01 · DEAL UNDERWRITING

Project Alder: *underwriting* summary

A 96 unit value add multifamily acquisition, underwritten from the rent roll, trailing financials and offering terms.

PURCHASE PRICE	GOING IN CAP RATE	LEVERED IRR	EQUITY MULTIPLE	MINIMUM COVERAGE
$14.1M	6.52%	14.6%	1.86x	1.52x
$146,875 per unit	On trailing income	Base case, five year hold	On $5.47M of equity	Debt service, base case

The case for

- Basis of $146,875 per unit, with 72 of 96 units unrenovated.
- Downside case returns 1.25x with coverage never below 1.48x.
- Debt sized to 1.25x coverage on in place income, 72.3% of price.

The case against

- A $135 premium in place of $185 takes the base IRR from 14.6% to 12.5%.
- Exit cap rates 50 basis points wider cost 3.0 points of IRR.
- 54% of the profit is earned at sale, so the exit year matters more than the hold.

RETURNS BY CASE

	DOWNSIDE	BASE	UPSIDE
Renovation premium per unit	$135	$185	$210
Annual rent growth	2.0%	3.0%	3.5%
Exit cap rate	7.50%	7.00%	6.75%
Levered IRR	**5.1%**	**14.6%**	**18.8%**
Equity multiple	**1.25x**	**1.86x**	**2.20x**
Average cash on cash	6.6%	7.9%	8.5%
Minimum debt service coverage	1.48x	1.52x	1.53x

LEVERED IRR BY EXIT CAP RATE AND RENOVATION PREMIUM

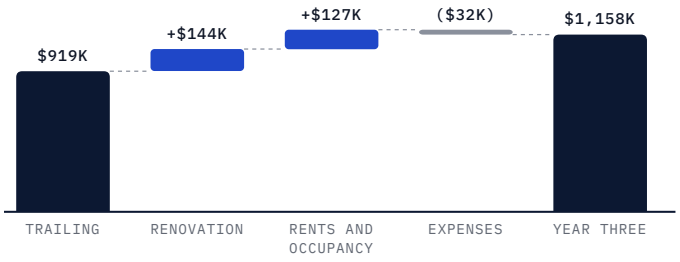
PREMIUM	6.50%	6.75%	7.00%	7.25%	7.50%
$135	15.7%	14.1%	12.5%	10.9%	9.4%
$160	16.7%	15.1%	13.6%	12.0%	10.5%
$185	17.7%	16.1%	**14.6%**	13.1%	11.6%
$210	18.6%	17.1%	15.6%	14.1%	12.7%
$235	19.6%	18.1%	16.6%	15.1%	13.7%

Base case highlighted. Each $25 of premium is worth about 1.0 point of IRR. Each 25 basis points of exit cap rate is worth about 1.5 points.

SOURCES	AMOUNT	%
Senior loan, 6.00%	$10,200,000	65.1%
Equity	$5,466,000	34.9%
Total sources	**$15,666,000**	**100.0%**

USES	AMOUNT	%
Purchase price	$14,100,000	90.0%
Closing costs	$211,500	1.4%
Renovation and exterior work	$1,050,000	6.7%
Contingency	$52,500	0.3%
Financing costs	$102,000	0.7%
Operating reserve	$150,000	1.0%
Total uses	**$15,666,000**	**100.0%**

NET OPERATING INCOME, TRAILING TO YEAR THREE



Assumptions: 96 units at an average in place rent of $1,385. Renovation of 72 units over two years. Expense growth of 2.75%. Loan at 6.00% with two years of interest only, then 30 year amortization. Base case exit at a 7.00% cap rate in year five, with 2% selling costs.

02 · FINANCING PACKAGE

Loan sizing and *refinance* test

The debt the property supports at acquisition, and what a refinance returns at stabilization across four rates.

LOAN REQUEST	LOAN TO VALUE	DEBT SERVICE COVERAGE	DEBT YIELD	RATE AND TERM
$10.2M	72.3%	1.25x	9.0%	6.00%
Acquisition financing	Of purchase price	Amortizing, in place income	In place income	Five years, two interest only

ACQUISITION SIZING, SUPPORTABLE LOAN BY TEST

Debt service coverage 1.25x at 6.00%, 30 year BINDING	$10,219,000
Loan to value 75% of price	$10,575,000
Debt yield 8.5%	$10,812,000
Loan request, sized to coverage	**$10,200,000**

LENDER REQUEST

REQUESTED TERMS

Loan amount	$10,200,000
Term	5 years
Interest only	24 months
Amortization	30 years
Recourse	Non recourse, standard carve outs
Prepayment	Open after month 36

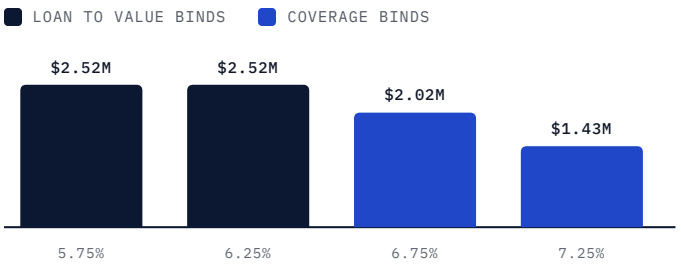
COVERAGE THROUGH THE HOLD, IN DOLLARS

BASE CASE	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Net operating income	930,421	1,066,884	1,158,073	1,194,348	1,231,754
Debt service	612,000	612,000	733,850	733,850	733,850
Cash flow after debt service	**318,421**	**454,884**	**424,223**	**460,498**	**497,904**
Debt service coverage	**1.52x**	**1.74x**	**1.58x**	**1.63x**	**1.68x**
Payment	Interest only	Interest only	Amortizing	Amortizing	Amortizing

REFINANCE AT STABILIZATION, BY RATE

RATE	LOAN	BINDING TEST	NET PROCEEDS	EQUITY RETURNED
5.75%	$12.75M	Loan to value	$2.52M	46%
6.25%	$12.75M	Loan to value	$2.52M	46%
6.75%	$12.25M	Coverage	$2.02M	37%
7.25%	$11.65M	Coverage	$1.43M	26%

NET REFINANCE PROCEEDS BY RATE



What the numbers say

- Coverage is the binding test at acquisition. The loan is $375,000 below what loan to value alone would allow.
- Coverage is tightest in year one at 1.52x and holds above 1.58x once the loan amortizes.
- At stabilization the constraint moves from loan to value to coverage at 6.75%.
- Above that rate, each 50 basis points removes about $590,000 of proceeds.

Refinance tested at the end of year three on year four net operating income of $1,194,000, a value of $17,062,000 at a 7.00% cap rate, an existing balance of $10,075,000 and costs of 1.25%. Tests: 1.25x coverage, 75% loan to value, 8.5% debt yield.

03 · ASSET MANAGEMENT AND REPORTING

Quarterly *investor* report

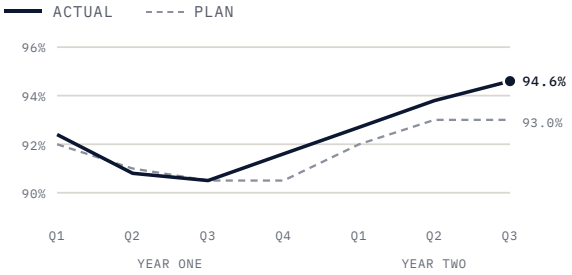
Third quarter of year two. Results against the business plan, in the format investors receive every quarter.

OCCUPANCY	NOI AGAINST BUDGET	RENOVATIONS COMPLETE	DEBT SERVICE COVERAGE	DISTRIBUTION
94.6%	1.6% ahead	61 of 72	1.77x	$95,000
Plan 93.0%	$271,076 for the quarter	Plan 58	Covenant 1.25x	10.4% of equity paid to date

OPERATING RESULTS FOR THE QUARTER, IN DOLLARS

	ACTUAL	BUDGET	VARIANCE	%
Rental income	420,138	412,709	7,429	1.8%
Other income	15,425	16,068	(643)	(4.0%)
Effective gross income	**435,563**	**428,777**	**6,786**	**1.6%**
Operating expenses	164,487	162,056	(2,431)	(1.5%)
Net operating income	**271,076**	**266,721**	**4,355**	**1.6%**
Debt service	153,000	153,000	0	0.0%
Cash flow after debt service	**118,076**	**113,721**	**4,355**	**3.8%**

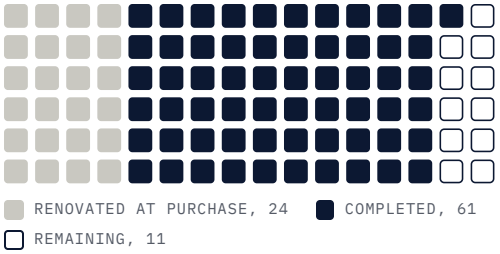
OCCUPANCY, ACTUAL AGAINST PLAN



BUSINESS PLAN SCORECARD

BUSINESS PLAN	PLAN	ACTUAL	
Units renovated to date	58	61	AHEAD
Average renovation premium	$185	$192	AHEAD
Occupancy	93.0%	94.6%	AHEAD
Operating expenses, quarter	162,056	164,487	BEHIND
Debt service coverage	1.74x	1.77x	AHEAD

RENOVATION PROGRAM, 96 UNITS



COMMENTARY

Net operating income finished 1.6% ahead of budget. Renovated units leased at an average premium of $192 against $185 underwritten, and occupancy recovered to 94.6% as renovated units returned to service.

Insurance renewed above budget in July and accounts for the expense variance. 61 of 72 planned renovations are complete, three ahead of schedule. The remaining 11 are scheduled over the next two quarters.

A distribution of $95,000 was paid for the quarter, bringing distributions to date to $570,000.

DEBT AND COVENANTS

Loan balance	$10,200,000
Rate	6.00% fixed
Interest only through	Year two
Coverage, trailing quarter	1.77x against 1.25x
Replacement reserve	Funded, no draws

What to watch

- Interest only ends with year two. On this quarter of income, amortizing coverage is 1.48x against a 1.25x covenant.
- Eleven renovations remain. At the current $192 premium they add about $25,000 of annual rent.
- Insurance is the one expense line running above plan and is the line to reprice at renewal.

Budget is the underwritten business plan for the period. Coverage is quarterly net operating income over quarterly debt service.