IREA

1945 N. Peroia road, Aurora Colorado

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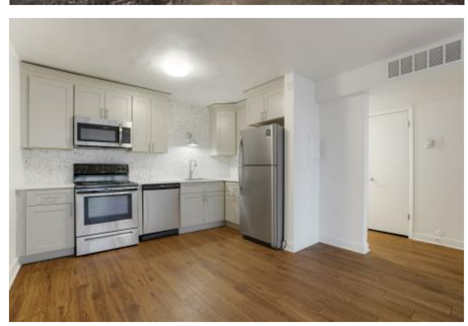
Thesis

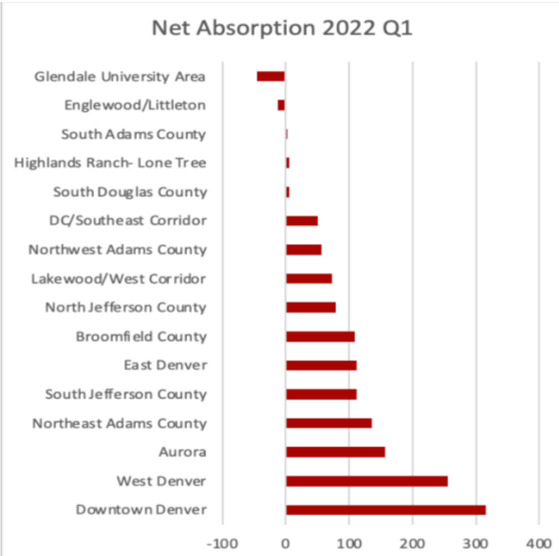
Due to the strong labor force, steady vacancy rates, and demand for rent in the Denver metro area, our investment strategy is a 10-year hold on this proven value-add, class B property after renovations and a refinance in year 2.

Assumptions	
Purchase Price	$ 14,000,000
Going In Cap Rate	4.73%
Exit Cap Rate	4.5%
LP Equity	$ 4,655,000
GP Equity	$ 245,000
Renovation Costs	$ 1,295,000
Total Equity	$ 4,900,000
Total Acquisition Costs	$ 15,295,000

Property Overview

Amber Apartments is a 79,392 SF, 1974 multifamily property in Aurora, Colorado, just outside of Denver. It is listed for $17,000,000. But due to rising interest rates, property values are due to fall. We believe we can purchase the property for $14,000,000. The property is currently class C but is a proven value-add play, as current holders have already renovated and leased 5 out of the 68 units. Cabinets, countertops, and appliances in the kitchen and finishes in the bathroom is all that needs to be redone to take this property to Class B. Total renovation costs would come to $1.295M or roughly $20,000 per unit which is a great investment to increase property value. Currently Amber Apartments are at 100% occupancy. Nationally Class C is outperforming higher classes in terms of occupancy due to renters searching for lower rents, which is good in case of a recession. There is a wide variety of unit types, ranging from studio to three bedrooms, and every unit has its own private balcony. We are assuming a 4.76% cap rate going in.



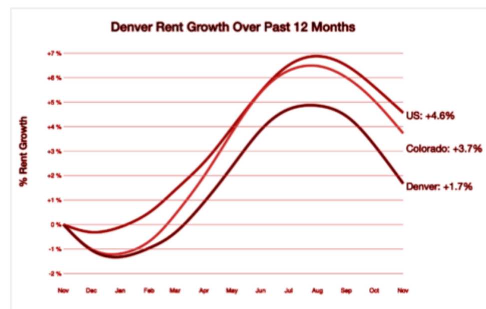


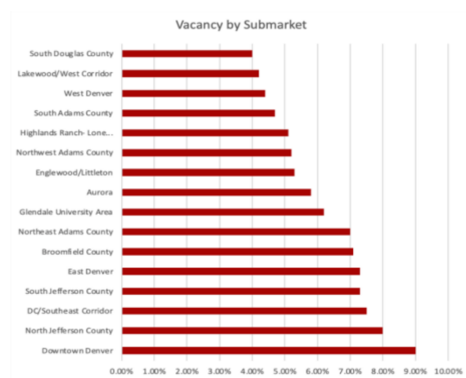
Market Analysis

Denver has a current population of 711,463 with a relatively young median age of 34.6. The average income in Denver is roughly $46,000. Denver has access to education with most education levels within walking distance. As for employers, over the past several years, the area has taken a deep dive into non-profits and health care, which have created a plethora of new jobs. Additionally, Denver has saw a boost in demand during the first half of 2021 which resulted in vacancy falling to 5.6 percent. The combination of falling vacancy and an influx of high-end apartments delivering in 2021 through 2022 pushed the average rent per unit to $1,743 per month. As for the future, the strong rent and population growth as well as low vacancies should increase buyer interest. Multifamily suburban class B properties cap rates are currently hovering between 4.68. Supply in the metro increased to 24,000 newly developed units which is a increase of 5,500 units developed since quarter four of 2021.

Catalysts

The three primary catalysts in Denver that have led to this investment recommendation are the strong labor force and decreasing unemployment rates, the high renter demand and demographic, and the stable, low vacancy rates. Denver has an estimated GDP growth of 4.5% in 2022 and a growth rate of 2.6% onward, 50 basis points above the national average. Denver is home to offices and some headquarters for many large employers, from the U.S. Government to Ball Corporation, a Fortune 500 aluminum packaging solutions company. In terms of rent, rent growth is up 1.7% from the previous year. Denver has been ranked #76 among the top 100 U.S. cities for month-over-month rent growth and is comparable to cities such as Riverside, CA, and Oakland, CA. Their suburbs have averaged a 25.1% rent increase since the pandemic. Lastly, Denver has extremely steady and likely decreasing vacancy rates. As shown through the stable demand despite current rent increases, vacancy rates are resistant to price fluctuation, boding well for future multifamily investments. Vacancy rates can also be further broken down by submarket, with South Douglas County having the lowest vacancy rate at 4.00% and Downtown Denver having the highest vacancy rate at 9.00%.





Risks & Exit Strategies

With our investment strategy being a value-add approach, this comes with more risk than say a Class A buy and hold approach would. That being said, the first risk we believe that we may encounter is rising interest rates. While this could be good for our vacancy numbers as it would make homebuyers discourage and increase the rental market, it would also make it more expensive for us to refinance. We plan to mitigate this problem by waiting to refinance and taking larger losses upfront instead. Secondly, we understand that the increase in construction could lead to an oversupply of available living space, in turn slowing rent growth. In order to get around this problem, we would sell immediately after renovation in order to gain smaller, but still notable returns from the asset. Lastly, it is reasonable to assume that while construction is going on it is likely that unexpected renovation costs may arise. This is especially true with the current labor shortage in the United States and the rising cost of materials. We plan to get around this problem if it arises by holding onto the property for longer, until we see a strong cash flow, leading to the disposition of the asset.