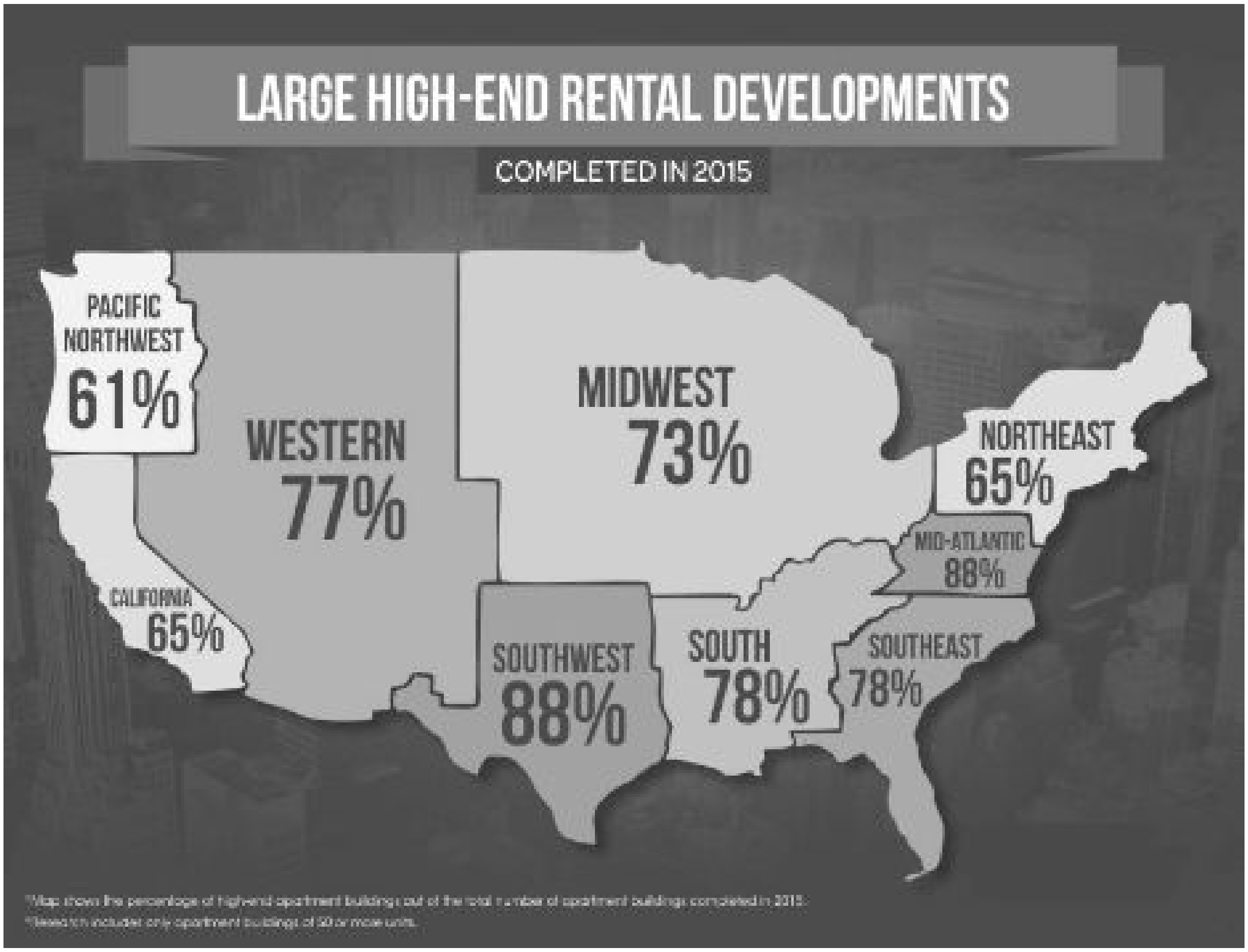
Multifamily Equity Investment Analysis

Villages at Madison



CROUDIFY

Croudify Economic Research Team

Property Summary

Property Address: 4325 Madison Ave Anderson, IN 46013

Property Type: Multi-family B/C

Development Year: 1973

Comparable Metropolitan Area: Indianapolis, Indiana

Promised Returns: 20.5%

Executive Summary

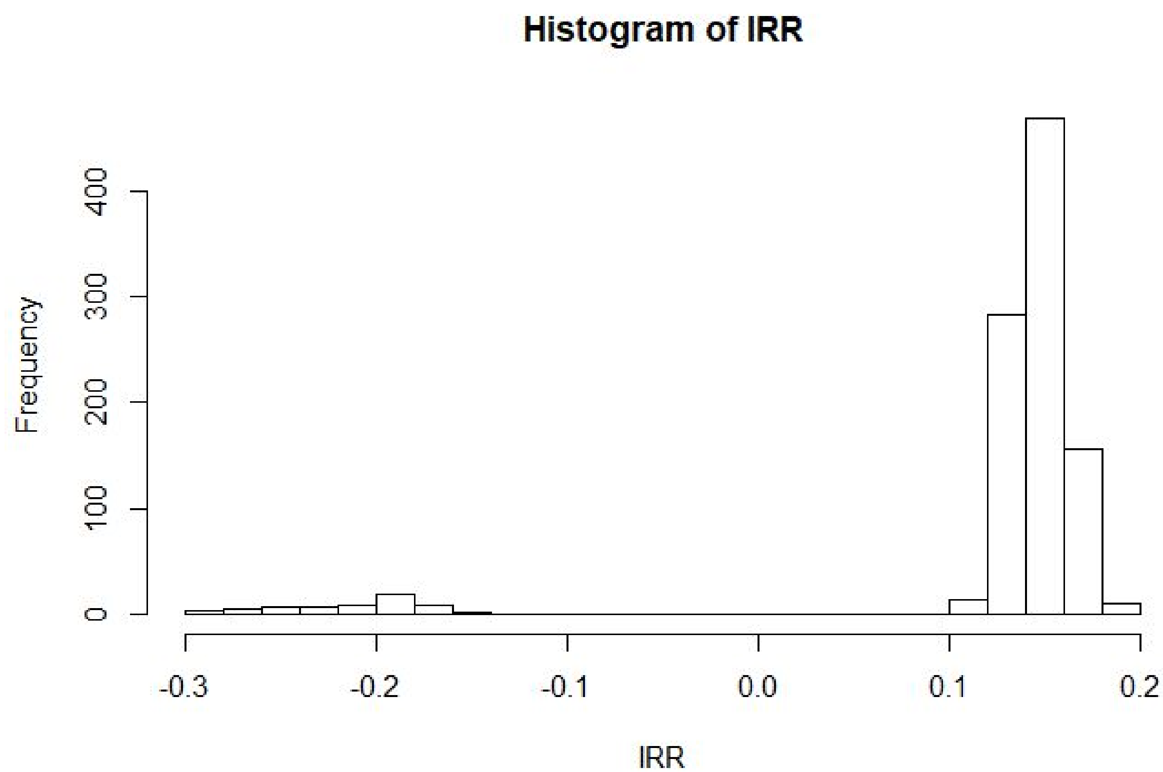
Villages on Madison is a medium size multifamily property in a strong growth employment neighborhood of Anderson. Though, the the big apartment size and upgrades to the property make marginal increase in rents possible with a lot of nearby vacancy and better comparables in the neighborhood make this growth difficult.
In our analysis we used a cumulative rent growth of (11.1%) over a span of 7 years (compared to 26.1% by sponsor). The 11% rent growth is in line with the projections by majority of data providers. We also assumed a slower rate of vacancy rates to come to normal (4 years compared to 2 years by sponsor) to come up with our final analysis. We used an exit cap rate of 7.6 compared to 7.0 for the developer.

Croudify Rating

IRR > 0%	**CC (>93% Probability)**
IRR > 8%	**CC (>93% Probability)**
IRR > 20%	**F (0% Probability)**

Equity IRR Distribution (For Real Crowd Investors)

Min.	1st Qu	Median	Mean	3rd Qu	Max.
-0.2908	0.1353	0.1464	0.1265	0.1557	0.1843



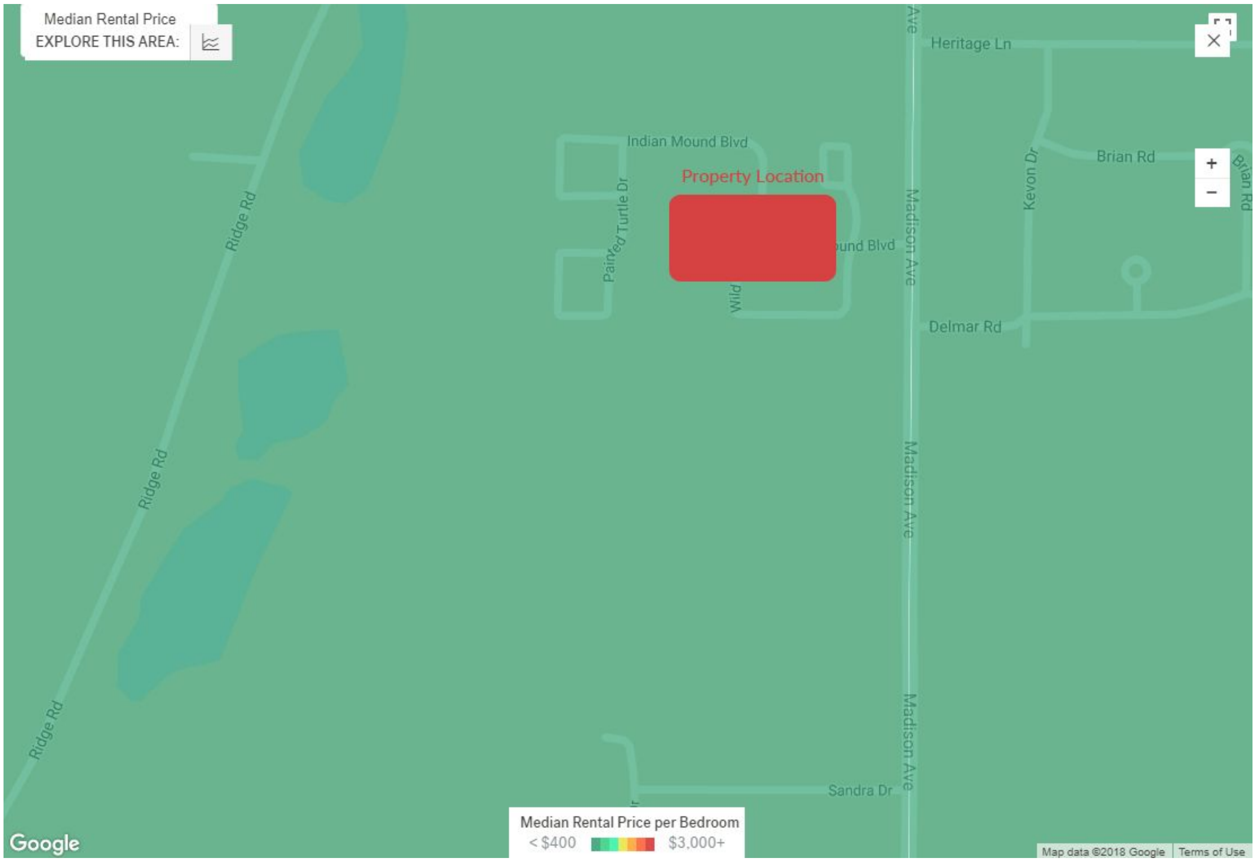
Property Analysis

Our Property Analysis is based on four factors, the provided base rent for the building, the projected rent growth for the area, the economic vacancy for the area and finally the exit cap rate.
We use the industry numbers as a benchmark to project financials for any building and then use those financials for exit valuations.
If the projected financials from the sponsor are near the benchmarks and the sponsor has a strong recent history (within 2-5 years) of developing and exiting a similar project we allow some variation to the benchmark. If the developer has not delivered anything in the predefined time frame the benchmark is the best they can do and hence the ratings we are providing should be considered as providing a more optimistic outcome rather than a conservative outcome.

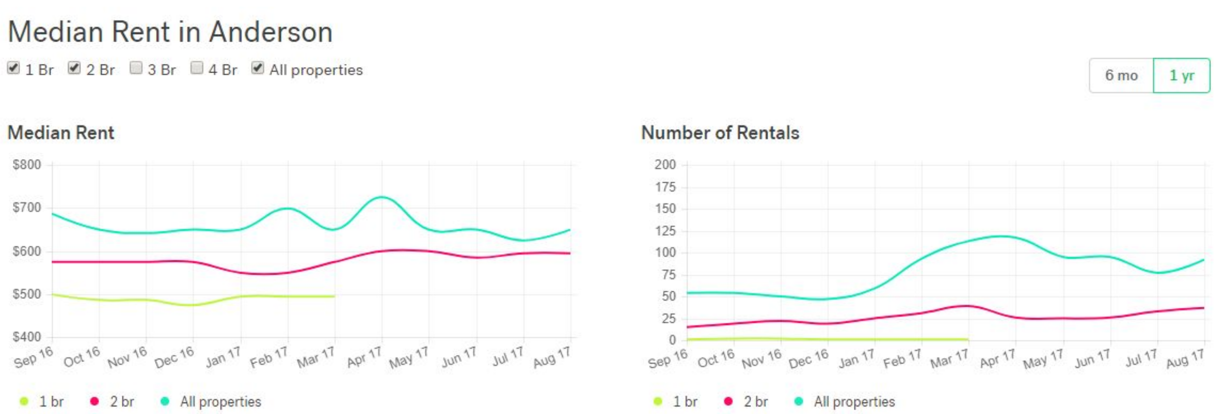
Base Rent

Base rent is taken from various data sources to compare the base rent provided by the sponsor. Since the sponsor's base rent is driven by current rates we do not make many changes to it unless we find it to be extremely outside the bounds of the benchmark data.

Current Data

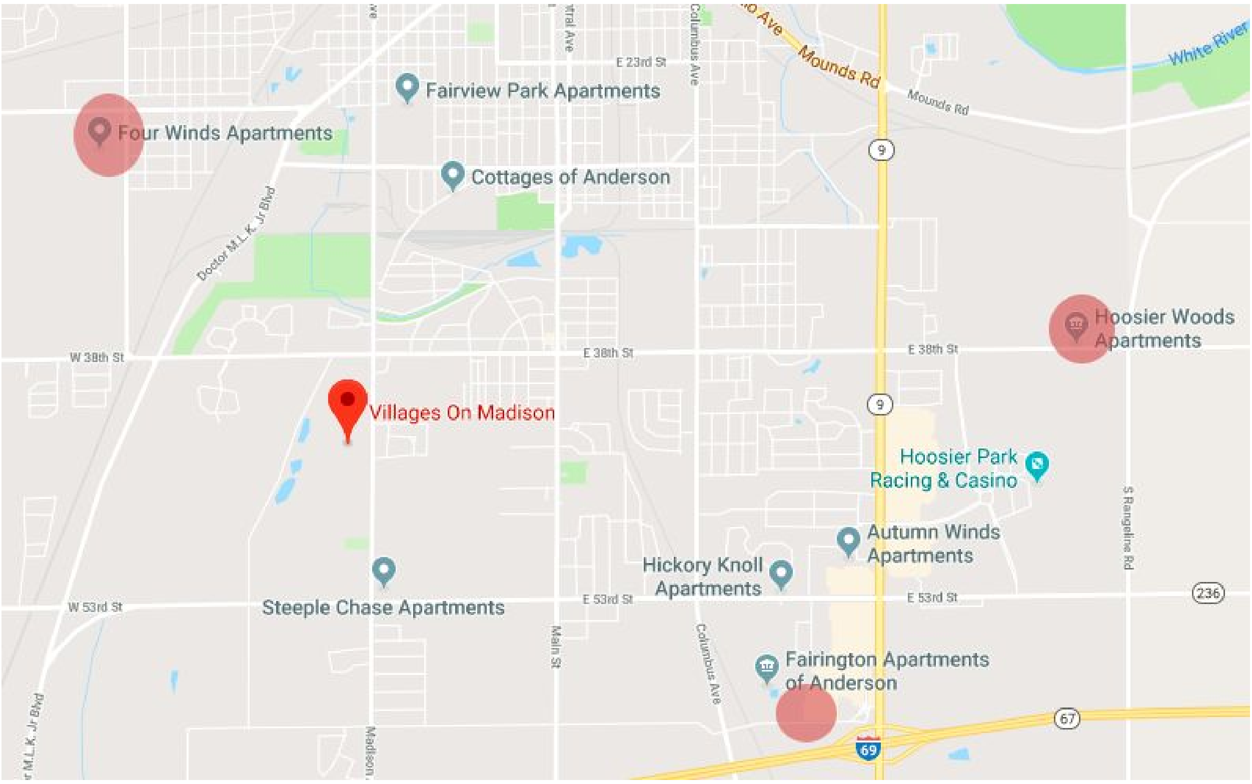


(source - Trulia)



(source - Trulia)

Comparable from Internet



Four Winds
https://www.apartments.com/four-winds-apartments-anderson-in/l70wsle/

Apple Creek
https://www.apartments.com/applecreek-apartments-anderson-in/7g97m7x/

Hoosier Woods
https://www.apartments.com/hoosier-woods-apartments-anderson-in/9yvw1f4/

Competitor	Year Built	Unit Count	Occupancy	1 Beds	2 Beds	3 Beds
Cross Lakes	1988	212	96%	$585-598	$660-700	
Apple Creek	1997	194	94%	$687	$782-882	$957
Hoosier Woods	2003	214	89%	$715	$825	$950
Steeple Chase	1973	71	100%	$525	$575	
Four Winds	1997	168	95%	$660	$789	

(source - Sponsor)

Analysis

	Year Built	1BR/1BA	2BR/1BA	2 BR/2BA	3BR/2BA
Four Winds	1997	$ 669	NA	$ 799	NA
Apple Creek	1997	$ 574-579	$ 654 - 709	$ 674 - 789	$ 794-1024
Hoosier	2003	$ 302		$ 560	$ 805
Madison (Current)	1973	$ 540	$ 594	$ 756*	$ 894*
Madison (Best)	**1973**	**$ 560**	**$ 640**	**$ 750***	**$ 890***

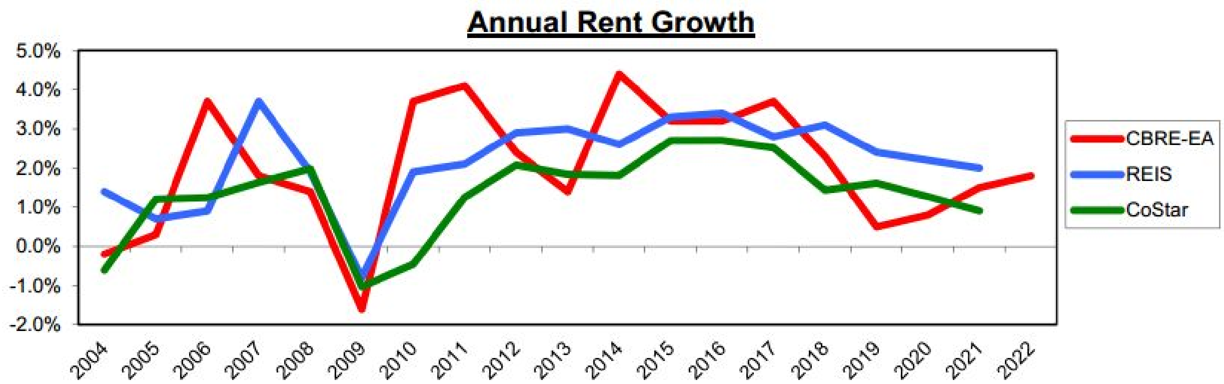
(* Madison only has 1.5 baths that is lower than 2 baths of comparable properties, though the apartments are bigger in size but they are older in age too so the size is offset by the age)

Based on the data from comparables (provided by the sponsor) and other third party data points the rent is nearly realized based on the age of the property and the seems to be fully realized and there seems to be little scope for further base rent increases even with small improvements that the sponsor is proposing. In our model we took the initial rent to be achievable since that is the current state of the project. **Due to the rent range being on top end, we do not anticipate that any substantial rent growth can be achieved due to property improvements that can be anticipated outside the average rent increases for the city.**

Rent Growth

A source from which many of the redevelopment projects make or lose their money is the rent growth. A 5% annual rent growth looks benign in financial analysis but cumulative over 7 years this means a nearly 41% rent growth from the begining rent, while it is possible in certain cases by its basic nature of US real estate industry it rarely comes true and hence we usually do not consider it in our analysis.
We use cumulative rent growths based on a broad metropolitan area for a property and then add a component of volatility and correlation to project various scenarios.

Projection from Data Providers



(source - Fannie Mae)

(For Indianapolis Metro Area)

Comparables

More than 4.2K units are currently under construction/bidding in the Tampa area.

CBRE-EA Submarket	Number of Projects	Total Sq Ft (000's)	Total Units
Boone/Hendricks	4	1267	916
Castleton	2	250	186
Central	6	1508	1052
East	3	316	367
Hamilton County	5	937	683
Johnson County	1	388	274
Southeast	1	90	64
Southwest	1	520	450
West	1	226	226

(source - Fannie Mae)

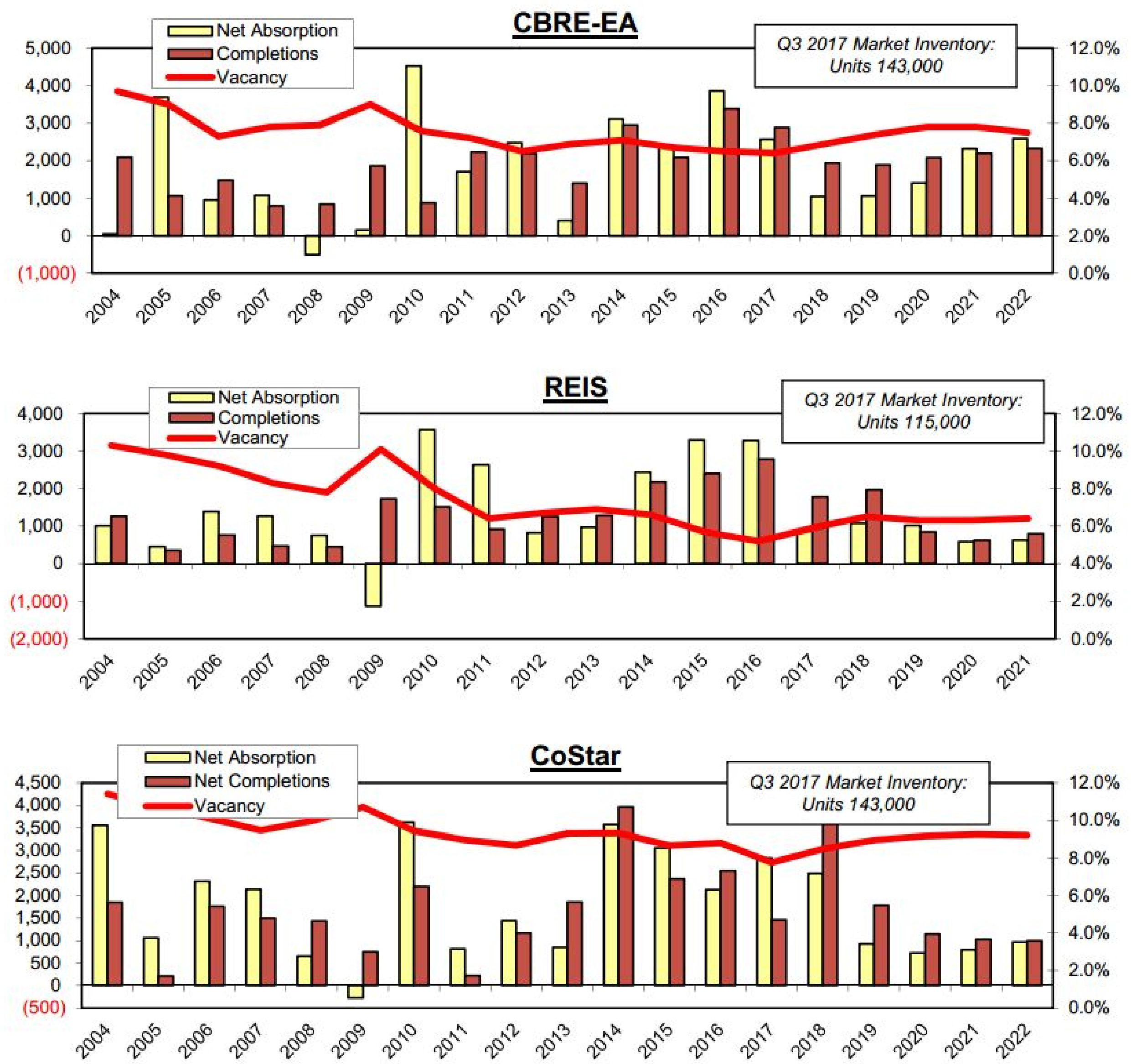
Analysis

Based on the data from comparables **our model projected a cumulative growth of 11% in rents over a span of 7 years** (unlike 26.1 % in the financials).

Economic Vacancy (Vacancy + Bad Debt)

Another factor in which sponsors use an undue rosy picture is in reducing bad debt and economic vacancy. If a property is 25% vacant and has 10-15% of bad debt at the time of acquisition, there is a low probability that you can reduce it by 50% in one year or bring it to local standard in 12 months. Usually, it is more likely it will take anywhere between 24-36 months (if at all possible) to see these kinds of improvements.

Projections from Data Providers



(source - Fannie Mae)

(Tampa FL Area - Vacancy Rate, Completions & Absorptions)

Analysis

The project has a 9.2 % vacancy rate and the developer assumed that the vacancy will be reduced by 2 % in first year and another 2.2% in second year to come to the long term average of 5% and that too at higher rents that seems too optimistic. We assumed a more moderated vacancy decrease of 1% per year over a span of 4 years. Based on the data from comparables **our model projected an annual Economic Vacancy rate between 5% - 6% (similar to the sponsor) and a bad debt rate of 1%-2% and concessions of 2-4%.**

Exit Cap

Exit cap is yet another factor that impacts the outcome of a project the most and a small variation can make or break a project. In this scenario, since each project is unique and can demand a different valuation, our Monte Carlo based simulation approach covers a large range of outcomes in determining the final valuation of a project.

Available Comparables

Comparables that sold over last 2 years, sold between a cap rate of 7.5-8.6.

Analysis

The cap rate at which the property is acquired is at 8.32 perfectly in the middle of the expected range. For exit the sponsor assumes an aggressive cap rate of 7% that we challenged and increased it to 7.6%