TPEG HUDSON INVESTORS LLC
INVESTMENT EXIT SUMMARY

In September 2017, TPEG partnered with S2 Capital to recapitalize Hudson, a 1984 vintage, 660-unit multifamily community located in Arlington, Texas. In December 2020, S2 Capital successfully closed on the sale of property.

Highlights from the investment are shown below.

14.86%
IRR

1.51x
Equity Multiple

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39 Month
Investment Period

INVESTMENT SUMMARY

In September of 2017, Trinity Private Equity Group ("TPEG") partnered with S2 Capital ("S2") to recapitalize **Hudson**, a 1984 vintage, 660-unit multifamily community located at 2508 Forest Point Dr, Arlington, TX. At the time of the investment, the underlying thesis centered around an attractive cost basis, a favorable location in a high-growth submarket and the ability to appreciably increase average rent levels while maintaining high occupancy. **Total capitalization for Hudson equated to $72.528 million**, funded by a $54.000 million senior loan, $3.300 million of TPEG mezzanine debt, ~$14.467 million of TPEG equity, and approximately $761,447 of equity provided by S2 Capital.

After owning Hudson for just over three years, TPEG and S2 Capital elected to list the property for sale. **On December 21st, S2 Capital successfully closed on the sale of Hudson for $80.250 million.** As a reminder, our partnership paid $67.800 million for Hudson in 2017 before investing additional capital to improve the property, representing an 18% increase in value. **With a distribution of net sales proceeds equal to approximately 133% of the investment, TPEG investors realized an internal rate of return ("IRR") of 14.86% and a cash-on-cash return of 1.51x over the 39-month investment horizon**. Further detail on the investment return profile is included in the Returns Summary.

PERFORMANCE SUMMARY

The investment's 2017 Private Placement Memorandum (PPM) underwrote to a refinance in month 26; however, TPEG and S2 elected to sell the asset after just 39 months due to several factors, including intense demand (high values) for well-located multifamily assets in DFW and an expectation of tepid rent growth at the property going forward. In 2017, nearly 70% of the units had previously been renovated, and S2 was in the process of pushing rents on recently turned units. Over time, actual rental increases of 12% fell short of the 20% forecast and property tax expense was materially higher than underwriting – these factors combined to suppress net operating income relative to original expectations. In addition, by late 2020, project had amortizing fixed-rate debt that was accompanied by a significant prepayment penalty at sale. TPEG and S2 decided selling was the most accretive strategy and feel fortunate to have found a buyer willing to assume the in-place debt financing. The original PPM forecasted a sale in month sixty (60) for $85.229 million (based on NOI of $5.326 million and an exit cap rate of 6.25%). Therefore, it's reasonable to conclude that the ultimate sale price in month 39 ($80.250 million, or $86+ million adjusted for the prepayment penalty) resulted from NOI that fell short of expectations, but also a sale cap rate that was materially lower (better) than original underwriting. Total revenue in the last 12 months was moderately below original expectations, but actual real estate taxes (the largest property expense) were almost 20% (~$276,000) higher than projections, resulting in the NOI shortfall referenced above.

RETURNS SUMMARY

The sale of Hudson for $80.250 million (approximately $121,591 per door – an increase of ~18.36% relative to the original purchase price and ~10.65% relative to our partnership's total basis) closed on December 21st, 2020. Mezzanine investors received a full return of principal and a small amount of accrued interest, totaling 102% of their initial contribution. TPEG equity investors received all unpaid preferred return, a return of their initial investment, and a profit split distribution. In total, **TPEG equity investors realized an internal rate of return ("IRR") of 14.86% and a cash-on-cash return of ~1.51x over the 39-month investment horizon.**

TPEG Hudson Investors: Return Summary		Year 1	Year 2	Year 3	Year 4
Equity Investor Contribution	**(14,467,500)**	-	-	-	-
Preferred Return Payments (10.00%)		940,250	1,249,251	289,751	2,188,952
Return of Equity Investor Capital		-	-	-	14,467,500
Split of Remaining Cash (50.00%)		-	-	-	2,691,403
Total	**(14,467,500)**	**940,250**	**1,249,251**	**289,751**	**19,347,855**
Cash Flows per $100,000	**$ (100,000)**	**$ 6,499**	**$ 8,635**	**$ 2,003**	**$ 133,733**
Annual Cash Yield		*6.50%*	*8.63%*	*2.00%*	*133.73%*

Equity Investor IRR	**14.86%**
Equity Investor Cash-on-Cash	**1.51x**

The equity return profile shown in the figure above illustrates the pre-tax returns that equity investors received throughout the entire investment. In summary, the investment yielded reasonable annual returns despite uncontrollable real estate tax increases and fixed-rate debt that became unattractive. Falling interest rates in early 2020 were generally a windfall for the multifamily industry, but they made Hudson's fixed rate of 3.92% relatively less attractive and caused a significant increase in the loan's pre-payment penalty. While the buyer did elect to assume the in-place financing, "all cash" offers of $86+ million would have been more attractive if not for the pre-payment penalty. Favorable submarket dynamics, an attractive cost basis, and significant demand for multifamily assets worked to offset some of the challenges discussed herein, resulting in a fair return profile.

TPEG and S2 appreciate the continued confidence of investors and are pleased to deliver investment returns to those who that have backed us.