Anthony Colonnetta

Investment Summary

The Gentry Apartments in Houston, Texas

August 1st 2019

Table of Contents

Executive Summary

A. Project Investment

The Gentry is a 106-unit, garden-style, two-story multifamily property located in Houston, Texas. The property was built in 1980, has 12 buildings, and has a rentable square footage of 71,190 SF, and is currently 95% occupied. The property is only four miles from the Texaco Country Club, featuring a par-72 course, ballroom, and restaurant. Both downtown Houston and Baytown are nearby, providing ample employment for residents. The Gentry is located between the Woodforest and Cloverleaf neighborhoods in Houston, across the street from the North Shore Ninth Grade Campus.

The property has brick construction with pitched roofs that were replaced in 2007. Residents enjoy amenities such as a swimming pool, beautifully landscaped surroundings with open grassy areas, mini-blinds, ceiling fans, washer/dryer connections and pantries in select units. Each unit is individually metered for A/C and has its own water heater. The washers and dryers are 100% owned by the property and there is no laundry contract so 100% of the revenues are collected for the property.

B. Investment & Operations Strategy

The investment strategy is to purchase for $5,400,000 ($50,943/unit) and hold for 7 years. With a $5.4M valuation the cap rate at purchase will be 7.6%. The projected sale price after 7 years will be $5,605,930 at a cap rate of 8.85%. We decided to conservatively underwrite the exit cap rate for it to increase 125 bps over the life of the deal.

The value add plan over the 7-year hold is to increase RUBS from 40% to 65% over the next year and to add W/D to 25 of type A units to receive a rental premium of $30-$40 a month. By implementing these value add components, we will see vacancy increase to around 12% year 1, but will see it level back out to 7% by the time of sale. The cause and effect of these strategies are notes more in the "Investment Analysis" section.

The property will be managed by a 3rd property management company called Greystar. The property management fee will be 5% of the gross income. There will be one property manager, one leasing agent, and one porter. With the possibility of adding contractors if turnkey repairs/renovations become necessary.

C. Financing and Capital Sourcing

Financing

Fixed-Rate 7-Year Loan				
Year	Interest	Principal	Balance	Payment
1	203,494	0	4,069,875	203,494
2	202,130	60,046	4,009,829	262,176
3	199,058	63,118	3,946,712	262,176
4	195,829	66,347	3,880,365	262,176
5	192,434	69,741	3,810,624	262,176
6	188,866	73,309	3,737,315	262,176
7	185,116	77,060	3,660,255	262,176

The financing will be a 7-year term, 30-year amortization loan, 75% LTV of the $5,400,000 purchase price, with one year of interest only.

	Year 1 2019	Year 2 2020	Year 3 2021	Year 4 2022	Year 5 2023	Year 6 2024	Year 7 2025
NET OPERATING INCOME	**411,501**	**453,389**	**451,085**	**473,496**	**489,795**	**510,814**	**518,594**
CAPITAL EXPENDITURES							
Capital Expenditures [Capital Reserves]	36,570	36,570	36,570	25,599	25,983	26,373	26,768
CASH FLOW FROM OPERATIONS	**374,931**	**416,819**	**414,515**	**447,897**	**463,812**	**484,441**	**491,825**
DEBT FINANCING							
Debt Service	203,494	262,176	262,176	262,176	262,176	262,176	262,176
CASH FLOW AFTER DEBT FINANCING	**171,438**	**154,643**	**152,339**	**185,721**	**201,637**	**222,266**	**229,650**
Debt Service Coverage Ratio	**1.43**	**1.59**	**1.58**	**1.71**	**1.77**	**1.85**	**1.88**

The cash flow after debt financing and debt service coverage ratio is above. The DSCR is above 1.25, so a bank would consider this investment financially feasible and would loan the money.

Capital Sourcing

There will be $1,582,324 of equity raised and of that $1.58M, I will put up $50,000 of my own money in the deal. The equity will be sourced by accredited and non-accredited investors. I will be targeting friends, family, and professionals to raise the equity and plan to have an unofficial approval of more than $1.6M of capital from investors before I bid on the deal. Real estate lawyer fees of $50,000, $26,500 in capital reserves, 1% acquisition fee, 1% loan origination fee, and 1.5% broker fee were accounted for in the equity needed to be raised.

D. Partnership Structure

The partnership structure will be set up where the LP (the investors who provide the capital) will own 75% of the deal. The GP (The Operator) will own 25% of the deal. There will be a 1% acquisition fee when the property is purchased. There will be no yearly asset management fee to ensure that the investors receive the highest return possible.

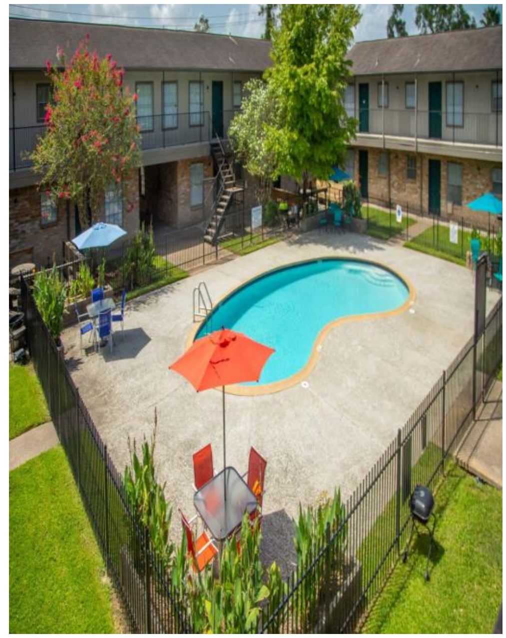
E. Investment Returns

Returns		
Purchase Price	$	5,400,000
Equity Raised	$	1,582,324
Sale Price	$	5,605,930
LP 7 YR COC Return		22.10%
LP Levered 7 YR IRR		7.87%
Total Levered 7 YR IRR		13.66%
Total Unlevered 7 YR IRR		8.40%

The LP's 7 YR average cash on cash return will be 22.1% (S&P 500 average return is 9.8%) and their 7 YR IRR will be 13.66%. For more on investment returns find the "Investment Analysis" section.

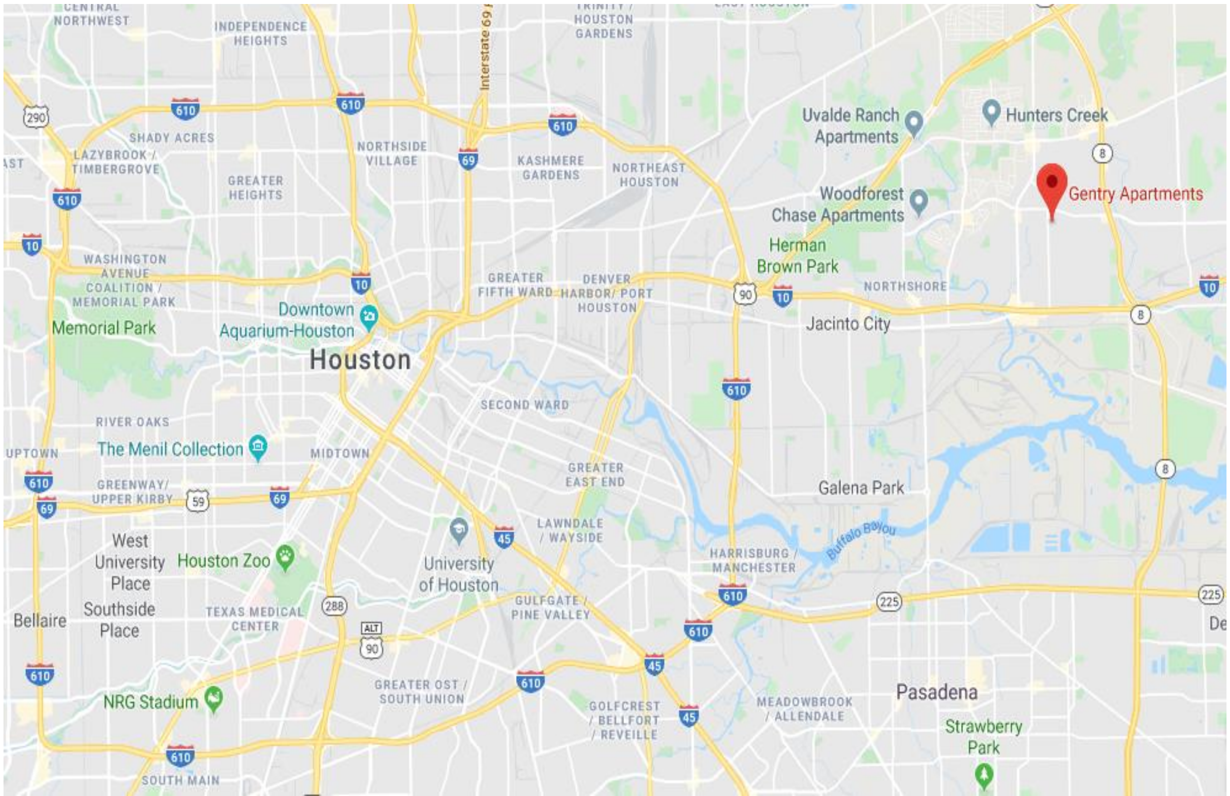
A sensitivity analysis was conducted to see what returns would look like if vacancy increase, market growth stayed low, and if inflation went to zero. Throughout the different scenario's LP's 7 year average cash on cash return didn't fall under 14.93%. For more on sensitivity analysis, find the "Sensitivity Analysis" section.

The Gentry



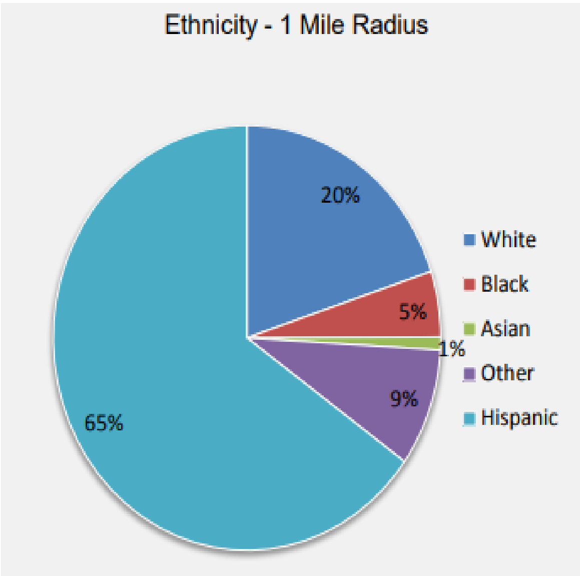
Market and Location Overview

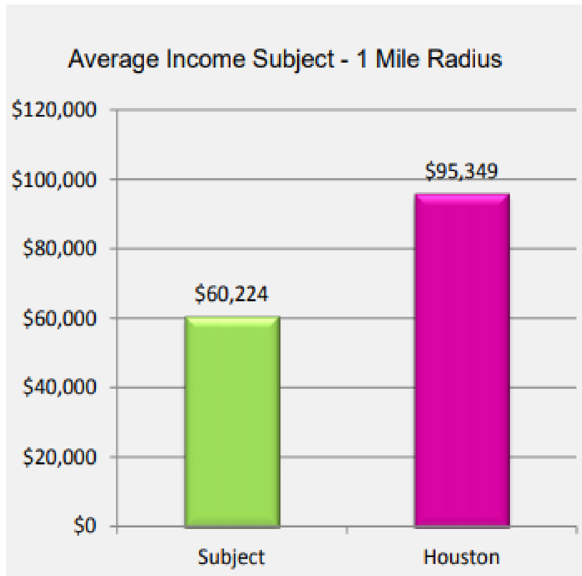
Location Overview



Market Overview

The Gentry is located between the Woodforest and Cloverleaf neighborhoods, and is across the street from the North Shore Ninth Grade Campus. The property is only four miles from the Texaco Country Club, featuring a par-72 course, ballroom, and restaurant. The property has a good unit mix of one, two, and three bedroom units with an average of 671 square feet. The community consists of 12 buildings. In addition to the 106 apartments, there is a 1,950± sq. ft., 3 bedroom, 1.5 bath, single-family home with a private swimming pool and garage attached behind the leasing office.





The Gentry is located near the Pasadena/Baytown Petroleum-Chemical Industries, which can be of benefit for many blue collar workers wanting to live close to their job. Within a 1-mile radius, Hispanics make up 65% of the area, Whites make up 20%, Blacks make up 5% and the last 10% varies. The 2018 average household income within a 1-mile radius was $60,224 compared to Houston's average income of $95,349. 2018 estimates show that 35% are in elementary and high school, 27.5% of people are high school graduates, 18.7% are in college, 5.8% have only an associate's degree, and 8.3% only have a bachelor's degree.

Investment Analysis

Income Projections

	Year 1 2019	Year 2 2020	Year 3 2021	Year 4 2022	Year 5 2023	Year 6 2024	Year 7 2025	Year 8 2026
INCOME								
Effective Rental Income								
Current Market Rents	932,820	935,820	938,820	955,902	970,241	984,794	999,566	1,019,558
Loss to Lease	(29,968)	(18,716)	(18,776)	(14,339)	(14,554)	(9,848)	(9,996)	(10,196)
Gross Potential Income	**902,852**	**917,104**	**920,044**	**941,564**	**955,687**	**974,947**	**989,571**	**1,009,362**
Vacancy	(108,342)	(91,710)	(92,004)	(84,741)	(76,455)	(68,246)	(69,270)	(70,655)
Concessions / Discounts	(18,057)	(459)	(460)	(471)	(478)	(487)	(495)	(505)
Bad Debt	(1,806)	(1,834)	(1,840)	(1,883)	(1,911)	(1,950)	(1,979)	(2,019)
Effective Rental Income	**774,647**	**823,100**	**825,739**	**854,469**	**876,843**	**904,263**	**917,827**	**936,183**
Other Income	102,820	104,362	105,928	107,517	109,129	110,766	112,428	114,114
GROSS INCOME	**877,467**	**927,463**	**931,667**	**961,986**	**985,972**	**1,015,029**	**1,030,255**	**1,050,298**
YOY Growth (%)		*5.7%*	*0.5%*	*3.3%*	*2.5%*	*2.9%*	*1.5%*	*1.9%*

Expense Projections

	Year 1 2019	Year 2 2020	Year 3 2021	Year 4 2022	Year 5 2023	Year 6 2024	Year 7 2025
EXPENSES							
Variable Expenses	**284,822**	**289,094**	**293,431**	**297,832**	**302,300**	**306,834**	**311,437**
Management Fee	43,873	46,373	46,583	48,099	49,299	50,751	51,513
Prop. Audit/Accounting Fees	5,300	5,297	5,295	5,292	5,289	5,287	5,284
Other Legal and Prod. Fees	2,120	2,116	2,112	2,107	2,103	2,099	2,095
Real Estate Taxes	85,330	86,609.95	87,909	89,228	90,566	91,925	93,304
Franchise Tax Exp	4,240	4,303.60	4,368.15	4,433.68	4,500.18	4,567.68	4,636.20
Property/Liability Insurance	40,280	40,280	40,884	41,497	42,120	42,752	43,393
Total Fixed Expenses	**181,143**	**184,980**	**187,151**	**190,658**	**193,877**	**197,381**	**200,224**
TOTAL EXPENSES	**465,965**	**474,074**	**480,582**	**488,490**	**496,177**	**504,215**	**511,661**
% of Gross Income	*53.1%*	*51.1%*	*51.6%*	*50.8%*	*50.3%*	*49.7%*	*49.7%*
NET OPERATING INCOME	**411,501**	**453,389**	**451,085**	**473,496**	**489,795**	**510,814**	**518,594**
CAPITAL EXPENDITURES							
Capital Expenditures [Capital Reserves]	36,570	36,570	36,570	25,599	25,983	26,373	26,768
CASH FLOW FROM OPERATIONS	**374,931**	**416,819**	**414,515**	**447,897**	**463,812**	**484,441**	**491,825**
DEBT FINANCING							
Debt Service	203,494	262,176	262,176	262,176	262,176	262,176	262,176
CASH FLOW AFTER DEBT FINANCING	**171,438**	**154,643**	**152,339**	**185,721**	**201,637**	**222,266**	**229,650**
Debt Service Coverage Ratio	**1.43**	**1.59**	**1.58**	**1.71**	**1.77**	**1.85**	**1.88**

Assumptions

ASSUMPTIONS	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**
Market Rent Growth	1.0%	0.0%	0.0%	1.5%	1.5%	1.5%	1.5%
Loss to Lease	-3.2%	-2.0%	-2.0%	-1.5%	-1.5%	-1.0%	-1.0%
Vacancy	-12.0%	-10.0%	-10.0%	-9.0%	-8.0%	-7.0%	-7.0%
Non Revenue / Respite Units	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Concessions / Discounts	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%
Bad Debt	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%
Inflation Factor	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Management Fee	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Capital Exp. Growth/Decrease	0.0%	0.0%	0.0%	-30.0%	1.5%	1.5%	1.5%

A conservative market rent growth was used for the possibility of a market slowdown in 2020/2021, but growth starts to increase to 1.5% starting in 2022. Inflation rate is set at 1.5% for the life of the investment and Loss-to-Lease starts at -3.2% when the investment is purchased but will slowly decrease to -1% in year 6 (2024).

Value Add Investment

By increasing RUBS from 40% to 65% this will initially increase vacancy, from tenants leaving, but over the 7 year hold vacancy will decrease back to 7% (Accounting for 12% vacancy year 1 due to RUBS implementation). By implementing RUBS, tenants will be paying for around 65% of their water usage and will enable tenants to be more conscious of their usage,

The plan is to also add W/D to 25 of type A units to receive a rental premium of $30-$40 a month. In the UW model, $10,000 in capex was added in year 1 to account for 9 W/D's being installed, and $10,000 additional in capex was added in year 2 and 3 for 8 W/D's being added in years 2 and 3. The rental premium of 9 W/D units was accounted for in year 2 revenue, and the same was accounted for in year 3 and 4. The total cost of installing 25 W/D's is $30,000 and the yearly rental premium is $9,000.

Risk and Mitigates

1. Market Cycle Risk

The U.S. economy has been in its largest bull market in history. With the historic bull market, there is a possibility of a market slowdown in the next few years. The Houston real estate market took a hit from 2015-2017 from the drastic decrease in oil prices but has since recovered. The 2015-2017 market slowdown for Houston, in retrospect, will be beneficial when the next nationwide slowdown occurs because the value of real estate is currently more fundamentally valued than other cities. The uncertainties of the economy are the reason why the plan is to hold The Gentry for 7 years. Most recessions last up to 18 months, so we will have the flexibility to weather a storm. We also accounted for the possibility of a recession by having 1% rent growth in the first year, and 0% rent growth in year 2 and 3.

One thing to note, is the fact that C assets like The Gentry won't be affected by a recession as much as Class A and B properties.

2. Leasing Risk After Value Add Investments

After we add 25 W/Ds to type A units and increase RUBS bill back to 65% we might see an increase in vacancy. The risk is mitigated through our underwriting assumptions that there will be an increase in vacancy to 12% in year 1 and it will slowly stabilize to 7% vacancy after 5 years. We also underwrote the deal assuming that we will only add 8-9 W/D a year to diversify the risk.

3. Exit Risk

This risk represents that the disposition could be challenging at the end of the hold period. The Gentry is an older building and in a C location. After 7 years, we do not assume that large institutional investors will be wanting to purchase assets in the Woodforest/Cloverleaf area. We assume smaller, mom and pop investors will still be the only investors interested in this location. The exit risk is mitigated by having the base case scenario exit cap rate be 8.85% and also shows that the worst case scenario still provides a 19.49% cash-on-cash return for the investors.

Sensitivity Analysis

Base Case

Returns		
Sale Price	$	5,605,930
LP 7 YR COC Return		22.10%
LP Levered 7 YR IRR		7.87%
Total Levered 7 YR IRR		13.66%
Total Unlevered 7 YR IRR		8.40%

Best Case - 8.6% exit cap rate instead of 8.85% and 1.5% inflation rate during the whole investment

Returns		
Sale Price	$	5,768,893
LP 7 YR COC Return		23.20%
LP Levered 7 YR IRR		8.72%
Total Levered 7 YR IRR		14.53%
Total Unlevered 7 YR IRR		8.72%

Bad Case - 0% rent growth, .5% inflation, 10% vacancy during the whole investment

Returns		
Sale Price	$	4,824,321
LP 7 YR COC Return		15.88%
LP Levered 7 YR IRR		1.96%
Total Levered 7 YR IRR		7.64%
Total Unlevered 7 YR IRR		6.44%

Worst Case - 0% Rent Growth, 0% Inflation, 12% vacancy during the whole investment

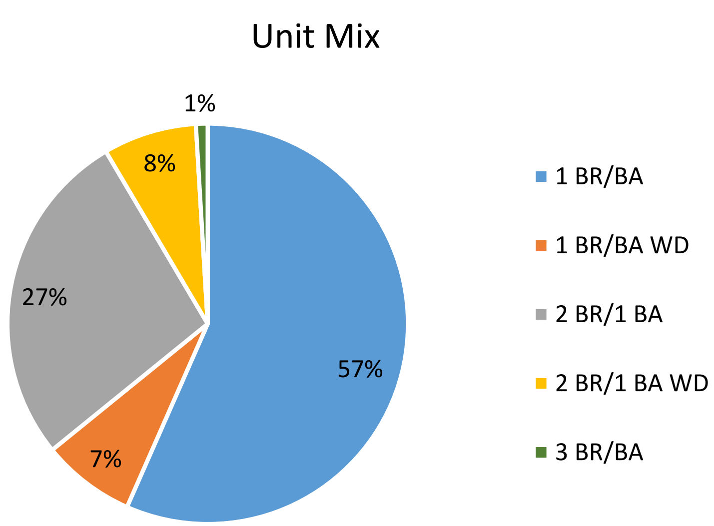
Returns		
Sale Price	$	4,755,930
LP 7 YR COC Return		14.93%
LP Levered 7 YR IRR		0.81%
Total Levered 7 YR IRR		6.37%
Total Unlevered 7 YR IRR		6.09%

Base Case Asset Mgmt Fee - 2% return to investors would be lost if I included asset mgmt. fee

Returns		
Sale Price	$	5,489,032
LP 7 YR COC Return		20.85%
LP Levered 7 YR IRR		6.76%
Total Levered 7 YR IRR		12.46%
Total Unlevered 7 YR IRR		7.99%

Unit Mix & Floor Plan

The Gentry • 13925 Alderson • Houston, TX 77015							Unit Mix
UNIT MIX							
Floor Plan	Type	No. Units	Sq Ft	Total SqFt	Market Rent	Total Rent	Rent/SF
	1 Bed/1 Bath	58	620	35,960	$690	$40,020	$1.11
W/D	1 Bed/1 Bath	8	620	4,960	$715	$5,720	$1.15
	1 Bed/1 Bath	1	600	600	$750	$750	$1.25
	1 Bed/1 Bath	1	640	640	$730	$730	$1.14
	2 Bed/1Bath	25	700	17,500	$750	$18,750	$1.07
	2 Bed/1 Bath	4	750	3,000	$810	$3,240	$1.08
W/D	2 Bed/1 Bath	8	720	5,760	$825	$6,600	$1.15
	3 Bed/1Bath	1	820	820	$845	$845	$1.03
	3 Bed/1.5Bath *	1	1,950	1,950			
*This is the manager unit and not included in collections							
		107	672	71,190	$716	$76,655	$1.08
TOTALS AND AVERAGES		Total Units	Average Sq. Ft.	Total Sq. Feet	Average Rent/Unit	Total Rent	Average Rent/ SF



1 Bedroom 1 Bath Floor Plan

2 Bedroom 1 Bath Floorplan