427 W. 10th Street Acquisition Proposal

April 14, 2021

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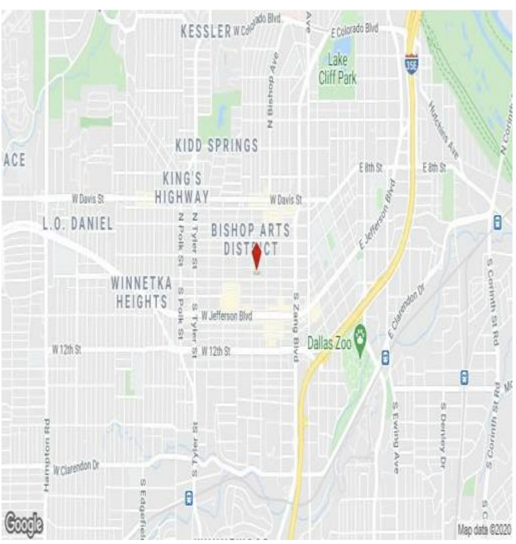


Property Overview

The subject property is a 19,020 square foot, class B, multifamily residential apartment building that we plan to purchase for $4.0 million. This is slightly below the asking price, but we believe that our price target is justified as explained below. 427 West 10th Street is located in the highly trafficked Bishop Arts District in Dallas, Texas. An area known for its diverse dining choices, fashion stores, and activity-focused downtown. The building consists of three floors and contains 12 units. Each unit consists of 1,591 square feet of space with 2 bedrooms, 2.5 bathrooms, and a 2-car garage attached to the unit. The units are perfect for family living or someone looking to downsize to a spacious apartment. The complex was recently built in 2020 and displays a modern style perfect for the target market. Additionally, the property is within 4 miles of the heart of the city and a block of the main bus route. The multifamily property achieved a Walk Score of 94 (Walker's Paradise), and a Transit Score of 50 (Good Transit). 427 W. 10th Street is in a fantastic location, a great blend of suburban living and ease of access to the city.

Thesis

We believe that the acquisition of 427 West 10th Street is a great investment that will achieve an IRR of 53.42% for the General Partners over a 5-year investment horizon. We predict that an increase in demand for Class B multi-family units, opportunities for rent growth, and property value appreciation will be strong growth drivers for the property over the investment horizon. We are proposing that given current economic conditions class B multifamily properties near Dallas, Texas are going to see an increase in demand as people move away from urban living and look for a cheaper place to live in the suburbs. Additionally, due to impressive population growth in Dallas, Texas and its surrounding areas tied with several Fortune 500 companies moving into the area will lead to rent growth in the near future. Lastly, because of the most recent economic downturn property values have dropped leading us to believe we are buying the property at a discount that will see significant appreciation over the investment horizon.

Industry Overview

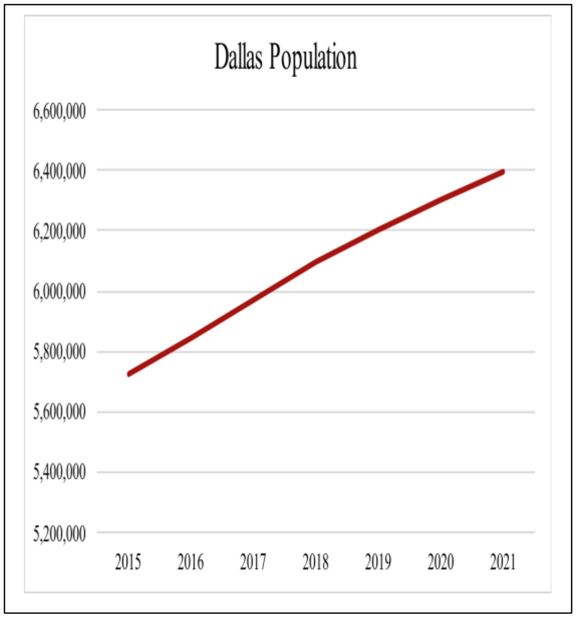
With the COVID-19 pandemic in 2020, commercial real estate took a hit as a whole. However, we saw how the multifamily sector remained relatively strong, and continues to perform well while others are still recovering. It performed second best after industrial, which had an unsurpassable performance. There have been multiple trends within multifamily real estate. We have seen a decline in demand in central business districts (CBDs). This also led to decreasing rental rates in those areas. For example, in San Francisco by -18%, New York by -9.7%, and Boston by -6.4%. This has led to a migration out of the city into the suburbs because people no longer need to live close to their jobs and can work from wherever they are located.

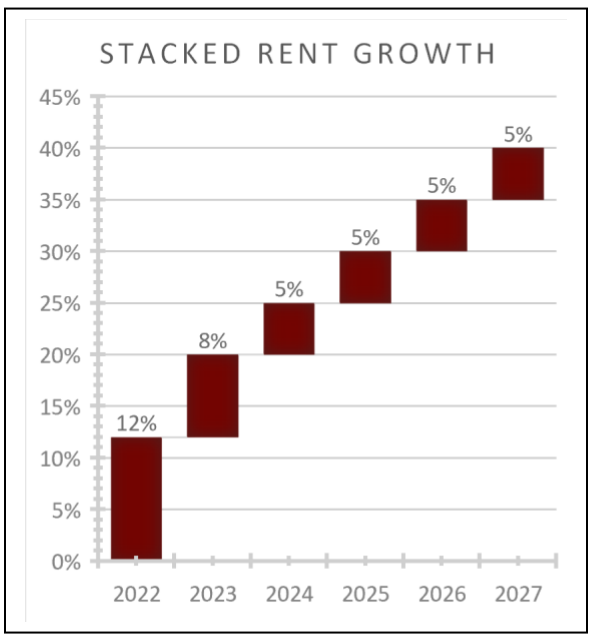
A trend has shown that people as well as businesses, specifically Fortune 500 companies like CBRE, have been moving to the sunbelt region and particularly to Texas. This is mainly because people can get more space for the same or less cost. When you are home more, having more space is desirable. We saw that the Dallas/Fort Worth area had the second largest area of population influx of 1.52%. For the past 10 years, the DFW area has held a relatively strong population growth. The DFW area performed relatively well during the pandemic compared to the rest of the country as well. From February to May, the employment rate only dropped 8.6% while the national average was 12.8%. Multifamily relies on rent being paid and there was a lot of lost income during the pandemic. This coupled with people no longer needing to live close to their job, the demand for more affordable housing increased. Class A housing performed similarly to housing within the city and experienced a rent decline of 2.3%. During 2020, Class B and C housing sustained low vacancy and is expected to continue this moving forward. Particularly Class B properties are expected to outperform this year and continue with steady rent growth. Rent growth is estimated to be roughly 12% this year which is contrasted by the almost flat year-over-year rent growth rate in Q3 in 2020. Although rents are currently down 1% since the start of the pandemic, they are expected to fully recover by the end of the year.

Class B Demand

	Effective Rents		Occupancy	
	Q2 ($)	Q-o-Q Change %	Q2 (%)	Q-o-Q Chg. (BPs)
All	1,215	(0.7)	94.3	(40)
Class A	1,515	(0.9)	93.3	(110
Class B	1,179	(.07)	94.4	(30)
Class C	1,007	(0.5)	94.9	10

Despite being in an economic downturn, Class ‘B’ multifamily properties have stayed relatively strong. We are confident that the recent trends of suburbanization, poor economic conditions, and the baby boomer generation’s retirement all will help drive demand for our Class B property as soon as quarter 3 2021. Over the last 5 years, we have seen a steady trend of suburbanization specifically in the Dallas region. People no longer feel the need to pay high rents to live in the city when they could live a short commute away for much more affordable prices. This trend was further exasperated by COVID-19 and companies easing up on work from home policies. Due to this, we are confident that this Class B multifamily unit, located just 3 miles from the city, will be a perfect location that will soon see an





increase in demand from these trends. Additionally, due to the poor economic climate, Dallas saw unemployment climb to a high of 13% last April. This was largely due to the COVID-19 pandemic but still is forcing many people to shy away from Class A properties and towards a cheaper Class B unit. This is beneficial for our investment as we expect to see a large uptick in demand due to the current economic times. Lastly, the baby boomer generation is reaching the prime age bracket for retirement. In the Dallas Texas area, it is estimated that around 40% of baby boomers will pack up and move to a retirement rental property. Given that nearly 9% of Dallas's roughly 1.4 million people will be in this age bracket, we expect to see a demand increase of nearly 50,000 people for multifamily rental units in our location. This is a massive driver that will only be accelerated over our investment horizon.

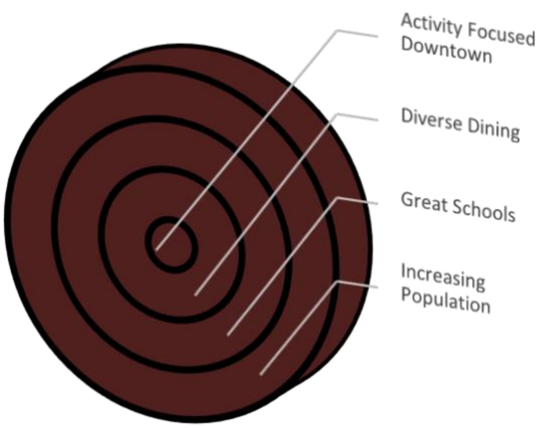
Rent Growth

The Dallas multifamily market experienced modest downward movement since quarter 2 last year. Although in quarter 2 2021 we still saw slight downward pressure on rental rates, according to CBRE we are expecting a rebound to begin as soon as quarter 4 2021. Historically, Dallas rental rates have seen significant growth and are expected to increase 14% year-over-year, throughout our investment horizon. We believe that the rental growth achieved by this property will significantly increase the valuation thus driving our investment thesis. Additionally, according to the "CoreLogic Single-Family Rent Index", population growth is mirrored by rental rate increases. Over the last few years, Dallas has seen a large boost in population with over 30,000 new residents in 2020 alone. We believe that this population increase could contribute an additional 3% growth year-over-year. Lastly, the Dallas/Ft. Worth area has been a hot spot for several Fortune 500 companies (McKesson Corp, Core-Mark, Charles Schwab, The PGA of America, Uber, and Chip 1) who have either moved their headquarters to the DFW area or increased their hub size within it. In the past, there has been a strong correlation between rental rates increasing and the number of white-collar jobs in the area. Massive companies like those mentioned above moving their HQ to Dallas is a definite growth driver for rental rates over the next few years. We believe that the rental growth will soon have an impact on our investments cashflows and will lead to an increase in property valuation over the 5-year investment horizon.

Property Value Appreciation

Poor economic conditions in 2020-2021 have led to a decrease in property values, which gives the investors an opportunity to buy the property at a discount. Currently, the property is being listed for 4.4 million dollars and is selling for $230 per S/F. After doing in-depth market research and finding over ten different comparable properties, we determined that the current asking price is above market. Due to the current recession, multifamily properties in Dallas are selling for around $202 per S/F a substantial drop from the current asking price. We believe that this property should be trading at a premium on the market due to its recent construction, prime location, and forecasted rent and demand growth. This led us to a price target of $4,000,000 and just over $209.50 a square foot. We believe that this price is fair given the current economic climate and will allow us to earn substantial returns as the property appreciates as the economy recovers.

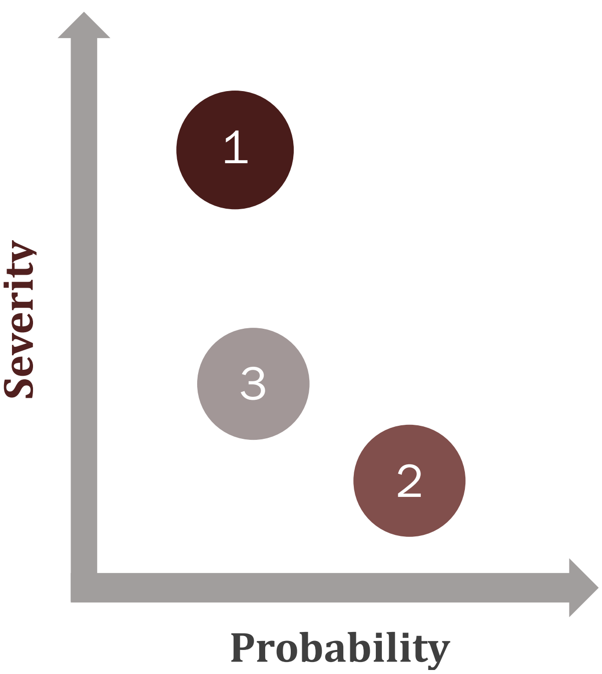
The Bishop Arts District



Location and Demographics

The apartment building is well located in the Bishop Arts District, a neighborhood known for being “trendy” because of its abundance of galleries, shops, antique stores, and a multitude of restaurants. The building is ideally located close to many restaurants that institute high traffic in the area. The apartment building is in close proximity to multiple medical facilities and an elementary school. With these in mind, we expect that our tenants would be young families and/or medical workers such as doctors, nurses, and technicians. The population of Bishop Arts District is currently at 3,247 people. The population of this area ranges, but 46.6% are between 20 to 50 years old. The median age is about 27 years old. This area of Dallas contains mostly young families, 11.2% of the population under the age of 4. 80% of the workforce are white-collar and we estimate the median income is closer to about $50,000 to $60,000. This income is ideal for the tenants of 427 W. 10th St. ensuring that rent would be paid every month.

Risks



1. Rent Growth

We believe that 427 W. 10th street is going to see substantial growth in rental rates which will help drive our investment’s success. If the market does not recover as we are expecting by quarter 4 2021 or soon after then we will not be able to recognize these gains. Furthermore, if there is lag time from the current recession and we are not able to recognize the rent increases until year 6 or later (outside our investment horizon) then the property will not be able to be sold at our target price.

2. Purchase Price

We are assuming that we can acquire the desired property below the current asking price given our research on the market. However, if we are underestimating the competitiveness of the market and are not able to acquire the property at a discount, we are going to see a decrease in our general partner’s IRR of 14%.

3. COVID- 19

The Covid- 19 pandemic plays a significant risk to our thesis. We are assuming that suburbanization is here to stay for at least the next 5 years, if the world reverts to its post-Covid ways of life, then urban properties in Dallas could steal our target market. However,

Growth Assumptions	
Avg. Rent Growth	7%
Avg. Vacancy Rate	6%
Credit Loss	2%

Debt Assumptions	
LTV	65%
Annual Interest Rate	4%
Amortization Period	25 Years
Loan Amount	$ 2,600,000.00
Annual Payment	157752.4921

Aditional Assumptions	
Cap Ex	5%
Management Fee	8%

Property Assumptions	
Purchase Price	$ 4,000,000.00
Loan Value	$ 2,600,000.00
GP Equity	$ 70,000.00
LP Equity	$ 1,330,000.00
Exit Cap Rate	7%
Sale Price	$ 5,590,940.15

we do not believe the trend of suburbanization will diminish during our investment horizon, although it is possible. On top of that forced shutdown of the Bishop Arts District would make our property less attractive as the area being open plays a large role in the attractiveness of the property's units.

Model Assumptions

From our market research on the national and local level, we made assumptions to underwrite this investment. We concluded that the sale price of the property was too high compared to over ten comparable sales. Due to that, we reduced the price per S/F from $230 (as listed) to $209.5 per S/F which is still higher than the market. In terms of debt, we assumed a loan-to-value ratio of 65%, an interest rate of 4%, an amortization period of 25 years, and a prepayment penalty of 3%. In terms of equity, we assumed a GP contribution of 5% and an LP contribution of 95%. We used an LP promote of 70% and a GP promote of 30%. The limited partners' preferred return is 8%. We assumed an exit cap rate of 7%, which we got from CBRE research that compiled together an average of recent multifamily properties sold in the Dallas area. The market consensus was between 5-6% however we took a more conservative approach and figured we could sell at 7%. We assumed a 2% credit loss and a conservative vacancy which came from in-depth market research of 6%. We modeled out our operating expenses at $95,590 as we as the owners will only be responsible for property taxes. Additionally, we modeled in an 8% management fee, and 5% of our PGI was reserved for unexpected capital expenditures. Lastly, we factored in 12% rent growth for the first year as we expect to see a full recovery by Q1 2022 For the remaining 4 years of the investment horizon we have increasing around 5% year-over-year.

Sources and Uses

Sources		Uses	
GP Capital	$ 70,000.00		
LP Capital	$ 1,330,000.00	Purchase Price	$ 4,000,000.00
Bank Loan	$ 2,600,000.00		

Pro Forma

	2021 Year 0	2022 Year 1	2023 Year 2	2024 Year 3	2025 Year 4	2026 Year 5	2027 Year 6
Potential Gross Income	$ 360,000	$ 403,200	$ 435,456	$ 457,229	$ 480,090	$ 504,095	$ 529,299
Vacancy	$ 21,600	$ 24,192	$ 26,127	$ 27,434	$ 28,805	$ 30,246	$ 31,758
Credit Loss	$ 7,200	$ 8,064	$ 8,709	$ 9,145	$ 9,602	$ 10,082	$ 10,586
Effective Gross Income	$ 331,200	$ 370,944	$ 400,620	$ 420,650	$ 441,683	$ 463,767	$ 486,956
Expense Reimbursements	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Operating Revenue	$ 331,200	$ 370,944	$ 400,620	$ 420,650	$ 441,683	$ 463,767	$ 486,956
Operating Expenses	$ 95,590	$ 95,590	$ 95,590	$ 95,590	$ 95,590	$ 95,590	$ 95,590
Net Operating Income	$ 235,610	$ 275,354	$ 305,030	$ 325,061	$ 346,093	$ 368,177	$ 391,366
Debt Service	$ 157,752	$ 157,752	$ 157,752	$ 157,752	$ 157,752	$ 157,752	$ 157,752
Capital Expenditures	$ 11,781	$ 13,768	$ 15,251	$ 16,253	$ 17,305	$ 18,409	$ 19,568
Leasing Commissions	$ 2,500	$ 2,800	$ 3,024	$ 3,175	$ 3,334	$ 3,501	$ 3,676
Management Fee	$ 26,496	$ 29,676	$ 32,050	$ 33,652	$ 35,335	$ 37,101	$ 38,956
Reversion Sale Price						$ 5,590,940.15	
Property Before Tax Cash Flow from Operations		$ 74,159	$ 99,976	$ 117,403	$ 135,702	$ 154,915	
Property Before Tax Cash Flow	$ (4,000,000)	$ 74,159	$ 99,976	$ 117,403	$ 135,702	$ 5,745,855	

Exit Cap Rate	**7.00%**
IRR	**9.41%**

Equity Waterfall

		2020	2021	2022	2023	2024	2025
		Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Equity Level Cash Flows:							
Entity Level Operational EBTCF		(1,400,000)	74,159	99,976	117,403	135,702	154,915
Entity Level Reversion EBTCF		-	-	-	-	-	5,590,940
Entity Level EBTCF		(1,400,000)	74,159	99,976	117,403	135,702	5,745,855
LP Equity Capital Account:							
Beginning Equity Investment Balance			1,330,000	1,362,241	1,368,665	1,368,665	1,368,665
Annual Preferred Investment		(1,330,000)					
Preferred Return Earned			106,400	106,400	106,400	106,400	106,400
Preferred Return Owed			106,400	106,400	106,400	106,400	106,400
Accrued But Unpaid Preferred Return			32,241	6,424	-	-	-
Ending Equity Investment Balance		1,330,000	1,362,241	1,368,665	1,368,665	1,368,665	1,368,665
GP Equity Capital Account:							
Beginning Equity Investment Balance			70,000	70,000	70,000	70,000	70,000
Annual Subordinated Investment		(70,000)					
Ending Equity Investment Balance		70,000	70,000	70,000	70,000	70,000	70,000
Operational Cash Flow:							
LP Level Cash Flows: 70%		(1,330,000)	83,831	101,903	114,102	126,911	140,360
GP Level Cash Flows: 30%		(70,000)	(9,672)	(1,927)	3,301	8,790	14,554
Reversion Allocations:							
Sale Price							5,590,940
Closing Costs							
Remaining Principal							(2,242,042)
Prepayment Penalty							(78,000)
LP Return of Equity							(1,368,665)
GP Return of Equity							(70,000)
Remaining Equity							1,832,233
LP Additional Proceeds							1282563.044
GP Additional Proceeds							549669.876
Reversion cash flow:							
LP Level Cash Flows:							2,651,228
GP Level Cash Flows:							619,670
Total EBTCF:	**IRR**						
LP Level Cash Flows:	21.18%	(1,330,000)	83,831	101,903	114,102	126,911	2,791,589
GP Level Cash Flows:	53.42%	(70,000)	(9,672)	(1,927)	3,301	8,790	634,224