Zacks Small-Cap Research

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UC Asset LP (UCASU-OTCQX)

UC Asset LP – Initiating coverage – keeping ahead of the curve

Our initial target price for UC Asset is $4.50 per unit. We use a multiple of 3x 2024E net asset value (NAV) per unit of $1.96, discounted back at 15%. UCASU currently trades at 1.5x its 2019 per unit NAV. We expect a longer track record, the possibility of accelerated growth, and greater corporate visibility to widen the NAV multiple.

Current Price (07/13/20)	$2.30
Valuation	**$4.50**

OUTLOOK

UC Asset LP invests in real estate primarily in and around Atlanta. UC Asset has raised approximately $8.6 million to date including a $0.3 million private placement in March 2020. From 2016 through 2019, net equity per unit grew 39%, an 8.58% year over year compound growth. Applying an IRR to UC Assets commercial portfolio strategy, average annual returns of 15-20% over the next five years on an individual project basis are not a stretch.

SUMMARY DATA

52-Week High	**$2.30**
52-Week Low	**$0.32**
One-Year Return (%)	**N/A**
Beta	**N/A**
Average Daily Volume (sh)	**31**
Shares Outstanding (mil)	**6**
Market Capitalization ($mil)	**$13**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**N/A**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2020 Estimate	**N/A**
P/E using 2021 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**N/A,**
Type of Stock	**N/A**
Industry	**Fin-Misc Svcs**
Zacks Rank in Industry	**N/A**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	**Q2** (Jun)	**Q3** (Sep)	**Q4** (Dec)	**Year** (Dec)
2018					N/A A
2019					N/A A
2020					N/A E
2021					N/A E

Net change in net assets per unit

	Q1 (Mar)	**Q2** (Jun)	**Q3** (Sep)	**Q4** (Dec)	**Year** (Dec)
2018					-0.05 A
2019					0.07 A
2020					-0.17 E
2021					0.04 E

Zacks Projected EPS Growth Rate - Next 5 Years % **N/A**

INVESTMENT SUMMARY

With so much uncertainty in the world, looking at one's investments, much less thinking about where to invest, might be towards the bottom of many people's "things to do while staying in" list. Successful investment strategies include looking at opportunities when the instinct is to hunker down.

The pandemic has created tremendous turmoil in the markets and in people's lives. Businesses, stocks, and commodities have all been hard hit. At the same time, the crisis has sparked conversations about the need for long-term investments – whether for public health surveillance, economic and societal supports, climate or infrastructure. Real estate companies are one way for investors to support this shift to long-term thinking while also diversifying their portfolios.

Company description: UC Asset LP invests in real estate primarily in and around Atlanta. In its first four years of operation, the Company focused on improving residential properties to meet growing demand for high-end residential properties in Atlanta's northern suburbs. UC Asset combines an experienced management team with an attractive investment track record, backed by a stable base of long-term investors is well positioned to both manage through the slowdown and leverage opportunities on the other side.

Financials: UC Asset has raised approximately $8.6 million to date including a $0.3 million private placement in March 2020. In its first two years of operation, assets under management (AUM) grew by 364% and net equity per share rose by 50% all without the use of leverage. From 2016 through 2019, net equity per unit grew 39%, an 8.58% year over year compound growth.

UC Asset reported a net increase in net assets from operations per unit in two of the past three years. In 2019, net assets from operations totaled $0.37 million (including $0.74 million in unrealized gains), compared with $(0.26) million in 2018 (including $0.03 million in unrealized losses). On a per-unit basis, net assets from operations increased $0.07 in 2019, compared with $(0.05) in 2018.

In 2019, shareholders' net equity increased 5.1% to $8.78 million from approximately $8.35 million at the end of 2018. Shareholders' net equity declined to $8.06 million in the March quarter from a $(1.0) change in net assets from operations in the quarter, partially offset by a $0.3 million Series A funding.

Valuation: Our initial target price for UC Asset is $4.50 per unit. We use a multiple of 3x 2024E net asset value (NAV) per unit of $1.96, discounted back at 15%.

Sensitivities: Our financial forecasts and valuation may be affected by several forces including: mix of real estate investments, overall global, regional and local economic conditions, policy changes affecting tax treatment of real estate, demand for real estate ownership vs leasing, interest rates, leverage used and the access to capital.

COMPANY DESCRIPTION

UC Asset LP invests in real estate primarily in and around Atlanta. In its first four years of operation, the Company focused on improving residential properties to meet growing demand for high-end residential properties in Atlanta's northern suburbs. The demand was generated by a large number of companies relocating to Atlanta and building their offices in Atlanta's northern suburbs, away from the city's traditional business hubs in Buckhead and Downtown Atlanta.

In response to economic changes from the pandemic, the Company announced in April that it was shifting its investment focus to commercial real estate space, where it intends to provide supportive cash flow to cover mortgage payments to owners in exchange for equity ownership in the property. We see this strategic change as positive for several reasons: 1) it is an actionable response to a rapidly changing economic environment; 2) it is an approach that we see is being more easily scaled over the long-term than the Company's initial residential focus and 3) it fits in with UC Asset's goal of "serving the underserved markets."

Under the LP structure, the general partner (GP) receives a management fee equal to 2% of assets under management (AUM). In addition, the GP participates in the profits at a rate of 20% above an 8% annualized return to the LPs (compared with 10% prior to January 2020); the GP's share of profits increases to 40% above an 18% annualized return to the Limited Partners.

Strategy 2016-2020: renovating residential real estate to meet changing demand

From 2016-2019, UC Asset focused on acquiring, improving and reselling residential properties. Depending on the condition of a property, the improvements may be renovation, remodeling, or a complete tear-down and rebuild of the residential home. Identifying attractive investment properties and completing improvements in a timely, cost-effective manner were the keys to success. This strategy relied on rapid property turnover and reinvestment and during this time, the Company acquired and monetized nearly 30 properties.

Transitioning out of residential investments – for now

The residential market remained strong through most of 2019, and UC Asset entered 2020 with several properties under contract at prices that would have put the Company on track for $2 million in cash after the sales. As the pandemic disrupted the economy, real estate sales came to a near halt beginning in March, and three properties in-contract were cancelled. In order to have cash to complete several other investments, the Company sold two properties to cash buyers at prices below book value to increase its cash reserve.

In early July, the Company announced that it had two properties under contract: a recently-finished residential rebuild and a previously-completed property it had leased out. Both properties went into contract within a few weeks of listing. According to management, the two properties went under contract at almost no discount from the list price. The combined price of the properties is over $1 million.

Strategy shift – commercial mortgage support

Economic disruption from the pandemic has left many solid businesses with significant, intermediate-term liquidity issues. Those who own properties, or who rent to commercial customers, are finding it difficult to make mortgage payments – putting their equity at risk. As it may take a year or more before the economy finds its new normal, UC Asset has identified this situation as an investment opportunity.

Under this strategy, UC Asset will acquire part or all of a property and assume responsibility for the mortgage while the business is still impacted by the pandemic. The owner will receive preferred shares in UCASU or other payment as compensation for their equity share in the property, or simply keep their net equity share in the property and become a co-owner with UC Asset. As a preferred shareholder in UC Asset or a co-owner of the property, the owner is entitled to a portion of price appreciation, directly or indirectly, in the property. UC Asset will be an equity owner in the property, entitled to a portion or all value in the property as well as any price appreciation.

UC Asset is focusing on properties where layoffs, closings and other factors have disrupted cash flow, such as multi-family rentals, businesses such as restaurants, lounges and select retailers. Notably, UC Asset is likely to avoid office properties as return-to-work rules and timing remain unclear for many types of jobs.

The first deal is a rental property with a market value of $850k. The current owner was earning a profit from the property prior to the pandemic but had not collected rent for five months and has a remaining mortgage balance of slightly over $400k. The owner will receive a cash payment to compensate for its existing equity. UC Asset will take over the mortgage and is entitled to purchase the property for $1 after its mortgage is paid off.

The deal structure is likely to vary from investment to investment, which adds complexity to our forecasts. In our view, changes to recognize include:

- Longer investment holding period
- Negative project cash flows for first 12-24 months, possibly longer
- Little to no initial cash investment
- Debt liabilities

At the same time, the Company is likely to benefit from: portfolio diversification, lower sales expense as a result of lower turnover, regular cash flows which will offset mortgage debt expense once the economy has stabilized, and larger absolute returns when the asset is sold or paid off.

Once the economy normalizes, new commercial investment opportunities will likely slow, but it seems reasonable to expect returns to continue well beyond the recovery, providing funds for additional investments without the need to raise capital.

REAL ESTATE INVESTMENT

There are many benefits to investing in real estate. Over time, real estate tends to provide tax-advantaged attractive returns that exceed inflation. But for individuals, the investment in time, expertise, capital outlays and risk are significant hurdles.

Real estate companies typically invest in commercial properties such as: office buildings, multi-family apartments, retail space, developments, hotels, resorts, and industrial property. Some companies specialize in niches: residential, medical buildings, technology buildings, malls or fast food. Revenues and profits come from leasing income, property management fees and capital gains. Some companies are able to self-fund much of their growth by leveraging increased value in their existing portfolios or through excess leasing/management income; however, most companies depend on the capital markets to fund new investments.

Publicly-traded real estate investment companies are structured as either real estate investment trusts (REITs) or limited partnerships (RELPs). Each structure provides tax-advantaged returns to investors through regular distributions and long-term asset appreciation. Investors may benefit from share price gains over time.

REITs are the most common form of publicly-traded real estate investment companies. Over time, REITs have provided consistent income streams that tend to be higher than typical dividend yields along with share price appreciation. REITs offer investment diversification and are relatively liquid.

Another publicly-traded structure for investing in real estate is a limited partnership. RELPs are Master Limited Partnerships (MLP) whose shares (called units) trade on public exchanges just like shares of corporations. Instead of being shareholders, RELP investors become limited partners. RELPs are best suited to long-term investors seeking above-average returns without the need for regular cash distributions. Most publicly-traded limited partnerships are in the energy space, but there are two large, well-known real estate LPs on the market, Brookfield Properties, LP (BPY-NYSE) and New England Realty Associates LP (NEN-NYSE). UC Asset LP is the only publicly-traded small-cap RELP, and as we discuss later, a uniquely-different opportunity to investing in either REITs or one of the larger RELPs.

Publicly-traded RELPs are a way for individual investors to partner with management capable of targeting, vetting, acquiring and reselling or operating long-term assets for appreciation. Without the pressure to make regular distributions, RELPs have more options and flexibility in their investment strategies than REITs. This flexibility may provide more downside protection for investors in the current environment.

Real estate certainly isn't recession-proof, but not all real estate investments are alike, nor are all recessions. The 2008 recession started in residential real estate. Both assets and the value of the securities financing those assets came under intense scrutiny. Traders used colorful terms such as "mark to make believe" when referring to real estate backed securities at the time. Disruption in the financial markets eventually led to reduced consumer demand and a slow in business.

The current economic situation appears to be taking the reverse path. The pandemic and stay-at-home orders have slowed business and consumer demand. Business owners and the jobless are struggling to pay rent, negatively affecting commercial real estate. Properties are taking more time to sell, but the impact on residential real estate seems minimal as people cut back on travel, entertainment and other discretionary spending or draw down savings rather than sell their homes.

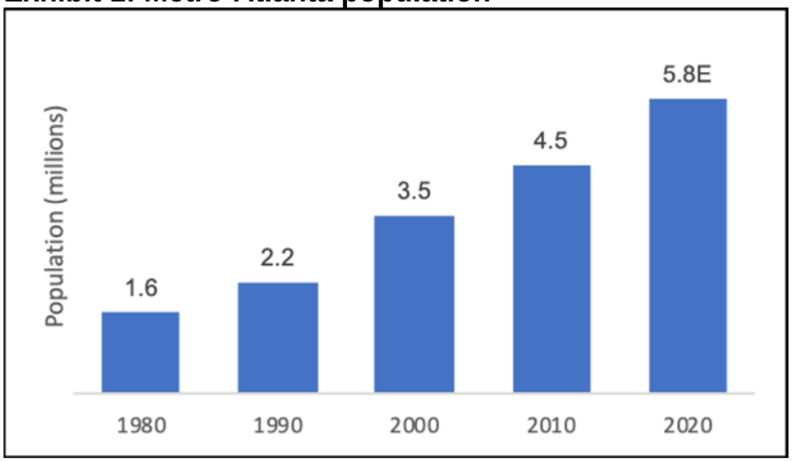
During recessions, real estate assets have tended to be less volatile than stocks, bonds and commodities. However, real estate investment companies vary in strategy, structure and size. Many publicly-traded real estate companies invest in properties that generate a steady stream of rental income. These companies are likely hurt by the current slowdown which in turn may affect their ability to maintain investor payouts.

On the other hand, limited partnerships, which don't necessarily make regular cash distributions to investors, can take a longer-term approach to real estate investments, focusing on areas undergoing significant change but which may not meet the near-term returns that public-market investors seek.

Atlanta – Among the Fastest Growing Metro Areas – Fifty Years and Counting

Atlanta has long been a major business hub in the southeast. Coca Cola (KO-NYSE), Home Depot (HD-NYSE), Delta Airlines (DAL-NYSE), UPS (UPS-NYSE) and Turner Broadcasting Systems (T-NYSE) were founded or headquartered in Atlanta for many years. The area has consistently attracted new business and growth for half a century. In the 1980s, Atlanta's population grew by 25% from 1.6 to 2.2 million. After a brief economic slowdown from 1989-1991, Atlanta roared back in the 1990s. Payrolls surged 43% during the decade (twice the rate of the US), fueling growth in housing and consumer businesses. The 1996 Summer Olympics introduced Atlanta to the global stage and businesses followed. Atlanta's population grew 60% to 3.5 million by 2000 and another 28% to 4.5 million by 2010 and currently estimated at 5.8 million. In 2019, Atlanta was the fourth fastest-growing metro area according to US Census estimates. The Atlanta Regional Commission forecasts 8.6 million residents by 2050.

Exhibit 1: Metro-Atlanta population



Source: United Nations World Population Prospects - 2019

UC Asset has focused investment in Atlanta's northeastern suburbs. Thirty years ago, the areas along Atlanta's perimeter (I-285) such as Dunwoody, Sandy Springs and Marietta were bedroom communities with an easy drive to offices in Buckhead and Downtown Atlanta. The area offered larger homes at lower prices when compared with established in-town neighborhoods such as Buckhead, Midtown and Ansley Park. Buyers also chose to live near the Perimeter for high-performing schools and lower taxes in DeKalb and Cobb counties, compared with Fulton County. As Atlanta expanded its public transit rail system to these areas in the 1990s, office parks sprung up around the rail stations and employers such as UPS, State Farm, Intercontinental Exchange (ICE-NYSE) and Mercedes (DAI.DE) moved to the area. Employer migration drove demand for upscale housing in neighborhoods where many of the existing homes were built in the 1970s**.**

Several factors have enabled Atlanta to consistently expand over the past fifty years and set the stage for continued growth.

- ***Diversified economic base:*** Atlanta's top employers include financial services, transportation, logistics, technology, retail, entertainment, broadcasting, automotive and consumer products. Atlanta is home many preeminent healthcare providers and the Centers for Disease Control and Prevention. Atlanta's Hartsfield-Jackson Airport has been the world's busiest airport for the past 20 years handling 100 million passengers annually.

- ***Wide range of employment opportunities***: Atlanta companies seek workers from all education and skill levels. Atlanta is generally more affordable for most workers than many other cities; however, income inequality is growing and so is the housing gap. To address this deficiency, Atlanta's mayor has committed to building 20,000 additional units of affordable housing by 2026.

- ***Consistent business and economic policies:*** In addition to tax credits and other incentives for businesses, economic and business policies in Georgia have been remarkably consistent for several decades. The state tax rate has changed only once in fifty years, moving from 6% to 5.75% currently.

- ***Commitment to infrastructure:*** Government's commitment to improving infrastructure to keep up with population growth. In the 1990s, Atlanta's MARTA rail system expanded in every direction, growing to 50 miles of track stretching from Atlanta-Hartsfield Airport in the south and north to Sandy Springs. Many jobs moved into office parks that sprung up around the new rail stations while commuter lots encouraged drivers to use public transit to alleviate downtown traffic congestion. In December 2019, the Atlanta Regional Transit authority voted unanimously to further expand public transportation through a combination of heavy rail, light rail and connections to existing Amtrak commuter rail. By 2025, Atlanta seeks to add 29 miles of light rail and 22 miles of heavy rail, effectively doubling the size of the existing rail system. These additions will help relieve traffic congestion by expanding both work locations and commuting options

Future Opportunities

As the Company gains assets and experience, it looks to diversify its business both geographically and strategically.

- ***Underserved markets***: UC Asset plans to invest in distressed neighborhoods that are part of Atlanta's redevelopment and affordable housing plans. For example, the Atlanta Beltline, a multi-purpose development centered on 22-miles of abandoned railway tracks, includes over 5,000 units of affordable housing along with redevelopment of existing housing in the distressed neighborhoods west of downtown Atlanta.
- ***Commercial and multi-family properties:*** UC Asset also intends to invest in income-generating properties including apartments and commercial space. Investments are likely to focus on particular niches such as student apartments and small, detached business spaces. Income generating properties may be used to fund further projects and/or provide periodic distributions to investors.
- ***New Development:*** UC Asset owns a tract of land outside Dallas which it plans to divide into 40-70 lots for upscale homes. The Company is likely to draft overall development plans, divide the lots and make the initial infrastructure investments before bringing in co-developers/partners.

SENSITIVITIES

Although it has four years as an operating company, UC Asset LP, is still very much an emerging growth story. Results to date have been solid, and management moved quickly to identify opportunities created by the pandemic. It is still early to know how many opportunities UC Asset will be able to find for its new commercial mortgage support program, although the strategy appears solid. In our view, as UC Asset shows that it can identify and execute investment opportunities over time, it will be able to attract a larger stable, buy-and-hold investor base. Sensitivities in our financial and valuation outlook relate to overall economic factors coupled with largely-execution dependent factors including:

Economic conditions: The pandemic has caused significant disruption in both economy and real estate. While disruption creates investment opportunities, the depth and duration of the pandemic and its impact on the economy will play a large role in how investments perform. Management believes that the current situation will play out very differently from the recession in 2008 in several ways: The 2008 disruption hit real estate and real estate financing first, eventually leading to reduced consumer demand and a slowdown in business; it was also caused by an endogenous economic factor and therefore asked for a systemic adjustment over several years to counter its effect. Meanwhile, the Covid-19 disruption doesn't hit the real estate industry directly, and it is caused by a contingent factor and will go away once the factor is gone. For those reason, UC Asset management is operating under the assumption that the disruption will be v-shaped and 12-24 months in duration, perhaps deeper than the 2008 scenario, but shorter in duration.

Real estate demand/trends: Expectations about post-pandemic work and life vary widely. It seems reasonable that more people will work from home, at least part-time. If so, there may be increased demand for homes with dedicated workspaces. Employers may need to maintain their current office square footage to meet social distancing rules, or they may downsize office space that is no longer needed. Consumer-facing businesses, such as food stores, restaurants, convenience stores/gas stations, and gyms, will eventually see demand return to pre-pandemic levels although there may need to be significant reconfigurations to their properties.

Interest rates and decisions about leverage: To date, UC Asset has used cash to acquire and improve each of its investments, insulating the company from changes in interest rates, but also limiting the number and size of its investment opportunities. We expect that UC Asset will focus primarily on acquiring commercial properties with fixed-rate mortgages, to hedge against a rise in interest rates. However, if interest rates rise meaningfully over the next few years, it may affect expected investment returns.

Deal structure: Management is structuring its commercial investments under the assumption that that it will fund 18-24 months of mortgage payments before the property resumes generating revenue to cover mortgage payments. As noted, we expect a range of deal structures for these investments, and we don't yet have a lot of data upon which to draw. On the plus side, if the business recovers quickly, UC Asset may have to fund fewer payments than budgeted. In addition, if the business grows, UC Asset will be entitled to a portion of the business profits. Less clear is how these investment partnerships will operate if UC Asset has to support the mortgage for a longer period of time, or if there are disagreements about whether the paying the mortgage in full is more important than keeping the business in operation. Finally, we are not certain how the Company will recognize these various transactions for reporting purposes. In our view, this will be important in determining portfolio value, partnership debt obligations and ultimately the management fee – particularly if profits exceed an 8% annualized rate of return, increasing the fee paid to the GP.

Investor competition/alternatives: We are bullish on UC Assets commercial mortgage support investment strategy. We think it provides a unique option for property owners and will likely be faster and less complex than working with the mortgage lender/bank. However, we expect banks will get support and be eager to restructure loans, particularly for large customers. We also expect UC Asset to compete with other real estate investors for commercial property investments.

Access to capital: Longer asset holding periods locks down funds available to make new investments. While the company will seek to minimize the initial cash cost for new investments by using preferred shares, it is likely that UC Asset will seek to raise more investor capital. Our forecasts are based on UC Asset raising an additional $1.7-$2.0 million annually through 2024, at a price of $2.50-3.00 per unit.

VALUATION

Our initial target price for UC Asset is $4.50 per unit. We use a multiple of 3x 2024E net asset value (NAV) per unit of $1.96, discounted back at 15%.

Valuing UC Asset LP presents several challenges. There are few publicly-traded RELPs, none of which are small cap and they are focused on long-term growth, rather than regular shareholder distributions. Similarly, REITs have very different investment goals and restrictions. Initially, we sought to approach valuation using a DCF or IRR. However, neither approach fits well with GAAP reporting and are difficult to triangulate in this case.

Management values investments using an internal rate of return (IRR). This is a very straightforward approach when specific assumptions about a project can be made. In addition, applied to the commercial portfolio strategy, average annual returns of 15-20% over the next five years on an individual project basis are not a stretch. Appreciation in property value by year 10 and/or potential share of profits beyond what is needed to cover the mortgage create additional upside.

Exhibit 2: Sample IRR scenarios for commercial investment

Key Assumptions				
Total property value	5,000,000			
Mortgage value ($)	3,000,000			
Term (yrs)	10			
Interest rate (%)	5.5%			
Monthly payment	32,558			
	Base case	**Weak case**	**Better case**	**Strong case**
	24 mos.	**36 mos.**	**18 mos.**	**12 mos.**
Total payments by UC Asset	781,389	1,172,084	586,042	390,695
UC Asset share of property value in year 10	3,000,000	3,000,000	3,000,000	3,000,000
Profit to UC Asset at year 10	2,218,611	1,827,916	2,413,958	2,609,305
Internal rate of return	**17%**	**12%**	**21%**	**25%**

Source: Zacks Investment Research estimates.

However, we don't expect the Company to report individual investments and returns in detail in its public filings, so until investors have a better sense of new investment parameters, we suggest a net asset value approach.

We suggest investors consider UC Asset along the lines of a mutual fund and eventually a closed-end mutual fund. Mutual funds are purchased at their net asset value (NAV), but closed-end funds trade at a premium (or discount) to NAV. Those funds which demonstrate consistent growth tend to command a higher premium. Longer-term as the company is able to increase its net asset value while self-funding a larger portion of investments, we expect the units will trade at a multiple of NAV.

Our modeling forecasts net assets of $16.5 million by 2024, compared with $8.7 million reported in 2019, a compound average annual increase of 13.6%. On a per-unit basis, we forecast a compound average annual increase of 5%, or $1.96 per unit by 2024. UCASU currently trades at 1.5x its 2019 per unit NAV (in a depressed market). Maintaining this multiple brings us to a per unit valuation on 2024 estimates of approximately $3.00. However, if the current multiple doubles to 3x NAV, our price target on 2024 numbers rises to $6.00 per unit.

Enterprise value/EBITDA becomes a more relevant method when leverage comes into play. Under our forecasts, we expect operating cash flow to improve dramatically beginning in late 2022-early 2023, as commercial property owners are able to offset UCASU's mortgage supplement payments. Enterprise value will likely rise along with EBITDA, leading to higher price per unit.

FINANCIALS

The opportunities for UC Asset are significant; however, as the Company moves to a new investment strategy and general uncertainty surrounding the pandemic and the economy, investors are encouraged to focus on long-term prospects.

Statement of change in net assets

For MLPs, the statement of change in net assets stands in for the income statement in a typical stock corporation. Investors should focus on the net increase/decrease in net assets from operations at the partnership and unit level. The net increase/decrease in net assets from operations represents the change in the value of partnership assets (both realized and unrealized) AFTER expenses, including distributions.

UC Asset has reported a net increase in net assets from operations per unit in two of the past three years. In 2019, net assets from operations totaled $0.37 million (including $0.74 million in unrealized gains), compared with $(0.26) million in 2018 (including $0.03 million in unrealized losses). On a per-unit basis, net assets from operations increased $0.07 in 2019, compared with $(0.05) in 2018.

In the first quarter, net assets per common unit fell $(0.18), due largely to the economic impact of the pandemic. Most of the decline stemmed from unrealized losses of $0.9 million to adjust the value of the investment portfolio. During the quarter, the Company raised $0.3 million in a Series A Preferred, at $1.80 per unit.

We expect net assets from operations of $(1.0) million for 2020. Our model includes $(0.58) million in unrealized investment losses for the year, reflecting first quarter unrealized losses of $(0.9) million partially offset by potential gains later in 2020 from commercial portfolio investments and recently announced contracts for residential property sales.

Cash flow

As UCASU focuses on value growth in its property portfolio rather than generating regular income (for example from property rentals), UCASU does not produce positive cash flows from operations.

We've modeled for net investing cash flows to increase from our $0.3 million estimate in 2020, to a range of $2.0-2.6 million annually in 2021-2022 as the Company builds its commercial property portfolio. We forecast gross property investment of $2 million in 2021 and $3 million in 2022, partially offset by mortgage liabilities on the commercial properties. To be conservative, we've not modeled for any significant property sales during the next several years as the focus moves from short-term residential investment and resale to longer-term commercial property investment.

Financing cash flows are forecast to reach $3.5 million by 2022, compared with our estimate of $2.2 million for 2020. We've modeled for financing cash flows to come from a mix of 1) capital raises, 2) units exchanged for owner equity in commercial investments, and 3) mortgage debt.

Balance Sheet

In 2019, shareholders' net equity increased 5.1% to $8.78 million from approximately $8.35 million at the end of 2018. Shareholders' net equity declined to $8.06 million in the March quarter from a $(1.0) change in net assets from operations in the quarter, partially offset by a $0.3 million Series A funding.

At March 31, UCASU had less than $20,000 cash on its balance sheet. With two properties under contract, we expect the cash reserves will improve significantly in the June quarter filing. Management indicates that once these sales are completed, it will have adequate cash reserves for the next 12 months. However, as investment opportunities arise, we believe the Company may seek to raise additional capital before the end of 2020.

Exhibit 3: Financial Summary

STATEMENT OF CHANGE IN NET ASSETS *($000)*								
Fiscal year	**2017A**	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**
Income (interest)	9	5	13	13	16	16	46	58
Operating Expenses								
Management fees	(143)	(155)	(170)	(180)	(218)	(260)	(287)	(308)
Professional and other expenses	(109)	(86)	(213)	(254)	(264)	(277)	(291)	(305)
Investment mortgage expense	0	0	0	(17)	(187)	(390)	(401)	(160)
Net unrealized loss before inv gains	**(243)**	**(236)**	**(370)**	**(438)**	**(653)**	**(912)**	**(933)**	**(715)**
Unrealized (loss)/gain on investments	874	(26)	744	(581)	893	1,456	832	973
Net investment income/(loss)	**631**	**(261)**	**374**	**(1,019)**	**240**	**544**	**(101)**	**258**
Net increase/(decrease) in net assets from operations	**631**	**(261)**	**374**	**(1,019)**	**240**	**544**	**(101)**	**258**
Net increase/(decrease) in net assets per unit	**0.14**	**(0.05)**	**0.07**	**(0.17)**	**0.04**	**0.07**	**(0.01)**	**0.03**
Weighted avg units outstanding (000s)	4,368	5,000	5,636	6,019	6,749	7,464	8,024	8,407
Net Asset per unit ($)	**1.74**	**1.67**	**1.55**	**1.58**	**1.70**	**1.88**	**1.88**	**1.96**

BALANCE SHEET *($000s)*								
Fiscal year	**2017A**	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**
Residential portfolio inv	7,533	8,228	8,668	7,148	7,219	7,436	7,808	8,198
Commercial portfolio inv	0	0	0	1,165	3,672	5,589	6,560	7,183
Property, plant & equipment	37	34	51	47	48	48	50	51
Cash and equivalents	179	135	91	1,684	1,567	1,564	1,961	2,177
Total Assets	**7,749**	**8,397**	**8,810**	**10,044**	**12,506**	**14,637**	**16,379**	**17,609**
Accrued expenses	146	45	53	157	53	53	53	53
Mortgage on commercial investments	0	0	0	399	988	570	1,262	1,083
Partners' capital	7,603	8,352	8,757	9,488	11,465	14,014	15,064	16,473
Total Liabilites and Capital	**7,749**	**8,397**	**8,810**	**10,044**	**12,506**	**14,637**	**16,379**	**17,609**

CASH FLOW STATEMENT (*$000s)*								
Fiscal year	**2017A**	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**
Net increase/(decrease) in net assets from operations	631	(261)	374	(1,019)	240	544	(101)	258
Adjustments								
Net unrealized losses/(gains) on portfolio investments	(874)	26	(744)	581	(893)	(1,456)	(832)	(973)
Changes in working capital/ other items	(12)	(103)	(27)	107	(101)	4	5	5
Net operating cash flows	**(255)**	**(339)**	**(397)**	**(331)**	**(754)**	**(908)**	**(928)**	**(710)**
Investments in portfolio partnerships and loans	(5,573)	(1,867)	(2,381)	(1,266)	(2,000)	(2,600)	(100)	(500)
Repayments in partnerships and loans	2,094	1,151	2,685	1,040	0	0	0	0
Net investing cash flows	**(3,479)**	**(716)**	**304**	**(226)**	**(2,000)**	**(2,600)**	**(100)**	**(500)**
Contributions from partners	2,650	1,106	0	1,750	1,737	2,005	1,151	1,151
Distributions to partners	(24)	(236)	0	0	0	0	0	0
Portfolio investment mortgage	0	0	0	400	900	1,500	275	275
Other	25	141	48	0	0	0	0	0
Net financing cash flows	**2,651**	**1,011**	**48**	**2,150**	**2,637**	**3,505**	**1,426**	**1,426**
Net change in cash during period	**(1,083)**	**(43)**	**(45)**	**1,593**	**(117)**	**(3)**	**397**	**215**

Source: Company filings, Zacks Investment Research

EXECUTIVE MANAGEMENT

Dr. Larry Wu, Founder, General Partner

Dr. Wu started his career with a business group in China in the mid-1990s before he was recruited to work as a liaison officer at the Chinese Embassy to the US in 2000 to promote trade and investment between the two nations. Following his term, he returned to the private sector and worked with US private investment advisories including Manatt & Jones Global Strategies, and then served as a senior executive for Cisco Systems in China. Later he worked for a family office and managed a billion-dollar portfolio in China. He shifted his focus to the US real estate market and founded UC Asset LP in 2015.

Gregory C. Bankston, Managing member

A real estate expert with over 15 years of experience, Greg was recognized as a gifted salesman even in his childhood. He won "Rookie of the Year" in his first year with Keller Williams Realty in 2002. After 2008 he elevated his involvement in real estate and embarked on property development, and has since acquired extensive experience in evaluating potential investment opportunities and managing high quality yet cost-effective renovation, rehabilitation, and new construction. He joined UC Asset LP in 2016.

Felipe de Leon, Chief Engineer

A US citizen with Mexican legacy, Felipe was born into a construction family and worked on building sites as a child. He explored his potential in other areas such as insurance and IT but returned to family business and has since then worked in construction for over 25 years. He is an effective process implementation expert with strong field troubleshooting skills. He is also a resourceful team leader and a solution-oriented project manager.

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