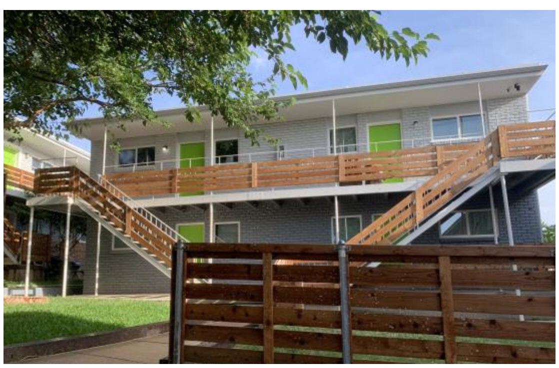
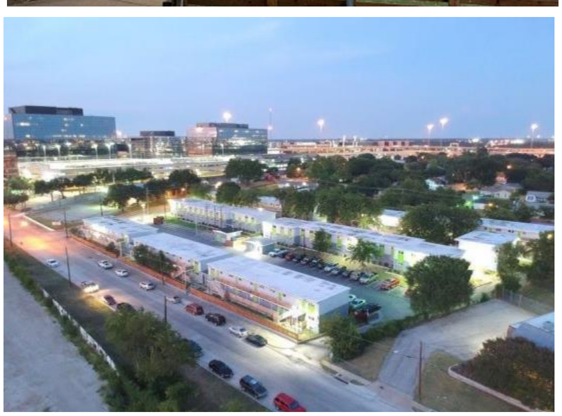
# 12708 Schroeder Rd Dallas, TX Acquisition Proposal







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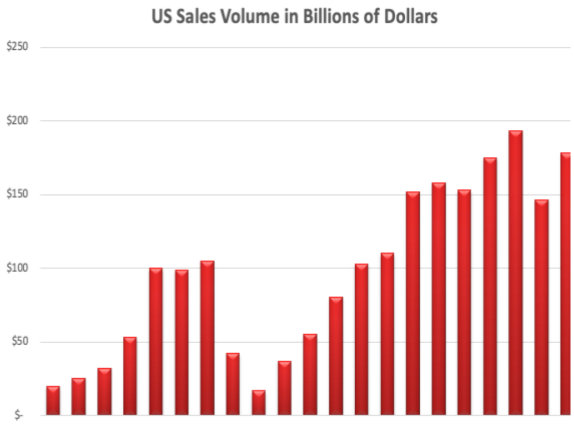
### Property Overview

The subject property is a 105-unit, class B multifamily property. The 105 units are spread across nine, two-story buildings. Each unit consists of two bedrooms and one bathroom totaling 700 square feet. The property was first built in 1963 but has recently been renovated. The exterior renovation has been completed with all new dual pane windows installed in 2020, new cedar fencing, second floor decking and control gates done this year. Interior renovations have begun but are not complete. 58 of the 105 units are renovated with new open floorplans, electric and plumbing, granite countertops, appliances, and wood flooring. The remaining units would be renovated during the investment period to complete the interior renovation. Currently, the property is about 86% occupied with near 100% collections. Throughout the pandemic, collections remained over 90% which support this low-risk investment. All utilities are included in the rent. Tenants are mostly blue-collar residents who average at least 5 years at the property and work in the surrounding area.

### Thesis

We believe this property is a great investment because of the population growth occurring in the Dallas area, the relaxed public health restrictions in Texas, and the value-add opportunity available through continuing to renovate the interiors of the units. Dallas has one of the lowest unemployment rates in the country at 4.7% and is one of the leading states in job growth at 9.5%. With the increased presence and relocations of multiple corporate giants in the city, we believe that new residents will be attracted to the city. Also, household income will grow, allowing for prime tenants to occupy the space. Texas was one of the first states to reopen and end pandemic restrictions. With businesses able to operate at full capacity, Texas is attracting many new businesses and residents. Along with this, fully functioning businesses ensures residents are working and able to afford their rents. Furthermore, by continuing the plans to renovate




## Dallas Market Overview

With the rebound of the multifamily market surging throughout the country, we see a hot market that is prime for investment in Dallas, Texas. The market is seeing a promising annual growth rate of 3-4% for the coming years. The current asking rates in Dallas are well above the current market average at approximately $1,750 per unit compared to $1,220 respectively. Additionally with the increased demand we are seeing a high supply being developed with over 44,000 units in the pipeline to be delivered in the next two years. This increase in demand is also accompanied at a very healthy 5% vacancy rate that boasts a growing strong market that shows no signs of slowing down.

the remaining 45% of units, we believe that we can not only add value to the property overall but can expect a growth in monthly rent per unit. Through the renovation of the kitchens, bathrooms, bedroom, and minor exterior cosmetic changes, we believe this property will be prime housing for tenants looking to live in the city.

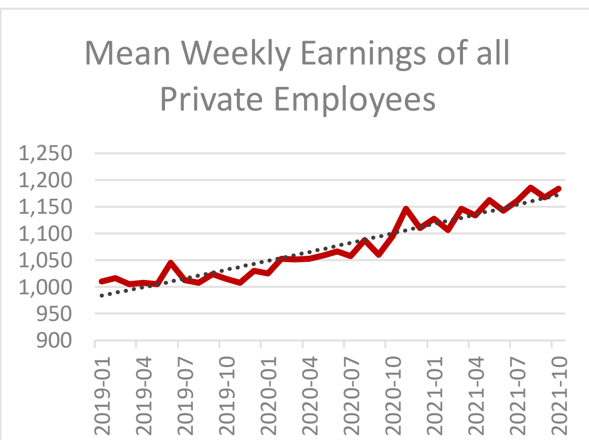
## Multifamily Overview

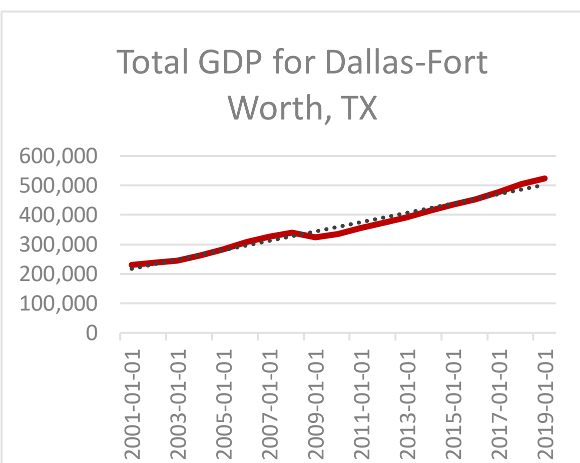
We are bullish on this property type because of the growth of the multifamily asset class, its quick recovery from the pandemic, and the growing demand for multifamily units. During the first three quarters of 2021, multifamily sales have accounted for $178.5 billion. Quarter three alone reached $78.7 billion in sales, a new record for quarterly sales. Total sales volume for 2021 is expected to reach new highs above pre-pandemic levels. Investors have been increasingly investing in multifamily properties with 40.8% of all US commercial real estate investments in Q3 being in multifamily properties. Investor presence will continue to grow forcing cap rates to compress. Currently, multifamily cap rates sit at about 4.7% in the US, with lower cap rates seen in major markets. The strongest performing markets over the past year are mostly located in the Sunbelt with Dallas, Atlanta, and Phoenix in top spots. The national average vacancy for Q3 2021 was at 5.8% with a forecast to decrease to 5%. Rents grew 5.9% in Q3, a record quarterly increase, and 3.1% since 2020. The high rent growth and low vacancy rates allow for larger profits for investors.

Demand for multifamily properties is forecasted to continue increasing over the coming years. Demographic changes are a major reason for increased demand. Baby boomers are downsizing their living accommodations and aging millennials are moving out of their parents' houses. Along with demographic shifts, many workers are returning to the office for work generating higher demand near CBDs. The rising cost to purchase and own single-family homes is also a contributing factor to increasing multifamily demand. This rising demand will continue throughout the next few years and allow for

**Value Add Renovation**

The Property currently has 55% of its units renovated and we propose that we finish the remaining 45%. Although, the upfront cost of the renovation through capital expenditures will be large for the first two years, we expect the renovations to not only add value to the property but directly to the units via rent growth. With an increase in rent growth, and visually updated appearance in both the interior and exterior, we expect the property to attract a vast number of tenants who are looking to move to an advantageous submarket. The rent growth from the nonrenovated units to the renovated is a promising 43%.




increased rent growth year-over-year allowing for multifamily investments to generate large returns.

**Relaxed Restrictions**

Texas was one of the first states to reopen and remove COVID-19 related restrictions. The mask mandate was lifted in early March and businesses were allowed to operate at 100% capacity. By November 2021, 54.2% of the state was fully vaccinated against Covid-19. The Governor issued an executive order in October preventing any entity from forcing an individual to get vaccinated, whether they are an employee, customer, etc. The Governor also ordered that schools could not put in place mask mandates, but a federal judge overruled this ban and now it is up to local governments. With extremely relaxed Covid-19 restrictions, Texas has become a very appealing place for businesses as well as residents. During the pandemic many people and businesses left places with strict covid restrictions like New York and Los Angeles and headed to Texas. This increase in residents decreases the vacancy risk for multifamily investors. Big businesses entering the state also created new jobs and lowers the unemployment rate. With businesses being fully operational for months now, people are back to work. Unemployment for the state is at 5.4% which is lower than the long-term average and has been on the decline for months. Life is nearly back to pre-covid ways and people are going about their normal lives. As most people are back to work, they are generating regular incomes and therefore able to pay their rents. The relaxed covid restriction in the state which ensures residents are earning incomes, decreases collection loss risk for investors and ensure residents will be able to afford their rents and the rent increases.

**Population Growth will Drive Demand**

Dallas is a growing market in not only multifamily housing, but for population as well. The current trend of companies relocating to the city is one that will continue to persist with the newfound norm brought on by the pandemic. Several Fortune 500 companies such as ExxonMobil, McKesson, AT&T, and American Airlines are headquartered in the city. Their presence is sure to attract many people for jobs and businesses deals. Additionally, AECOM will begin its migration there in the coming months. This will cause the already growing job supply to increase even more bringing unemployment down and household income up. The property being in Plano, Texas allows for a comfortable distance from the city but also permitting the flexibility for commuting. All in all, the booming population growth, and attraction of companies will cause people to move towards opportunity and the low cost of living that Dallas, specifically Plano can provide.

**Location and Demographics**

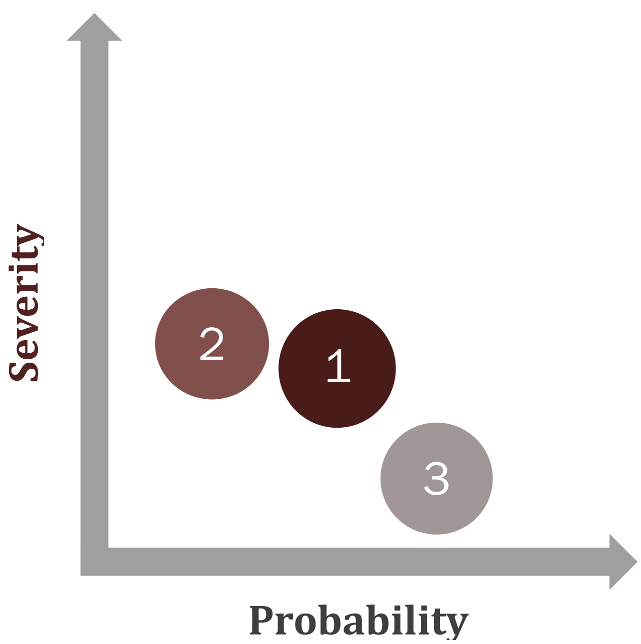
The subject property is located in Northeast Dallas in a residential neighborhood called Plano. The property is close to different modes of transportation and work hubs. Dallas Fort Worth International Airport is located about 30 minutes away. Downtown Dallas is around 20 minutes from the property and the nearest DART train stops are under one mile away. Interstate 635 is very close to the property allowing for quick access to other major cities. The property's location allows for a great investment due to its proximity to a large workforce and allowing for residents to be close to all necessities.

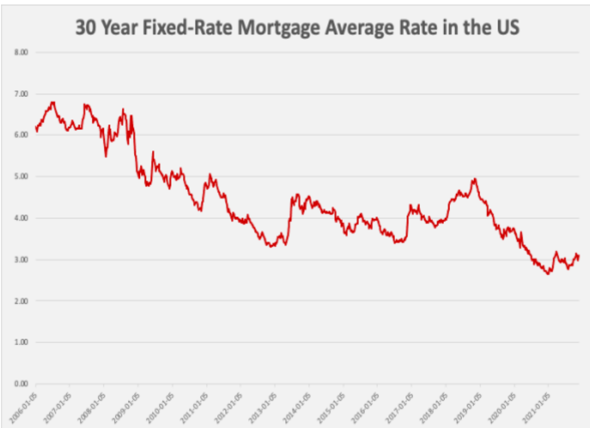
The demographics in the surrounding area are very advantageous from an investor's standpoint. The median household income approximately $56,000 and a median age of 33 years old. While these numbers may appear low, coupled with a very healthy growth rates, 6% for household income and a 1.2% decrease in age, this boasts a positive outlook in terms of a stable and positive cashflow from tenants. Especially with growing employment in several industries across the state such as professional and business services, and leisure hospitality, we believe this will result in a tenant population with good credit and job security.

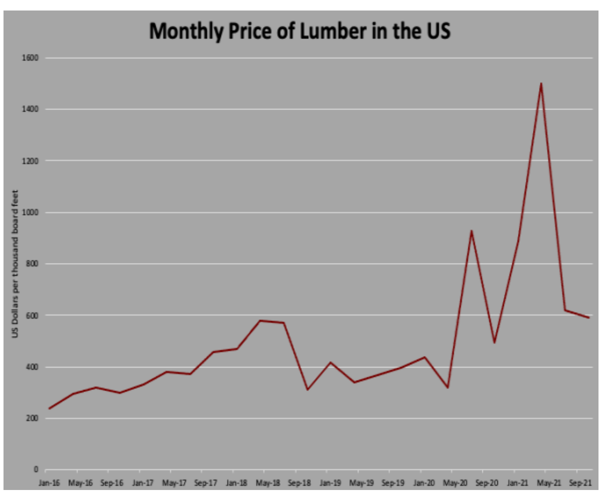
**Risks**

<u>1. Significant Renovations and Capital Expenditures</u>

The overall estimated price of renovation per unit around $25,000. This is a significant amount of money being put into the remaining 48 units that would not only require lots of labor and materials but to move around our current tenant base. We would have to transition them to a vacant renovated unit which means a substantial increase in monthly rent for them. This is a potential negative side effect as some tenants may not be willing to take part to do so and worst-case scenario may move out causing vacancy to rise. However, this risk can be mitigated through possible concessions or finding new tenants for the space which would not pose much of an issue.






2. Increase of Single-Family Homebuying

The Covid-19 pandemic created a huge shift in residential renters and buyers. People began moving away from renting and instead purchasing single-family houses. With the spread of Covid-19 and the increase in stay-at-home orders around the country, purchasing a home became very enticing. As offices, restaurants, malls, etc. closed, people began leaving the big urban cities to purchase homes in the suburbs. Many decided to end their leases and instead purchase a home with more space and less shared amenities. Record low interest rates made home buying more feasible for many. 30-year fixed rate mortgage rates were in the mid 3% at the start of 2020 and ended the year in the mid-to-upper 2%. These record low rates offset the huge jump in home prices and allowed homebuying to continue. This increase in home buying poses a threat to this investment which relies on renters. With more people purchasing homes, vacancy rates and rent collections could drop. While this is a risk, the current shift back to the office and continued rise in home prices will bring renters back to the market. In secondary urban markets like Dallas, which are seeing great population growth, people will continue renting due to low supply of homes. Single-family homebuying is a risk to this investment but the ongoing shift back to pre-covid ways of life will ensure renters stay in the market.

3. Rising Construction Costs and Labor Shortage

Over the past year and a half, the construction industry has seen some of the highest increases in costs ever recorded. This, coupled with the labor shortage in the industry poses a risk to this investment. Total construction costs grew by 4.51% so far this year and is expected to be up to 6% by the end of the year. An increase of 4-7% is forecasted for 2022. Of the increase in construction costs, material costs have taken the biggest toll. Average material prices grew 23% in a year. Lumber and steel saw the greatest increase with up to 40% higher prices this year. A labor shortage has also caused issues in the construction industry. The lack of labor has been the biggest reason for project delays this year. Both of these factors pose a threat to this investment but labor, which is the biggest issue, is recovering. Employment levels in the construction industry are now nearing pre-pandemic levels. Along with this, the renovation that would take place at the subject property are not complicated and do not require much of the more expensive materials. The renovations are much simpler and more feasible than a new construction, which would be greatly affected by construction costs. While the rising construction costs could pose a threat to the investment renovation plan, this investment would still be profitable without completing the renovations, through achieving higher rent growth in the growing Dallas market.

| IREA Given Guidelines | |
|---|---|
| LTV | 65% |
| Annual Interest Rate | 4% |
| Amortization Period (yrs) | 25 |
| Prepyment Penalty | 3% |
| LP Preferred Return | 8% |
| GP Contribution | 5% |
| LP Contribution | 95% |
| GP Promote | 30% |
| LP Promote | 70% |
| Amortization Period (months) | 300 |
| Monthly Interest Rate | 0.29% |
| Growth Factor | 3.50% |

| Individual Group Assumptions | |
|---|---|
| Purchase Price | $14,500,000 |
| Loan Value | $9,425,000 |
| GP Equity | $313,750 |
| LP Equity | $5,961,250 |
| Monthly Payment | $47,184 |
| Annual Payment | $566,205.26 |
| Exit Cap Rate | 4% |
| Sale Price | $ 29,246,517.08 |

### Model Assumptions

For out model, we assumed a 4% exit cap rate which is reasonable for the hot Dallas Market. We also assumed a 3.5% rent growth, which is what is being seen in Dallas currently and can be sustained due to population growth. Our model also includes $1.2 million of Capex in Year 0 to finish renovating the units.

### Rent Roll

| | Monthly Rent | | | | | |
|---|---|---|---|---|---|---|
| Unit | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
| 2 Bed/1 Bath Renovated | $ 1,194 | $ 1,395 | $ 1,444 | $ 1,494 | $ 1,547 | $ 1,601 |
| 2 Bed/1 Bath Not Yet Renovated | $ 975 | $ 1,009 | $ 1,044 | $ - | $ - | $ - |
| Monthly Total | $ 115,077 | $ 128,339 | $ 142,416 | $ 156,908 | $ 162,399 | $ 168,083 |
| Yearly Total | $ 1,380,924 | $ 1,540,067 | $ 1,708,990 | $ 1,882,892 | $ 1,948,793 | $ 2,017,001 |

### Pro Forma

| | 2021<br>Year 0 | 2022<br>Year 1 | 2023<br>Year 2 | 2024<br>Year 3 | 2025<br>Year 4 | 2026<br>Year 5 | 2027<br>Year 6 |
|---|---|---|---|---|---|---|---|
| Potential Gross Income | | $ 1,380,924 | $ 1,540,067 | $ 1,708,990 | $ 1,882,892 | $ 1,948,793 | $ 2,017,001 |
| Vacancy | | $ 207,139 | $ 184,808 | $ 170,899 | $ 94,145 | $ 97,440 | $ 100,850 |
| | | 15% | 12% | 10% | 5% | 5% | 5% |
| Credit Loss | | $ 27,618 | $ 30,801 | $ 34,180 | $ 37,658 | $ 38,976 | $ 40,340 |
| Effective Gross Income | | $ 1,146,167 | $ 1,324,457 | $ 1,503,912 | $ 1,751,090 | $ 1,812,378 | $ 1,875,811 |
| Expense Reimbursements | | | $ - | $ - | $ - | $ - | $ - |
| Total Operating Revenue | | $ 1,146,167 | $ 1,324,457 | $ 1,503,912 | $ 1,751,090 | $ 1,812,378 | $ 1,875,811 |
| Operating Expenses | | $ 483,323 | $ 539,023 | $ 598,147 | $ 659,012 | $ 682,078 | $ 705,950 |
| Net Operating Income | | $ 662,844 | $ 785,434 | $ 905,765 | $ 1,092,077 | $ 1,130,300 | $ 1,169,861 |
| Debt Service | | $ 566,205 | $ 566,205 | $ 566,205 | $ 566,205 | $ 566,205 | $ 566,205 |
| Capital Expenditures | $ 600,000 | $ 575,000.00 | $ 78,543.39 | $ 90,576.49 | $ 109,207.75 | $ 113,030.02 | $ 116,986.07 |
| Leasing Commissions | | $ 1,085 | $ 1,202 | $ 1,244 | $ 747 | $ 773 | $ 800 |
| Management Fee | | $ 114,617 | $ 105,957 | $ 120,313 | $ 140,087 | $ 144,990 | $ 150,065 |
| Reversion Sale Price | | | | | | $ 29,246,517.08 | |
| Property Before Tax Cash Flow from Operations | $ (600,000) | $ (594,063) | $ 33,527 | $ 127,426 | $ 275,830 | $ 305,301 | |
| Property Before Tax Cash Flow | $ (15,100,000) | $ (594,063) | $ 33,527 | $ 127,426 | $ 275,830 | $ 29,551,818 | |

| | |
|---|---|
| **Exit Cap Rate** | **4.00%** |
| **IRR** | **14.00%** |

# Equity Waterfall

| | | 2020<br>Year 0 | 2021<br>Year 1 | 2022<br>Year 2 | 2023<br>Year 3 | 2024<br>Year 4 | 2025<br>Year 5 |
|---|---|---|---|---|---|---|---|
| **Equity Level Cash Flows:** | | | | | | | |
| Entity Level Operational EBTCF | | $ (5,675,000) | $ (594,063) | $ 33,527 | $ 127,426 | $ 275,830 | $ 305,301 |
| Entity Level Reversion EBTCF | | $ - | $ - | $ - | $ - | $ - | $ 29,246,517 |
| Entity Level EBTCF | 37.73% | $ (5,675,000) | $ (594,063) | $ 33,527 | $ 127,426 | $ 275,830 | $ 29,551,818 |
| | | | | | | | |
| **LP Equity Capital Account:** | | | | | | | |
| Beginning Equity Investment Balance | | $ - | $ 5,391,250 | $ 5,822,550 | $ 6,220,323 | $ 6,524,197 | $ 6,679,667 |
| Annual Preferred Investment | | $ (5,391,250) | $ - | | | | |
| Preferred Return Earned | | $ - | $ 431,300 | $ 431,300 | $ 431,300 | $ 431,300 | $ 431,300 |
| Preferred Return Owed | | $ - | $ 431,300 | $ 431,300 | $ 431,300 | $ 431,300 | $ 431,300 |
| Accrued But Unpaid Preferred Return | | $ - | $ 431,300 | $ 397,773 | $ 303,874 | $ 155,470 | $ - |
| Ending Equity Investment Balance | | $ 5,391,250 | $ 5,822,550 | $ 6,220,323 | $ 6,524,197 | $ 6,679,667 | $ 6,679,667 |
| | | | | | | | |
| **GP Equity Capital Account:** | | | | | | | |
| Beginning Equity Investment Balance | | $ - | $ 283,750 | $ 283,750 | $ 283,750 | $ 283,750 | $ 283,750 |
| Annual Subordinated Investment | | $ (283,750) | $ - | $ - | $ - | $ - | $ - |
| Ending Equity Investment Balance | | $ 283,750 | $ 283,750 | $ 283,750 | $ 283,750 | $ 283,750 | $ 283,750 |
| | | | | | | | |
| **Operational Cash Flow:** | | | | | | | |
| LP Level Cash Flows: 70% | | $ (5,391,250) | $ (286,454) | $ 152,859 | $ 218,588 | $ 322,471 | $ 343,101 |
| GP Level Cash Flows: 30% | | $ (283,750) | $ (307,609) | $ (119,332) | $ (91,162) | $ (46,641) | $ (37,800) |
| | | | | | | | |
| **Reversion Allocations:** | | | | | | | |
| Sale Price | | | | | | | $ 29,246,517 |
| Closing Costs | | | | | | | $ (1,754,791) |
| Remaining Principal | | | | | | | $ (8,135,698) |
| Prepayment Penalty | | | | | | | $ (282,750) |
| LP Return of Equity | | | | | | | $ 6,679,667 |
| GP Return of Equity | | | | | | | $ 283,750 |
| Remaining Equity | | | | | | | $ 12,109,861 |
| | | | | | | | |
| LP Additional Proceeds | | | | | | | $ 8,476,903 |
| GP Additional Proceeds | | | | | | | $ 3,632,958 |
| | | | | | | | |
| **Reversion cash flow:** | | | | | | | |
| LP Level Cash Flows: | | | | | | | $ 15,156,570 |
| GP Level Cash Flows: | | | | | | | $ 3,916,708 |
| | | | | | | | |
| **Total EBTCF:** | | | | | | | |
| LP Level Cash Flows: | 24.07% | $ (5,391,250) | $ (286,454) | $ 152,859 | $ 218,588 | $ 322,471 | $ 15,499,671 |
| GP Level Cash Flows: | 45.69% | $ (283,750) | $ (307,609) | $ (119,332) | $ (91,162) | $ (46,641) | $ 3,878,909 |

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