VOLUME 2, *ISSUE 2*

STRATEGIC PROPERTY INVESTMENT QUARTERLY

A QUARTERLY NEWSLETTER FROM SPI ADVISORY, LLC

THIS QUARTER'S NEWS AND UPDATES:

**Nothing in this newsletter constitutes an offering. Offerings are only completed through a Private Placement Memorandum (PPM). Past results are no guarantee of future results.*

FOREWORD FROM SPI CO-FOUNDER & PRINCIPAL, SEAN MABARAK

"Be greedy when others are fearful." - *Warren Buffett*

We thought this would be the tenet of 2023, but the market's resiliency continues to surprise to the upside. And, fear now comes in crescendos of worry, orchestrated by the same Fed that insisted inflation was transitory. This prolonged uncertainty has caused fatigue for many of our competitors now on the sidelines waiting for the illusive "all clear" signal. The result? **Higher quality deals at a lower pricing relative to replacement cost than we've seen in a very long time**. So, **we plan to be strategic when others are uncertain**.

Sean Mabarak,

CO-FOUNDER & PRINCIPAL

STRATEGIC PROPERTY INVESTMENT

Q2'23 STATE OF THE MARKET

Written by SPI Co-founder & Principal, Michael Becker

MICHAEL BECKER HERE...

With summer upon us, in Texas, that means 100+ degree weather... for this reason, my family and I always plan a couple of vacations to beat the heat this time of year. With that being said, I'm actually currently preparing to embark on one of these trips, so I'll keep this article brief.

To start, as a general overview of the Texas Multifamily market, **we're continuing to see operations hold up reasonably well**. We're in the middle of the best part of the leasing season. Historically, demand is at a seasonal high and we're experiencing significant rental rate growth across the board. Read my interview with Greg Willett, First Vice President and National Director of Research Services at Institutional Property Advisors, to learn more about his perspective on the current state of the Texas and US markets from an operational standpoint.

On the investment sales side, **we're still staying active at SPI**. As I mentioned in my Q1 article, we sold several deals over the course of 2022 going into Q1 2023. Now, we're making a concentrated but conservative effort to be buyers instead of sellers, as pricing in the Class A to A- space has come in 20-25% from its peak in Q1 2022. Generally speaking, a large portion of Class A properties are now trading below their current replacement cost, which is a great entry point, historically. The multifamily inventory for sale has been limited for the past 12 months; I would estimate that transaction volume is currently 25% of what it was back in 2022 (75% off). There are some early indications that transaction volume is beginning to pick up; however, it is still not back to normalized levels. I expect around 50% of "normal" sales volume going into the second half of 2023.

As I've discussed before, I do feel like the workforce housing space has more pain in store from a valuation standpoint, but it feels to me that we are nearing a floor for Class A to A- assets in quality markets. **We at SPI feel that this is generally an attractive entry point to take advantage of pricing that is at least 20-25% down from its peak**. We just recently purchased 2 assets via a 1031 exchange and are just now getting into escrow on a new opportunity in Austin that we're very excited about. This particular deal is a very nicely renovated ~10-year-old deal about 10-15 minutes from Downtown. We're buying this asset for a considerable discount on what it would have traded for just 12-15 months prior from a seller that has been forced to sell due to redemption issues in their fund, as they need liquidity badly, as I predicted might occur this year at the end of 2022. However, there are many sales comps that are $50-80K per door higher for similar or inferior assets.

We don't have a crystal ball at SPI, so it's certainly possible some additional softening in values might occur over the next few quarters before a true bottom, but it feels like we're close to the floor. And, I don't think it's going to matter too much in 5 years if we are a quarter or two early. For me, a good indicator that we're close to the floor is that, for the past several months, we've routinely been able to get Agency Financing (Fannie & Freddie) to size to 65% LTV or higher, even with a bit of a recent run-up in Treasury rates in the last 4-6 weeks. If we start seeing deals size to 70-75% LTV routinely with Agency Financing, I think that will be a very clear signal to buy. Looking back over my career, anytime that we had deals that sized to 70% or greater LTV, it was quickly followed by an increase in multifamily values.

Looking forward, as I've mentioned, we've recently observed the Treasury rates run up a bit followed by the FOMC's first pause in interest rate hikes of this tightening cycle at their June 2023 meeting. There's debate on whether we've seen the last hike of this cycle or if there will be one or two more hikes coming in the near future. However, **to me, it feels like the bottom line is that we're at, or certainly near, the end of the tightening cycle**. Before too long, we'll be talking about rate cuts, if not in 2023, it appears very likely that they'll come no later than 2024, which will be here before you know it. As we see interest rates come down, we should see properties continue sizing for higher Agency LTV's, which should in turn lead to higher values.

I'm not saying this will unfold in a straight line from here to there, but we at SPI feel this is close enough to the bottom for Class A & A-, and we're going to be looking to selectively pick our spots and, like always, **buy deals that we feel reflect the best relative value at that moment in time**. Once it's clear that the bottom is in, the space will start to get a lot more crowded and pricing will get bid up.

If you're an accredited investor and want to receive information related to future investment opportunities with SPI, like the upcoming Austin offering, be sure to apply to join our database.

CHEERS,

Michael Becker,

CO-FOUNDER & PRINCIPAL

STRATEGIC PROPERTY INVESTMENT

READ IT ON THE BLOG

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INVESTING INSIGHTS

"OFFERINGS ON THE [NEW] INVESTOR PORTAL"

Written by SPI Principal, Jennifer Warder

We're often asked, ***"When is your next Offering?"*** The answer this time? Approximately **one month away**. We're still working to solidify all of the details & Offering documentation, so **please keep an eye on your inbox** for communications that will begin mid-July in preparation for the Offering to *"Go Live"* at the end of July.

We will **not** have information on the new Offering available earlier than that, so the next question you might ask is, ***"What can I do now?"***

Because our syndications reach completion very quickly, the best thing you can do now is **prepare in advance**. So, **here are 3 actions you can take now to do just that:**

1. **Decide now how you will take title in any of our investments** *(i.e., legal name under which you will invest)*. The best way to prepare for this is to follow the steps outlined in my **Preparing to Invest** article as well as the **Getting Started Guide**. Both are quick reads and provide the steps you need to follow in order to reach this decision and the resources you need to prepare prior to the **Offering** becoming available for subscription.
2. **Create your login to our *[NEW] Investor Portal* when we reach out to you in the next couple of weeks**. If you are **not** currently an **Active Investor** with us and **do not** have a login to our *[NEW] Investor Portal*, we will be sending out communications in the next couple of weeks for you to do so.
3. **Read this article to the end to understand how the Subscription Process will work** on the *[NEW] Investor Portal*. The **Subscription Process** will be different from what it was for prior syndications, as signing the **Subscription Booklet** will be one of the last steps in the process rather than the first.

SUBSCRIPTION PROCESS IN THE *[NEW] INVESTOR PORTAL*

Although we will continue to communicate with you via email during the **Subscription Process**, the remaining steps of the process are now consolidated in the *[NEW] Investor Portal*. ***What all will you be able to do there?***

- See the **Offering summary** & **property pictures** on the *Offering Home page* when you login. You will also be able to drill into more details from the *Offering Home page*, including a page to see your **Subscription Status**.
- Show your interest in the **Offering** by completing our *"Opt-In Now!"* form.
- Complete a form on the Portal appropriate to your situation for how you plan to take title in the investment. If you have an **Active Existing title** *(Investor Account)* in our system, the form only takes seconds to complete. For **[NEW] Investor Accounts**, the form fields guide you appropriately based on how you complete them.
- Upload **required documents** securely within the Portal.
- Sign the **Subscription Booklet**, which will pre-populate with all of the data for the **title** *(Investor Account)* you will be using to subscribe.

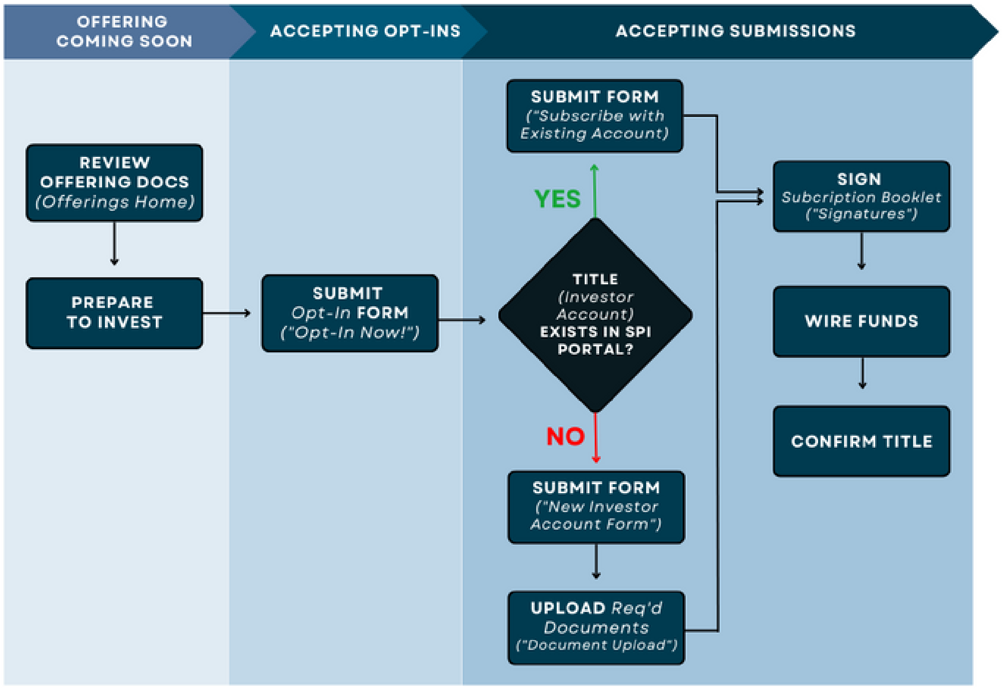
INVESTING INSIGHTS

"*OFFERINGS ON THE [NEW] INVESTOR PORTAL*"

Written by SPI Principal, Jennifer Warder

We will provide instructions at <u>every step of the way</u> throughout the Subscription Process.

*<u>Below is what our updated process flow looks like</u> (items in italics are pages available in the **[NEW] Investor Portal**):*



Taking the time now to **prepare <u>in advance</u>** of an upcoming **Offering** becoming available will streamline the process for you later. Reading this article, the <u>Preparing to Invest</u> article, & the <u>Getting Started Guide</u> are a great start.

HAPPY INVESTING!

Jennifer Warder,

PRINCIPAL

STRATEGIC PROPERTY INVESTMENT

READ IT ON THE BLOG

PRESS RELEASE — MAY 2023

SPI ADVISORY ACQUIRES 264-UNIT VALUE-ADD MULTIFAMILY COMMUNITY IN HIGH-GROWTH SUBURB SOUTH OF AUSTIN

THE BRADFORD

1250 ROBERT S. LIGHT BLVD S., BUDA, TX 78610

AS COVERED BY:

AUSTIN BUSINESS JOURNAL
REBUSINESS ONLINE
WHAT NOW AUSTIN
connect CRE
RE journals
MHN MULTI-HOUSING NEWS
MULTIFAMILY DIVE

READ MORE

ON MAY 5TH, 2023,

SPI Advisory *("SPI")* & its 1031 partners finalized their acquisition of ***The Bradford***, formerly known as *"Trails at Buda Ranch."*

The Bradford, a 264-unit, Class A- institutional-quality, value-add apartment community built in 2010 in the high-growth suburb of Buda, TX, just a 20-minute drive south of Downtown Austin.

CLASS A- | 264-UNITS

2010 CONSTRUCTION

READ THE PRESS RELEASE

INDUSTRY SPOTLIGHT

GREG WILLETT

Written by Michael Becker, SPI Co-Founder & Principal, & Lily Turner, Marketing Manager

GREG WILLETT
FIRST VP OF RESEARCH SERVICES
INSTITUTIONAL PROPERTY ADVISORS

GREG WILLETT is a **recognized and respected industry leader** currently serving as **First Vice President and National Director of Research Services** at Institutional Property Advisors ("IPA"), a division of Marcus & Millichap that specializes in real estate investment financing, sales, advisory, analysis, and consulting services.

As the First Vice President of Research Services at IPA, Greg applies his 25 years of extensive experience in research and analysis of the U.S. real estate market's micro- and macro-fundamentals to align institutional investors with their investment goals. Prior to joining IPA, Greg was a Chief Economist at RealPage for 22 years. Today, Willett is among the most quoted experts on economic and housing trends (ConnectCRE). Greg graduated from Western Kentucky University with a B.A. followed by a Master of Liberal Arts from Southern Methodist University. Greg is also an active member of the National Multifamily Housing Council, the Urban Land Institute, and the National Apartment Association.

*On June 15th, SPI Co-founder and Principal, Michael Becker (**"MB"**) sat down with Greg (**"GW"**) to learn more about his background and gain some insight into his perspective on the current and near-state future of the capital markets.*

MB: "WHAT ARE YOUR THOUGHTS ON THE CURRENT STATE OF THE MARKET ON BOTH A NATIONAL LEVEL AND RELATIVE TO TEXAS?"

GW: "Sure. I would say that **what we're seeing in the Texas markets, by and large, corresponds with what we're also seeing overall in the US . . .** In my opinion, I think most owners and operators are relieved to see that we got the normal seasonal bump in demand in the second quarter of this year. **This past quarter, for most of the country, supply and demand were about equal**, which is encouraging given how much product the market is currently delivering. People were concerned late last year as they watched demand essentially disappear and began asking *'Is it going to come back this year?'* and we can now confidently see that it is.

For the Texas markets in particular, there's been solid demand reported this past quarter. Vacancy has trended upward and rests a little bit higher than we'd like it to be, but for the quarter, we're stable at least. In my review of these metrics, I observe the indication that there's been a conscious decision by most owners and operators to prioritize occupancy over rent growth; people are just trying to fill units at this point."

MB: "SO, THE SECOND QUARTER OF THIS YEAR WAS ABOUT NET NEUTRAL... DO YOU EXPECT THE THIRD QUARTER TO PERFORM SIMILARLY? WHEN DO YOU EXPECT SUPPLY TO START OUTPACING DEMAND GOING FORWARD?"

GW: "Assuming that supply continues at the same pace and the market delivers around 90,000 to 100,000 units, **the third quarter should also be about neutral.** Based on the normal seasonal patterns, it's expected that vacancies will rise again in the fourth quarter of this year into Q1 of 2024. However, we currently have around a total of one million units under construction, so I foresee a continuation of substantial completions over the course of 2024 going into Q1 of 2025, in which supply will begin to tail off, again."

MB: "WHAT ARE YOUR EXPECTATIONS FOR RENT GROWTH FOR THE REST OF 2023 AND AS WE GO INTO 2024?"

GW: "Our initial prediction for this year was that positive rent growth for the US as a whole would trend around 3%. However, based on the trends that we've observed so far this year related to demand and vacancy, I think this will ultimately result in a rent growth slightly lower than forecasted. It's still a positive number, just not quite at the level we had seen in previous years.

We have recognized some places across the country where rents are actually beginning to be cut – these consist of primarily mountain and desert areas like Phoenix, Las Vegas, Boise, and Reno, and some of the more coastal markets like the San Francisco Bay area that are suffering significantly... Interestingly, the northeast markets are doing well, whereas the west coast is not as strong."

MB: "WHAT ARE YOUR THOUGHTS ON THE INTEREST RATE HIKE PAUSE COMMUNICATED BY THE FED IN THEIR JUNE 14TH MEETING? WHAT DO YOU EXPECT TO BE ITS IMPACT?"

GW: "In my perspective, because we've seen some solid progress on bringing inflation down, but it's not yet quite where we want it to be, **the Fed's June 14th decision to pause hikes in interest rates and signal a warning for the potential for future hikes was largely expected**. For this reason, owners and operators who were previously holding off are now ready to start making moves. In my eyes, the outcome of this meeting resulted in a decrease in consumer uncertainty and an increase in confidence that we're starting to get the bigger picture of what the peak interest rate will look like going forward. As a result, **I foresee more product being introduced to the market and an increase in trade activity**."

> Owners and operators who were previously holding off are now ready to start making moves . . . **I foresee more product being introduced to the market and an increase in trade activity.**"

MB: "WHAT'S YOUR 12 TO 24-MONTH OUTLOOK ON THE MAJOR TEXAS MARKETS?"

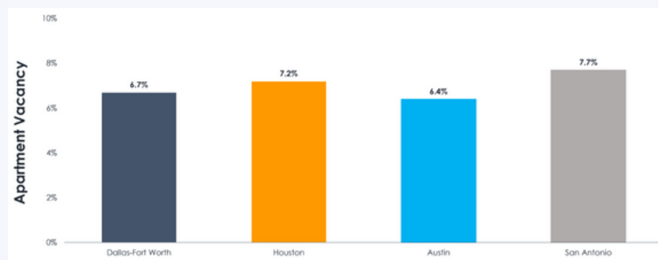
GW: "At the start of the year, there was an unexpected vulnerability across the rest of the US. So far this year, to our surprise, **Houston has shown more strength than expected compared to the other Texas markets**, particularly related to rent growth. Part of the reason for this is that while we have a lot of meaningful construction happening in Houston, it's not as aggressive as in the other markets, which gave owners and operators the confidence to push ahead on pricing.

San Antonio performed similarly to the rest of the US markets – seeing vacancy increase and rent growth slow, but I would say the trend in this market is fairly typical relative to San Antonio's historical norms. However, I do think that looking at the bigger picture as we move ahead, this market will return to outperforming like it was in the recent past.

Austin is currently the supply leader in Texas and we're seeing rent growth flatten out and vacancy rise as a result, especially in the downtown area.

Dallas Fort-Worth is still in reasonably good shape, but again, there's certainly been some cooling compared to where we had been – rent growth has slowed, but is still solidly positive and vacancy has increased, yet is still very manageable. In terms of overall performance, the DFW market came behind Houston, ahead of San Antonio and Austin, and averaged the metro norm."

WHILE APARTMENT VACANCIES HAVE CLIMBED IN THE TEXAS MARKETS, LEVELS ARE ONLY A BIT ABOVE THE PAST NORM



Estimate through 2Q | Sources: IPA Research Services, RealPage, Inc.

MB: "HAVE YOU RECOGNIZED ANY PATTERNS WHEN COMPARING THE PERFORMANCE OF CLASS A TO WORKFORCE HOUSING? AND NOT JUST IN TERMS OF OCCUPANCY AND RENT, BUT ANY OPERATING AND/OR EXPENSE METRICS?"

GW: "**For all the Texas markets, we've certainly observed and felt the vulnerability present at the utmost top of the market in Class A products**. This is due to the difficultly owners and operators have run into when attempting to push pricing when there's so much additional supply in the same property class due to the recent increase in completions. But, it's not just that top-tier segment where the rent numbers are sluggish, it's working its way through the entire product spectrum without bias. Although, one particular standout becomes evident when observing the bottom end of the market... **In these neighborhoods dominated by 1980s generation products, some still not having been touched since the 1980s, you're still able to obtain pretty substantial rent growth.**

In terms of additional metrics we look at to determine overall market performance, while we focus primarily on metrics like occupancy and rent, we also certainly look at expenses and have noted that they're increasing more aggressively than revenues are due to factors such as the rise in insurance costs and property taxes."

MB: "DO YOU HAVE ANY THOUGHTS REGARDING CURRENT AND FUTURE CAP RATES?"

GW: "**We've certainly seen some increase in cap rates across the spectrum, but it's been fairly modest at the top of the market**. Having said this, I'll point out that because transaction volume is not at its highest, we don't have a lot of price points to base these numbers off of, so we'll really have to see what happens as more product enters the marketplace.

As we start seeing more transaction volume, in particular in the workforce housing space, it's possible that this phenomenon will be further exacerbated. But, I will say that **there's a lot of capital sitting on the sidelines waiting to be deployed across the product spectrum**. If we're going to be surprised in any way, I think the surprise would be that cap rates don't move as much as maybe we're currently anticipating."

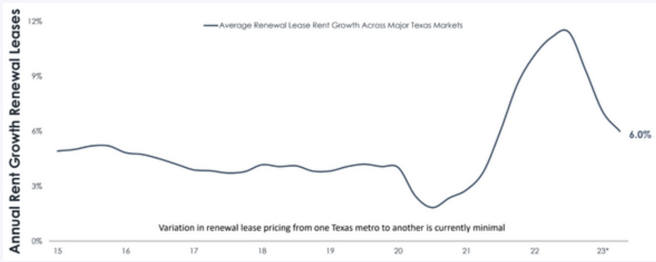
MB: "WHAT ARE YOUR THOUGHTS ON THE RECENT PERFORMANCE OF SUBURBAN VERSUS URBAN PRODUCT? WHAT DO YOU PREDICT WILL OCCUR GOING FORWARD?"

GW: "**Suburban and urban products' recent performance numbers are pretty similar**, particularly in relation to rent growth. I've already mentioned that in Austin, downtown is the spot that's clearly struggling, but in other Texas markets, and really the US as a whole, those earlier increased differences in performance that we'd seen in the early days of the Pandemic have by and large gone away and we're starting to see the urban core pick back up and move more similarly to suburban places in generally all markets besides the west coast."

MB: "WHAT ARE YOUR THOUGHTS ON RESIDENT RETENTION AND RENEWAL INCREASES?"

GW: "Given the general concern about being able to capture demand moving ahead, operators are certainly paying close attention to retention and renewal numbers. **So far, we've seen resident churn numbers pick up slightly relative to where they had been, but in comparison to historical averages, retention is still pretty strong**. This implies that renewal lease rent growth is also considerably strong both nationally and in these Texas markets without a huge difference in renewal pricing growth from one market to another. In fact, they're all about in the same range of a strong 5% to 7% rent growth on renewal leases."

WITH RESIDENT RETENTION STILL STRONG, RENEWAL LEASE RENT GROWTH REMAINS SUBSTANTIAL



Estimate through 2Q | Sources: IPA Research Services, RealPage, Inc.

READ THE REST ON THE BLOG

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Q1 2023 DEAL SNAPSHOT

Written by Lily Turner, *Marketing Manager*

SPI began 2023 with the disposition of Wood Meadow Apartments in mid-February followed by refinancing their ownership of Northpoint Villas & The Strand & ending with the disposition of Canopy at South Lakes in early March.

DISPOSITION

WOOD MEADOW

On February 17th, 2023, SPI Advisory, LLC & its 1031 partners sold *Wood Meadow Apartments*, a 222-unit, Class-B complex located at 6897 Meadow Crest Dr. in North Richland Hills, TX. Constructed in 1984 & renovated in 2018, the property was initially acquired by SPI & its partners in 2017.

Over the past few years of ownership, SPI implemented a number of capital improvements to the property including basic & premium unit upgrades, dog park renovation, office remodeling, the installment of a package locker system, and more.

The sale resulted in materially higher net returns than projected at acquisition in 2017.

* 63 MONTH HOLD | 2.50X EQUITY MULTIPLE | 24% IRR

READ MORE

* PROJECT-LEVEL RETURNS

REFINANCE

NORTHPOINT VILLAS

On February 28th, 2023, SPI Advisory refinanced both *Northpoint Villas* and *The Strand Apartments*.

We were able to get better loan terms by refinancing the two properties at the same time with the same lender. We were able to repurchase a longer interest rate cap, lower the loan spread & extended interest-only period. As a result, the property's monthly escrow payments have decreased dramatically thereby increasing the monthly distributions.

REFINANCE

THE STRAND

On March 10th, 2023, SPI Advisory, LLC announced the sale of *Canopy at South Lakes*, a 240-unit, Class A- complex built in 2002 & located at 500 South I-35E in the north DFW suburbs of Denton.

"The decision to sell was a tough one because the property has always performed so well and the improvements our team made seemed to resonate with the tenant community at Canopy," said Sean Mabarak, Principal at SPI Advisory. "However, the sale generated a return that exceeded our five-year total project return estimate in just two years, which is a phenomenal result for our investors."

The three-story, garden-style apartment community was initially acquired in February '21 as part of a two-property portfolio, in which its partner property, The Ventura was disposed December 29th, 2022.

DISPOSITION

CANOPY AT SOUTH LAKES

* 23 MONTH HOLD | 2.87X EQUITY MULTIPLE | 119% IRR

READ MORE

* PROJECT-LEVEL RETURNS

REVIEW SPI'S TRACK RECORD

Review SPI's Sold Property Project-Level Returns. Click the button to the right to visit SPI's new *'Performance Track Record'* website page & review a historical performance summary of Project-Level Returns for each property SPI Advisory & its partners have taken "full-cycle."

VISIT OUR WEBSITE

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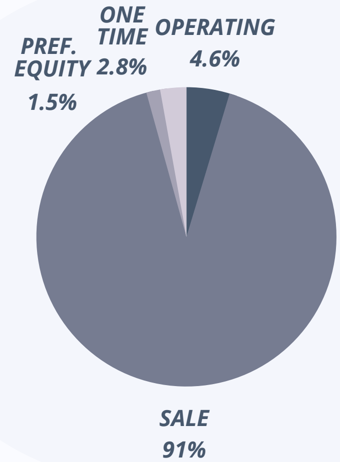
Q1'23 PERFORMANCE

2023 DISTRIBUTIONS	Q1 DISTRIBUTIONS	TOTAL DISTRIBUTIONS
OPERATING DISTRIBUTIONS	$1,653,000+	**$1,653,000+**
CAPITAL DISTRIBUTIONS	$33,901,000+	**$33,901,000+**
TOTAL DISTRIBUTIONS	**$35,554,000+**	**$35,554,000+**

2023 DISTRIBUTIONS

$33.9MM+ IN TOTAL CAPITAL DISTRIBUTIONS

$35.5MM+ IN TOTAL DISTRIBUTIONS



DIST. TYPE	AMOUNT
OPERATING	$ 1.65MM+
SALE	$ 32.37MM+
PREF EQUITY	$ 0.53MM+
ONE TIME	$ 1.00MM+
TOTAL	**$35.55MM+**

7,500+ UNITS MANAGED

Q4 2022 UNITS: 7,983
- DISPOSED UNITS: 462
+ ACQUIRED UNITS: 0

= Q1 2023 UNITS: 7,521

10.2% INCREASE

In Net Rental Income
1Q 2022 v. 1Q 2023

JOIN OUR DATABASE

Unaudited. For Internal Use Only.

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ABOUT SPI ADVISORY, LLC

SPI ADVISORY, LLC is a Dallas-based private equity firm that has been a principal investor in over $2 Billion worth of multifamily real estate, with $1.6 Billion in current Assets Under Management.

SPI is transforming the way high net worth investors identify, assess, secure & sell high-yield, tax-efficient multifamily real estate investments.

SPI offers tailored joint venture partnership and advisory services as well as passive investing opportunities in institutional quality multifamily assets to our increasingly diverse client base.

KNOW A FRIEND OR FAMILY MEMBER WHO MIGHT INTERESTED IN JOINT VENTURE OR PASSIVE INVESTING OPPORTUNITIES WITH SPI?
Share the Wealth!
The best compliment is a referral.

REFER A FRIEND

JOIN OUR DATABASE

CONTACT US

FOLLOW US

ON OUR SOCIAL NETWORKS

SUBMIT A TESTIMONIAL

LEAVE FEEDBACK

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