THE MUSE APARTMENTS

INVESTMENT EXIT SUMMARY

In March 2017, Trinity Private Equity Group partnered with S2 Capital to acquire and renovate Tierra Linda (since renamed to The Muse), a 804-unit multifamily community in Dallas, Texas.

In late 2018, based on an increase in value, investors received 100%+ of their original investment back via a “cash out” refinance. In October of 2020, the asset was sold for $66.0MM. TPEG equity earned an IRR of 41.5% and a cash-on-cash multiple of 207% before contributing sale proceeds into a 1031 process.

IRR	COST TO ACQUIRE/IMPROVE ASSET	REFINANCED AFTER
41.5%	**$47 MILLION**	**17 MONTHS**
2.07x	**$66 MILLION**	**44 MONTH**
EQUITY MULTIPLE	SALE PRICE OF THE MUSE	TOTAL HOLDING PERIOD

EARLY RETURN OF CAPITAL

Investor capital was returned via refinance ahead of schedule after just 17 months, effectively “de-risking” the investment.

CURRENT YIELD

After 2018’s refinance, investors received quarterly distributions until the sale in 2020.

TAX EFFICIENCY

A 1031 Exchange allowed the partnership (including limited partners) to defer a significant taxable gain from Muse and reinvest those pre-tax proceeds into a new multifamily investment with additional value add opportunity

INVESTMENT SUMMARY

In March of 2017, Trinity Private Equity Group ("TPEG") partnered with S2 Capital to acquire and renovate a 1,190-unit, two-asset, multifamily portfolio located in Dallas, TX - Willow Pond (since renamed to The Hive) and Tierra Linda (since renamed to The Muse). **The subject of this exit summary, The Muse**, is a 1969 vintage, 804-unit multifamily community located at 3035 W Pentagon Pkwy, Dallas, TX. At the time, **the underlying thesis centered around acquiring the asset in the strong DFW metroplex at a low-cost basis relative to market and increasing rents through an extensive renovation program and better management.**

Costs for The Muse totaled approximately $47.004 million, funded by a $34.800 million senior loan, $2.500 million of TPEG mezzanine debt, ~$9.217 million of TPEG equity, and approximately $487,030 of equity provided by S2 Capital.

In July of 2018, the partnership executed a successful refinance with Freddie Mac. This allowed the partnership to repay the acquisition financing and return all outstanding junior capital to TPEG investors. This refinance represented an exit for mezzanine investors, while equity investors have continued to receive 50% of the residual cash flow from the property. After operating for an additional two years, TPEG and S2 Capital elected to list the property for sale.

On October 29th, S2 Capital successfully closed on a sale of The Muse Apartments for $66.00 million. For reference, the partnership paid $32.00 million for The Muse in 2017 before investing additional capital to improve the property. Due to a substantial gain on the sale, TPEG and S2 elected to direct net sale proceeds of approximately $14.2 million into a Qualified Intermediary (a "QI") who helped facilitate a 1031 exchange – allowing the partnership (and its underlying investors) to defer, indefinitely, significant tax, and use money that otherwise would have gone to the IRS to acquire a new value add multifamily property. To complete the 1031 exchange, TPEG/S2 needed to locate a "replacement asset" that met a set of criteria. To that end, in mid-December, TPEG and S2 acquired the Windridge Apartments, a 1983-vintage, 720-unit multifamily asset located at 2301 Avenue H East, Grand Prairie, Texas using "rolled" funds from Muse and fresh capital.

PERFORMANCE SUMMARY

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 $973 per unit – a $288 premium since takeover. Additionally, S2 was able to increase occupancy from just over 90% at acquisition to 95% as of the end of September 2020. The increased occupancy and approximately 42% increase in rental rates in just 44 months illustrate S2's success in executing their renovation plan and implementing new management practices. These operational efficiencies were positively reflected in net operating income, as actual net operating income recognized at sale was 14% higher than pro forma month 44 projections. While the Private Placement Memorandum (PPM) projected net operating income in month 44 of the investment to be $333,159 (~$3.99 million annualized), The Muse realized actual net operating income of $379,248 (~$4.55 million annualized) at sale.

The investment's 2017 PPM projected a refinance in month 28, and a total holding period of 60 months. Due in part to higher-than-expected rent growth, S2 was able to achieve a refinance in month 16, allowing the partnership to return 100% of junior capital, increase the loan amount, and lower the interest rate paid to the senior lender.

In addition to the operational efficiencies and refinance described above, TPEG and S2 Capital elected to sell the asset sooner than expected and target a 1031 exchange due to several factors, including 1) the sale price premium recognized over pro forma year five exit projections, 2) the sale of the asset and use of a 1031 exchange will produce a better total return going forward relative to holding the asset, and 3) the 1031 process will allow the partnership (and the underlying investors) to defer, indefinitely, significant tax, and use the money that would have gone to the IRS to acquire a new value add multifamily property. Below is a chart outlining the actual performance versus underwritten projections.

Details	Underwriting	Actual	Variance
Sale Month	60	44	-16
Sale Price	$58,273,420	$66,000,000	$7,726,580
Sale Price/Door	$72,479	$82,090	$9,611
IRR	23.71%	41.47%	17.76%
Cash-on-Cash	1.86x	2.07x	0.21x

RETURNS SUMMARY

The sale of the Muse for $66.000 million (approximately $82,089 per door – an increase of ~106.25% relative to the original purchase price and ~40.1% relative to our partnership's total basis) closed on October 29th, 2020. With a pre-tax distribution of net sales proceeds equal to approximately ~76.37% of the original equity associated with the Muse, **TPEG investors would have realized an internal rate of return ("IRR") of 41.5% and a cash-on-cash return of ~2.07x over the 44-month investment horizon.**

Potential Equity Investor Returns		Year 1	Year 2	Year 3	Year 4
Equity Investor Contribution	(9,216,912)				
Preferred Return Payments (10.00%)		-	2,038,393	-	-
Return of Equity Investor Capital		-	9,216,912	-	-
Split of Remaining Cash (50.00%)		-	-	389,423	7,404,389
Total	(9,216,912)	-	11,255,305	389,423	7,404,389
Potential Cash Flows per ($75,000)		-	91,587	3,169	60,251
Potential Cash Flows per ($350,000)		-	427,405	14,788	281,172
Investor Cash Yield (%)		*0.00%*	*122.12%*	*4.23%*	*80.33%*
Equity IRR	**41.47%**				
Equity Cash-on-Cash	**2.07x**				

The equity return profile illustrated in the figure above illustrates the pre-tax returns that equity investors would have received if the partnership did not pursue a 1031 exchange. Mezzanine and equity investors received a full return of capital with the July 2018 refinance, fully retiring mezzanine note holders and leaving equity investors to receive the right to 50% of the residual cash flows from the property.

In summary, the investment outperformed pro forma projections, benefitting from a strong Sponsor and a favorable multifamily market in Dallas. TPEG WP-TL investors will continue to receive distributions from the partnership's other asset, The Hive. As a reminder, The Hive recently received supplemental loan proceeds, creating a meaningful tax-free distribution to equity investors.

In all cases, The Muse and the Hive represent 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 outperformed projections. TPEG and S2 appreciate the continued confidence of investors and are pleased to deliver such strong investment returns to those who that have backed us.