourcing mechanisms, expanding our networks, and enhancing our market analysis capabilities to identify and capitalize on the right opportunities.

As we look to 2024, we are not deterred by the setbacks of this year. Instead, we are motivated by the lessons learned and the opportunities they present. Our focus is on strategic growth, operational excellence, and maintaining the unwavering trust of our clients and partners. We are committed to surpassing the benchmarks we set for ourselves and achieving the greatness we envision for F2.

In conclusion, while 2023 was a year of unmet aspirations in some respects, it was also a year of resilience, learning, and laying a stronger foundation for the future. We understand that the path to greatness is not linear, and setbacks are an integral part of the journey. With a clear vision for 2024 and beyond, we are more determined than ever to realize our full potential and solidify F2's position as a leading entity in the financial realm. We move forward with gratitude, resilience, and an unwavering commitment to excellence.



## **A Look Back To Key Financial Events | 2023**

### **Collapse of Regional Banks**

The collapse of regional banks, particularly Silicon Valley Bank (SVB) and Signature Bank, in 2023 sent shockwaves through the financial sector and beyond. SVB's implosion was especially notable due to its central role in funding tech startups and venture capital. The bank's failure was precipitated by a combination of rising interest rates, which diminished the value of its bond holdings, and a sudden, massive withdrawal of deposits, which turned a liquidity crisis into a full-blown collapse.

Investor sentiment was deeply affected by these collapses. Confidence in the stability of the banking sector was shaken, leading to a broader reevaluation of risk, especially in regional banks that might have similar exposure to SVB. The fear of contagion led to increased market volatility and a flight to safety, with investors seeking more secure assets.

The shock of these collapses was profound because they challenged the prevailing notion of bank stability post-2008 financial reforms. The speed and severity of SVB's downfall, in particular, were startling, highlighting the vulnerabilities within the banking system and raising questions about regulatory oversight and the efficacy of stress tests.

Today, the effects of these bank failures continue to be felt. They have prompted a closer examination of bank practices, especially around liquidity management and interest rate risk. There's also been a push for more stringent regulatory oversight to prevent similar incidents in the future. The collapses have led to a more cautious approach from investors and a rethinking of relationships with regional banks, as well as a broader understanding of the systemic risks inherent in the financial system.

### **Federal Reserve's Approach to Inflation and Interest Rates**

In 2023, the Federal Reserve continued its most aggressive rate-hiking campaign since the 1980s, an effort aimed at cooling down the rampant inflation that has been affecting the American economy. This policy shift marked a significant departure from the near-zero interest rates that prevailed for much of the post-2008 financial crisis period. As the year progressed, the pace of rate hikes slowed, indicating a possible end to the campaign.

Investor sentiment fluctuated significantly in response to the Fed's actions. Initially, there was a concern that rapid rate hikes might lead to a hard landing for the economy, potentially triggering a recession. However, as the pace slowed and the economy showed signs of resilience, confidence gradually returned. Despite this, the higher interest rates have increased the cost of borrowing, impacting everything from mortgage rates to corporate loans, leading to a more cautious approach to investment and spending.

The sudden and aggressive nature of the rate hikes shocked many, accustomed to a prolonged period of low interest rates. The market had to rapidly adjust to a new normal, and this adjustment period was marked by volatility and uncertainty. The shock was particularly pronounced in sectors sensitive to interest rates, such as real estate and consumer discretionary spending.

Today, the effects of these rate hikes continue to ripple through the economy. While they have helped temper inflation to some degree, they have also slowed economic growth and increased the cost of capital. The full impact of these policy changes will likely unfold over the coming years, as the economy adjusts to a higher interest rate environment and the Fed assesses the need for further action.

## Forward Looking Outlook | 2024

As F2 looks ahead to 2024, our market outlook remains optimistic, underpinned by a belief that the economic climate will become increasingly favorable. We anticipate a decline in interest rates, a shift that we expect will inject more activity and liquidity into the market. This environment is likely to encourage a rise in buying and refinancing activities, signaling a more vibrant and dynamic period for the real estate sector.

However, while the prospects appear promising, it's crucial to approach this budding optimism with a measure of prudence. The landscape is not the wild west; it's a time for calculated moves and strategic foresight. We believe that being cautious, avoiding over-leverage, working with qualified borrowers (sponsors), and making sound investments are more critical than ever. It's about striking a balance between capitalizing on opportunities and maintaining a robust risk management framework.

F2 stands well-prepared for this evolving landscape. Our transaction history across all major asset classes — including multifamily, office, retail, hospitality, and industrial — provides us with a broad and nuanced understanding of the market. We've not only observed but actively engaged with the market's fluctuations and patterns, learning and adapting at every turn. This experience grants us a unique perspective and an agile approach to investment, enabling us to identify and seize opportunities others might overlook.

Our versatility extends to our financial structures. Having worked with various financial arrangements such as note financing, senior financing, mezzanine loans, and preferred equity, F2 has developed a flexible and adaptable strategy. This diversity in experience means we are not just ready to strike when the opportunity presents itself, but we are also prepared to tailor our approach to fit the unique contours of each deal. It's this ability to customize and adjust that sets us apart and positions us as a leader in the market.

Looking forward, F2 is committed to maintaining our disciplined approach while also embracing the potential that 2024 holds. We understand that the real estate market is perpetually in flux, influenced by a myriad of factors both domestic and global. Our team is continually monitoring these shifts, ready to pivot and adapt as necessary. We believe that our proactive and informed approach, combined with our extensive experience, positions us not just to navigate the year ahead but to thrive within it.

As we move into 2024, F2 will continue to prioritize relationships with our clients and partners. We understand that our success is not just measured by the deals we make but by the trust and confidence we build. Our commitment to transparency, integrity, and excellence remains steadfast. We see these values not just as the foundation of our past achievements but as the key to our future successes.

While the outlook for 2024 is optimistic, F2 recognizes the importance of maintaining a balanced perspective. We are poised to capitalize on the opportunities arising from anticipated market shifts, yet remain vigilant and cautious in our approach. Our extensive experience across various asset classes and financial structures provides us with the insight and agility needed to excel in the coming year. We look forward to continuing to serve our clients with the excellence and expertise that define F2, navigating the promising yet complex landscape of 2024 with confidence and strategic acumen.

## **Where To See Us | 2024**

As we chart our course for the year, the F2 team has meticulously curated a selection of events and conferences that we are committed to attending. While the list encapsulates our current plan, please note that additional gatherings may be integrated as the year unfolds. Our dynamic approach ensures that we remain at the forefront of industry developments and networking opportunities, adapting our itinerary to include the most impactful events.

### **CREFC**

Where: Miami, FL

When: January 7 - 10

### **NMHC**

Where: San Diego, CA

When: January 30

### **CREFC High Yield**

Where: New York City, NY

When: March 6 - 7

### **ICSC**

Where: Las Vegas, NV

When: May 19 - 21

### **BISNOW Escape**

Where: Miami, FL

When: November 6 - 8

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