

TPEG TRINITY PLACE INVESTORS LLC INVESTMENT EXIT SUMMARY



In October 2016, TPEG partnered with S2 Capital to acquire Trinity Place Apartments (since renamed to *The Annex*) a 1985 vintage, 267-unit multifamily community located in Mesquite, Texas. In April 2021, S2 Capital successfully closed on the sale of the property.



17.2%
IRR

1.48x
Equity Multiple

53 Month
Investment Period

INVESTMENT SUMMARY

In October of 2016, Trinity Private Equity Group (“TPEG”) partnered with S2 Capital (“S2”) to acquire Trinity Place Apartments (since renamed to *The Annex*) a 1985 vintage, 267-unit multifamily community located at 4709 Samuell Blvd, Mesquite, TX. At the time of the investment, the underlying thesis centered around an appealing cost basis, a favorable location in a high-growth submarket, and the ability to significantly increase average rent levels while maintaining high occupancy. The asset was acquired for \$14.350 million with a total renovation budget of \$2.902 million, resulting in a total capitalization of \$18.617 million. This was funded with \$11.040 million of senior debt, \$2.000 million of TPEG mezzanine debt, \$5.350 million of TPEG equity, and approximately \$227,000 of equity provided by S2 affiliates.

S2’s extensive renovation plan and hands-on management approach were successful, as rental rates, occupancy, and net operating income have all improved since acquisition. At acquisition, the asset was dated in terms of its finishes, amenities, and features. Through extensive renovations, S2 was able to modernize units and subsequently increase average effective rents to over \$924 per unit – a \$155+ premium since takeover.

Due, in part, to successfully driving higher rents and therefore higher net operating income, the partnership executed a refinance in December of 2018. This refinance represented an exit for mezzanine investors and made a full return of capital to equity investors (with a distribution totaling ~121% of their original investment), giving them right to 50% of all additional cash flow. In late 2020, the partnership ultimately decided to market the property for sale.

On April 22nd, S2 Capital successfully closed on a sale of The Annex for \$24.000 million. The sale price represented an increase of ~67% relative to the original purchase price and ~29% relative to our partnership’s total basis. With a pre-tax distribution of net sales proceeds equal to approximately ~21% of their original equity contribution, **TPEG investors realized an internal rate of return (“IRR”) of 17.2% and a cash-on-cash return of ~1.48x over the 53-month investment horizon.**

Due to a significant tax burden associated with the sale, TPEG and S2 provided investors the opportunity to direct net sale proceeds into a Qualified Intermediary (a “QI”) which helped facilitate a **1031 exchange – allowing the partnership (and its underlying investors) to defer significant tax and use money that otherwise would have gone to the IRS to acquire an additional value-add multifamily asset.** Investors who chose not to participate in the 1031 exchange received their sale distributions at sale. Investors that elected to participate have reinvested their sale proceeds into the acquisition of an additional east Dallas multifamily asset named Lake Village North, which will be renovated and provide the potential for additional value-add upside in the DFW market.



INVESTOR RETURNS

The investment's 2016 Private Placement Memorandum (PPM) included a refinance event in year three and underwrote an exit in month 60. The partnership elected to pursue a refinance in December of 2018 (~2 years after closing), which provided enough distributable proceeds to fully repay mezzanine investors, representing an exit for those members. Mezzanine investors received 10% current interest payments (paid quarterly) for their entire two-year hold period, and their total multiple on invested capital was ~1.21x.

In addition, the refinance also provided for a full catch-up of equity investors' preferred return, return of original capital, and a small distribution of remaining profit. In total, equity investors received a refinance distribution totaling 1.21x their original investment. Post-refinance, equity investors received four additional, quarterly distributions from operating cash flows at the property before sale.

TPEG and S2 elected to sell the asset after 53 months of ownership due to several factors, including heightened demand (high values) for well-located multifamily assets in DFW and an expectation of slowed rent growth at the property going forward.

The original PPM forecasted a sale in month sixty for \$25.233 million. The ultimate sale price of \$24.000 million in month 53 was a result of the permanent debt on the property rather than lack of rent growth (rents at sale were within \$50/unit of the

Details	Underwriting	Actual	Variance
Sale Month	60	53	-7
Sale Price	\$25,233,417	\$24,000,000	-\$1,233,417
Sale Price/Door	\$94,507	\$89,887	-\$4,620
IRR	21.1%	17.2%	-3.90%
Cash-on-Cash	1.72x	1.48x	-0.24x

five-year target). During the 2018 refinance, the partnership utilized a fixed-rate loan to secure what was, at the time, favorable debt financing rates. As interest rates fell between 2018 and 2021, the loan became less favorable. At sale, the Buyer assumed the loan from the partnership, but in doing so, offered a lower purchase price (the outcome of which was roughly equivalent to what the partnership would have netted after paying a prepayment penalty).

The figure below details actual returns for equity investors over the 53-month investment period.

TPEG Trinity Place Investors: Return Summary		Year 1	Year 2	Year 3	Year 4	Year 5
Equity Investor Contribution	(5,350,000)	-	-	-	-	-
Preferred Return Payments (10.00%)		-	135,558	1,001,258	-	-
Return of Equity Investor Capital		-	-	5,350,000	-	-
Split of Remaining Cash (50.00%)		-	-	121,865	81,540	1,202,467
Total	\$ (5,350,000) \$	-	\$ 135,558	\$ 6,473,123	\$ 81,540	\$ 1,202,467
Cash Flows per \$100,000	\$ (100,000) \$	-	\$ 2,534	\$ 120,993	\$ 1,524	\$ 22,476
Annual Cash Yield (%)		0.00%	2.53%	120.99%	1.52%	22.48%
Equity Investor IRR	17.2%					
Equity Investor Cash-on-Cash	1.48x					

The equity return profile illustrated in the figure above illustrates the realized pre-tax returns for equity investors that elected to "opt out" of the 1031 exchange. Mezzanine and equity investors received a full return of capital with the December 2018 refinance.

In summary, the investment slightly underperformed pro forma projections, but provided investors with compelling cash flows and an early refinance that returned all capital and de-risked the investment. Trinity Place represents another successful TPEG + S2 partnership. Thanks to a sound investment thesis, a favorable purchase price, efficient execution from S2 and continued improvement in demand for DFW multifamily assets, the investment provided investors with strong risk-adjusted returns. TPEG and S2 appreciate the continued confidence of investors and are pleased to deliver strong investment returns to those who have backed us.