VOLUME 2, *ISSUE 3*

STRATEGIC PROPERTY INVESTMENT QUARTERLY

A QUARTERLY NEWSLETTER FROM SPI ADVISORY, LLC

THIS QUARTER'S NEWS AND UPDATES:

STATE OF THE MARKET:
"MIND THE GAP," ***MICHAEL BECKER***

PARKVIEW TERRACES
PRESS RELEASE

Q2'23 DEALS SNAPSHOT

Q2'23 PERFORMANCE

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Michael Becker.

CO-FOUNDER & PRINCIPAL

STRATEGIC PROPERTY INVESTMENT

Q3'23 STATE OF THE MARKET:
"MIND THE GAP"

Written by SPI Co-founder & Principal, Michael Becker

MICHAEL BECKER HERE...

I'm keeping this quarterly newsletter article brief as we've been very busy at SPI Advisory as of late… So far, **in 2023, we've closed four acquisitions, sold two properties, and refinanced four of our loans**. We also have a few additional refinances working in the background that we plan to act on quickly if rates pull back. Given the choppy environment we're currently in, I count ourselves fortunate to be as active as we have been. Many of our peers haven't done anything in over 12 months.

As mentioned in prior newsletters, we've continued to focus on acquiring Class-A/A- assets as we feel they provide the best value in the market right now; however, we expected more opportunities in the workforce housing space in the later part of 2023 going into 2024.

As we enter Q4 of 2023, I can confidently say that **we're beginning to observe the onset of capitulation in the workforce housing space**. There are too many over-leveraged, lesser-experienced firms that purchased value-add workforce housing deals in 2021 with unsustainable debt structures for there not to be some *"blood in the streets."* I'm unsure exactly how all this will play out, but I am confident this will result in many opportunities to take advantage of in 2024 in some form or fashion. Once we at SPI Advisory start to play back into the workforce housing space, we plan to target the supremely located suburban 80's deals rather than the 60's, or 70's vintage assets because, in general, these asset types come with more unattractive physical issues you must deal with in addition to being less desirably located generally speaking.

When I think of the rising interest rates impacting the Multifamily Market, I remember a sign I saw on my last trip to London when I rode the Tube to get around town… **To reach the final destination, owners of workforce housing assets will need to** *"Mind the Gap."*

As soon as we see a few more closed sales transactions in the workforce housing space, I believe what is so clear to me right now will become evident to the greater marketplace – **there's a material spread between the top and bottom of the grades from a cap rate perspective**. If anyone has heard me speak over the past several years, you might remember the story I've told about SPI trading up in the quality of our assets, as it didn't seem sensible to pay the same, or similar, cap rates for a 40+-year-old asset as you can for one that's brand-new. When SPI purchased its first apartment complexes a decade ago (2013), in DFW, Class-A deals traded for a 5% CAP, Class-B for a 6-6.5%

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CAP, and Class-C for an 8%+ CAP. Current CAP rates are **"Gapping Out"** on the lower end of the grade and are stickier on the top end. In 2024, I expect we'll see cap rates resemble what we had in 2013: a ~300bps spread from the top to the bottom of the quality grade. Class-B deals *(1980s-1990s)* will trade with a 6%+ CAP rate, and Class-C deals *(1960s-1970s)* will need to be 7%+ with their marginal locations and/or physically inferior assets (those with aluminum wiring, flat roofs, boilers, and chillers) will likely take an 8%+ CAP to clear the market.

Concurrently, after over a year and a half of pain, **it looks as if the Federal Reserve is at or near the end of its interest rate hiking cycle**, indicating that the short end of the interest rate curve is likely at or near its peak (although the longer end might have a bit more to go…). In addition, due to recent property tax reform supplemented by an upcoming decrease in values resulting from properties trading at lower prices than the peak of Q1 2022, I feel very confident that 2023 will represent the peak for property taxes in Texas and that 2024 will bring some welcomed relief on that front with lower property tax bills. If, on top of that, insurance premiums soften, we'll receive a trifecta of support. However, I am less confident that we'll see relief on the insurance front.

My crystal ball says that it's very probable that, due to a combination of higher cap rates pushing values down, property taxes coming in, and the possibility of a credit or significant job loss event, the Federal Reserve will reverse its course in 2024 and cut interest rates to some extent. If this comes to pass, the combination of lower property values, lower interest rates, and higher NOI due to lower property taxes should allow those with the courage and ability to act to buy stabilized Class-B deals at 75% LTV with an Agency Loan (Fannie/Freddie). If/When that comes to pass, **we at SPI Advisory plan on backing the truck up and buying as many well-located deals as possible**. History tells me that, if you can qualify for 75% LTV Agency Loans, it is one of the best times to buy. In the meantime, SPI Advisory is hiring several new team members to increase our capacity as a firm so we can best take advantage of the imminent opportunities awaiting in 2024.

CHEERS,

Michael Becker

CO-FOUNDER & PRINCIPAL

STRATEGIC PROPERTY INVESTMENT

READ IT ON THE BLOG

PRESS RELEASE — AUGUST 2023

SPI ADVISORY ACQUIRES 244-UNIT APARTMENT COMMUNITY SOUTH OF AUSTIN:

PARKVIEW TERRACES

10101 S. 1ST ST., AUSTIN, TX 78748

AS COVERED BY:

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ON AUGUST 28TH, 2023,

SPI Advisory *("SPI")* finalized the acquisition of ***Parkview Terraces***, formerly known as *"Cortland Southpark Terraces."*

Parkview Terraces, a newly-renovated 244-unit, Class-A institutional-quality apartment community built in 2009 less than five miles from Austin's bustling South Congress entertainment district along the rapidly growing IH-35 corridor that connects Austin and San Antonio.

spiadvisory.com

CLASS A | 244-UNITS

2009 CONSTRUCTION

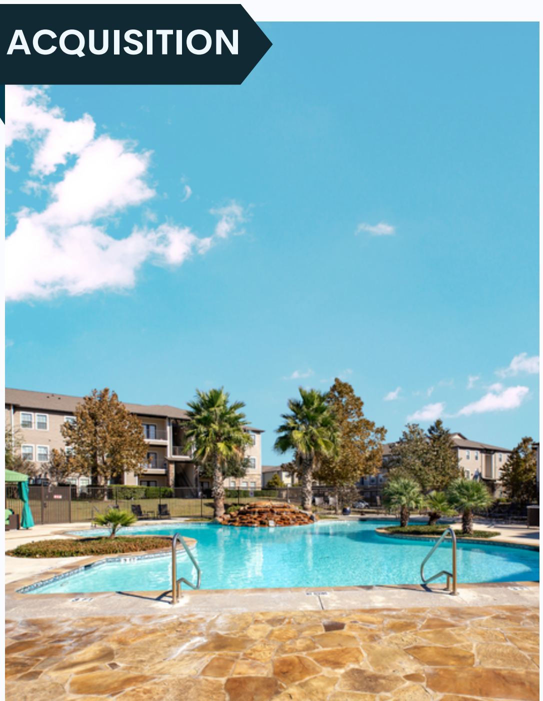
READ THE PRESS RELEASE

Q2 2023 DEAL SNAPSHOT

Written by Lily Turner, *Marketing Manager*

In Q2 2023, SPI added **two new properties** to its growing portfolio, *The Bradford* & *Ivy at Urban Living*.

ACQUISITION



THE BRADFORD

On ***May 5th, 2023***, SPI Advisory, LLC and its 1031 partners finalized its acquisition of The Bradford *(formerly known as "Trails at Buda Ranch")*, 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.

This acquisition highlights SPI's continued expansion in the submarket as one of **Hays County's largest landlords** with nearly 1,100 units owned and operated between Buda & Kyle.

> **We're committed to the Kyle/Buda submarket for the long run,"** said **Sean Mabarak**, Principal of SPI Advisory. "We're eager to start making strategic investments at The Bradford to provide a community the residents of Buda can be proud of, while also allocating funds to repairs and upgraded systems that will improve the property's longevity and mitigate issues going forward."

AS COVERED BY: REBUSINESS ONLINE · WHAT NOW AUSTIN · MHN MULTI-HOUSING NEWS · MULTIFAMILY DIVE · REjournals · connect CRE

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ACQUISITION

On ***June 30th, 2023***, SPI Advisory, LLC and its 1031 partners finalized the acquisition of Ivy Urban Living *("The Ivy")*, a 228-unit, Class-B+ institutional-quality apartment community built in 1988 in the high-growth Dallas neighborhood district of Uptown, just two miles north from Downtown and one-mile southeast from Knox-Henderson.

Ivy Urban Living represents **SPI's 15th current property under management in the metropolitan area**, totaling nearly 3,400 units. This transaction serves as the firm's 44th acquisition in the DFW metroplex since its inception in 2014.

> **We are excited about the future prospects of The Ivy,"** said SPI Principal **Michael Becker**. "It's in a great submarket with major redevelopment projects and some of the city's best restaurants and nightlife nearby. Ivy provides the East Dallas renter with an upgraded unit at an affordable rental rate, which is hard to come by today in in-town Dallas."

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IVY URBAN LIVING

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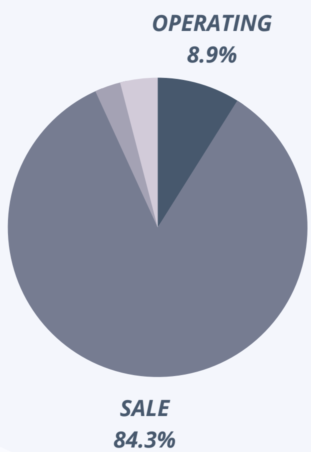
Q2'23 PERFORMANCE

2023 DISTRIBUTIONS	Q1 DISTRIBUTIONS	Q2 DISTRIBUTIONS	TOTAL DISTRIBUTIONS
OPERATING DISTRIBUTIONS	$3,183,500+	$2,866,500+	**$6,050,000+**
CAPITAL DISTRIBUTIONS	$32,371,000+	$0	**$32,371,000+**
TOTAL DISTRIBUTIONS	**$35,554,500+**	**$2,866,500+**	**$38,421,000+**

2023 DISTRIBUTIONS

$32.3MM+ IN TOTAL CAPITAL DISTRIBUTIONS

$38.4MM+ IN TOTAL DISTRIBUTIONS



DIST. TYPE	AMOUNT
OPERATING	$ 3.42MM+
SALE	$ 32.37MM+
PREF EQUITY	$ 1.07MM+
ONE TIME	$ 1.55MM+
TOTAL	**$38.42MM+**

7,000+ UNITS MANAGED

Q1 2023 UNITS: 6,736

- DISPOSED UNITS: 0

+ ACQUIRED UNITS: 492

= Q2 2023 UNITS: 7,228

6.9% INCREASE

In Net Rental Income
2Q 2022 v. 2Q 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

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FOLLOW US

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SUBMIT A TESTIMONIAL

LEAVE FEEDBACK

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