

# TPEG 4040 Forest Investors LLC INVESTMENT EXIT SUMMARY



**28.9%**  
IRR

.....

**1.73x**  
Equity Multiple

.....

**38 MONTH**  
Investment Period

.....

**A TRINITY +  
FORT CAPITAL**  
Joint Venture



## INVESTMENT SUMMARY

In June of 2018, Trinity Private Equity Group (“TPEG”) partnered with Fort Capital to acquire an industrial warehouse and distribution facility located at 4040 Forest Lane in Garland, TX. 4040 Forest includes roughly 628,000 square feet of warehouse area and 32,000 square feet of air-conditioned office space over 47 acres of land. At the time, **the underlying thesis centered around the property’s location in the NE Dallas/Garland submarket and its impending lease renewal with its largest tenant, At Home.**

In terms of inventory, NE Dallas/Garland continues to be one of the largest industrial submarkets in the DFW metroplex. The submarket generally consists of older product, although historically low vacancies, a robust and growing nearby workforce and a strategic location have spurred development in the area over the past few years.

Costs for the project totaled approximately \$17.700 million, funded by an \$11.000 million senior loan, \$1.000 million of TPEG mezzanine debt, \$4.450 million of TPEG equity, and \$1.250 million of Fort Capital co-investment.

**In late 2019, Fort Capital successfully secured a lease extension with At Home, who occupies ~85% of the asset.** This lease extension was crucial in creating value for investors, and the partnership elected to prepare and list the asset for sale soon after. A sale agreement was signed in Q1 of 2020, but the onset of the COVID-19 pandemic caused the Buyer to back out. While the pandemic contributed to the significant financial distress of industrial tenants and owners, Fort Capital worked with At Home to modify their lease payment terms, maintaining the financial stability of the asset. **After the U.S. began to re-open in mid-2020, Fort Capital took the asset back to the market and signed a sale agreement for \$24.000 million with a new Buyer.**

## PERFORMANCE SUMMARY

TPEG and Fort Capital elected to sell the asset sooner than originally anticipated due to several factors - primarily 1) sale valuations received by the partnership (at the two-year mark) all came in above year five pro forma sale projections, and 2) the partnership observed high demand for industrial/warehouse properties, even amidst the ongoing COVID-19 pandemic. As a note, the sale required a \$720,000 reserve to be withheld until August of 2021. The returns discussed herein are inclusive of the reserve release in 2021. Currently, investors have received a 1.66x and a 26.77% IRR.

From a returns standpoint, the investment’s projected final IRR of 28.88% outperformed the original projection of 17.07%. The cash-on-cash multiple of approximately 1.73x falls slightly short of the PPM’s figure of 1.83x, but the deficit is at least partially attributable to the abbreviated hold period. The original PPM forecasted a sale in month sixty (60) for \$21.142 million (based on NOI of \$2.378 million and an exit cap rate of 11.25%). The realized sale cap rate of 8.24% was 301 basis points lower than the projected exit cap rate of 11.25%, which can be credited to the At Home lease extension and the overall strength of the DFW industrial market. **Below is a figure showing underwriting vs actual performance of 4040 Forest.**

Details	Underwriting	Actual	Variance
Sale Month	60	38	-22
Capitalization Rate	11.25%	8.24%	-3.01%
Sale Price	\$21,142,642	\$24,000,000	\$2,857,358
Sale Price/SF	\$32.03	\$36.36	\$4.33
IRR	17.07%	28.88%	11.81%
Cash-on-Cash	1.83x	1.73x	-0.10x

## RETURNS SUMMARY

The sale of 4040 Forest for \$24.000 million (approximately \$36.36 per square foot – an increase of ~50% relative to the original purchase price and ~35% relative to our partnership’s total basis) closed on October 9<sup>th</sup>, 2020. With a distribution of net sales proceeds equal to approximately ~145% of the investment and the August 2021 reserve release, TPEG investors will have realized an internal rate of return (“IRR”) of 28.9% and a cash-on-cash return of ~1.73x over the 38-month investment horizon.

Equity Return Summary: TPEG 4040 Forest Investors LLC		Year 1	Year 2	Year 3	Year 4 *
Equity Contribution	(4,450,000)	-	-	-	-
Preferred Return Payments (8%)		\$356,000	\$333,061	\$127,805	-
Return of Equity Capital		\$12,854	-	\$4,437,146	-
Split of Remaining Profit (60%)		-	-	\$2,116,310	\$337,248
<b>Total</b>	<b>(\$4,450,000)</b>	<b>\$368,854</b>	<b>\$333,061</b>	<b>\$6,681,261</b>	<b>\$337,248</b>
Cash Flows per \$100,000	(\$100,000)	\$8,289	\$7,485	\$150,141	\$7,579
<i>Annual Cash Yield (%)</i>		8.29%	7.48%	150.14%	7.58%
<b>IRR - Equity</b>	<b>28.88%</b>				
<b>Cash-on-Cash - Equity</b>	<b>1.73x</b>				

\*Year 4 returns assume a release of the full reserve

The equity return profile is illustrated in the figure above, assuming a full release of the sale reserve. Importantly, investors received distributions throughout almost the entire investment period to date. Distributions to equity investors were temporarily put on hold throughout Q2 2020 due to the potential impact of COVID-19 on the asset, but in August of 2020, distributions resumed. Mezzanine investors received annual distributions of 10% throughout the life of the investment (2.5% paid per quarter).

Equity investors, after receiving ~21% of their original investment in monthly distributions throughout the hold period, received ~145% in connection with the sale in October, and should receive an additional ~7% in August of 2021.

In summary, the investment outperformed pro forma projections and benefited from a strong Sponsor and a favorable industrial market in Dallas. If you have any questions about this investment, please reach out to a member of the TPEG team. We appreciate your continued trust in Trinity Private Equity Group.