

# TPEG TREE HOUSE INVESTORS LLC INVESTMENT EXIT SUMMARY



In April 2019, TPEG partnered with S2 Capital to acquire and renovate the Tree House Apartments, a 1973-vintage, 458-unit multifamily community located in Jacksonville, Florida. In October 2021, TPEG and S2 Capital successfully closed on the sale of the property.



**33.1%**  
IRR\*

**2.05x**  
Equity Multiple\*

**30 Month**  
Investment Period

*\*Net investor returns after all fees and promotes.*

## INVESTMENT SUMMARY

In April of 2019, Trinity Private Equity Group (“TPEG”) partnered with S2 Capital for the 18<sup>th</sup> time to recapitalize and renovate the Tree House Apartments (“Tree House”), a 1973-vintage, 458-unit multifamily community located at 3500 University Boulevard N. Jacksonville, FL 32277. At the time of the recapitalization, S2 had renovated 55% of the units and most of the exterior. TPEG was attracted to this opportunity because it represented another chance to invest alongside S2 Capital in a familiar submarket at an attractive basis. The subject recapitalization allowed S2 to continue the renovation plan and ultimately reposition the asset with higher rents. **Total capitalization for the Tree House investment equated to roughly \$47.579 million**, funded by a \$32.000 million senior loan, \$4.000 million of TPEG mezzanine debt, \$11.000 million of TPEG equity, and approximately \$578,947 of equity provided by S2 Capital and its 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 the acquisition. As of September 2021, S2 had renovated 374 units, which equates to 82% of the property. The average effective rent at the property at the time of the recapitalization was \$870 per unit, and the average effective rent as of September 2021 was \$1,105, reflecting a \$235 or 27% increase. Tree House closed out the month of September at 98% occupied. Due to successfully driving higher rents and therefore higher net operating income, the partnership was able to reposition the asset for a favorable sale outcome. Of note, the partnership elected to suspend the mezzanine interest payment for Q1 of 2020 due to the uncertainty surrounding the COVID-19 pandemic, but payments were caught up and reinstated in Q2 of 2020.

**On October 22<sup>nd</sup>, 2021, S2 successfully closed on the sale of Tree House Apartments for \$70.150 million (\$153,166 per unit).** The sale price represented an increase of ~64% relative to the original purchase price of the asset in 2019 and ~47% relative to our partnership’s total basis. With a pre-tax distribution of net sales proceeds equal to approximately 196% of their original equity investment, **TPEG equity investors realized an internal rate of return (“IRR”) of ~33.1% and a cash-on-cash return of ~2.05x over the 30-month investment horizon.** Further detail on the investment return profile is included in the *Returns Summary* on the following page.





## PERFORMANCE SUMMARY

The investment's 2019 Private Placement Memorandum (PPM) projected a refinance in month 26 and a sale in month 60. TPEG and S2 elected to sell the asset after 30 months of ownership due to several factors, including heightened demand (high values) for well-located multifamily assets and early realization of rent growth targets at the property.

The original PPM forecasted a sale in month 60 for \$58.077 million (based on NOI of \$4.065 million and an exit cap rate of 7.00%). Despite the property being sold 30 months earlier than anticipated, the actual sale price in month 30 (\$70.150 million) meaningfully exceeds the PPM's underwritten sale price – mainly attributable to favorable submarket/market dynamics and property performance.

Details	Underwriting	Actual	Variance
Sale Month	60	30	-30
Sale Price	\$58,077,382	\$70,150,000	+\$12,072,618
Sale Price/Door	\$126,807	\$153,166	+\$26,359
IRR	21.26%	33.08%	+11.82%
Cash-on-Cash	1.77x	2.05x	+0.28x

## RETURNS SUMMARY

The figures below detail actual returns for equity and mezzanine investors over the 30-month investment period.

TPEG Tree House Investors: Equity Return Summary		Year 1	Year 2	Year 3
Equity Investor Contribution	(11,000,000)	-	-	-
Preferred Return Payments (10%)		-	570,000	2,241,781
Return of Investor Capital		-	-	11,000,000
Split of Remaining Cash (50%)		-	-	8,790,519
<b>Total</b>	<b>(11,000,000)</b>	<b>-</b>	<b>570,000</b>	<b>22,032,299</b>
<b>Cash Flows per \$100,000</b>	<b>(\$100,000)</b>	<b>\$0</b>	<b>\$5,182</b>	<b>\$200,294</b>
<i>Annual Cash Yield</i>		<i>0.00%</i>	<i>5.18%</i>	<i>200.29%</i>
<b>Equity Investor IRR</b>	<b>33.08%</b>			
<b>Equity Investor Cash-on-Cash</b>	<b>2.05x</b>			

TPEG Tree House Investors: Mezzanine Return Summary		Year 1	Year 2	Year 3
Mezzanine Investor Contribution	(4,000,000)	-	-	-
Interest Payments (10%)		296,438	500,000	226,027
Return of Investor Capital		-	-	4,000,000
<b>Total</b>		<b>296,438</b>	<b>500,000</b>	<b>4,226,027</b>
<b>Cash Flows per \$100,000</b>	<b>(\$100,000)</b>	<b>\$7,411</b>	<b>\$12,500</b>	<b>\$105,651</b>
<i>Annual Cash Yield</i>		<i>7.41%</i>	<i>12.50%</i>	<i>105.65%</i>
<b>Mezzanine Investor IRR</b>	<b>10.24%</b>			
<b>Mezzanine Investor Cash-on-Cash</b>	<b>1.26x</b>			

The equity and mezzanine return profiles shown in the figures above illustrate the realized, pre-tax returns that equity and mezzanine investors received throughout the entire investment (after considering fees and promotes paid to TPEG/S2). In total, TPEG equity investors realized an internal rate of return ("IRR") of ~33.08% and a cash-on-cash return of ~2.05x over the 30-month investment horizon.

In summary, an attractive cost basis, experienced Sponsor, and continued demand for multifamily assets helped the investment outperform projections in a much shorter investment period. TPEG appreciates the continued confidence of investors and is pleased to deliver such strong investment returns to those that have supported us.