# INVESTOR HANDBOOK

## For Busy Professionals

Your Guide to Successful Apartment Investing

ASCENDING AVENUE

INVESTMENTS

# CONTENTS



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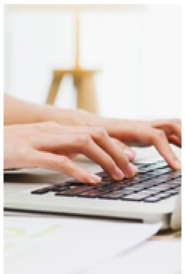
APARTMENT **INVESTING**

# WHY INVESTORS ARE DIVERSIFYING INTO MULTIFAMILY

## Recession-Resistant



Reduce the stress of the stock market rollercoaster.
We strategically source multifamily properties that are designed to perform well in all market cycles.

Apartments are recession-resistant because people always need somewhere to live. If they lose their home or decide to downsize due to economic stresses, they're typically moving into Apartments.

## Rewarding Returns

Multifamily offers rewarding returns so you can grow your wealth, without exposing yourself to unnecessary volatility most investors experience with traditional investments and stock market risk. We source investment opportunities with projected returns at 90 to 100% over 5 to 6 years, and annual cash-on-cash returns of 9 to 12% per year.

## Tax Benefits


Investors can achieve significant tax benefits through accelerated depreciation and cost-segregation, possible 1031 exchanges into new projects, and tax-free returns of your initial investment.

# BUILD & PROTECT YOUR WEALTH

THROUGH APARTMENT INVESTING

*Too many people are anxious about their retirement.*

**Through exclusive and specialized investments like apartments, we help you protect and grow your wealth so you can retire with confidence.**

**Take a breath:** You don't have to worry about your life savings riding the stock market rollercoaster.

**Create passive income streams** over time so you can reclaim your time & freedom.

**You don't have to settle** for underperforming mutual funds or investments that barely beat inflation.

**Relax with less risk:** Build more life balance and satisfaction without worrying about another market crash.

# IMPORTANT INVESTING TERMS & DEFINITIONS

01

**SYNDICATION -** A syndication is a group of investors who pool their money together to jointly purchase large real estate properties – i.e. apartments.

02

**ACTIVE INVESTOR –** Also known as “General Partner” or “GP." This is us.

The General Partnership team is responsible for sourcing the deal, negotiating, underwriting, raising capital, securing property management/staff, and ultimately executing the business plan so projected returns can be achieved. This team is basically in charge of the deal from start to finish.

Active investors (also known as General Partners) typically own 30% of the equity split in a deal

03

**PASSIVE INVESTOR** – also known as “Limited Partner” or “LP." This is you.

If you want to enjoy the rewarding returns and tax benefits of investing in real estate, but you don’t want to ever deal with tenants or property management, you invest passively.

Your investment, along with other passive investors, provides a portion of the equity to acquire and operate the property. In return, you’d receive portions of the cash flow and proceeds from a refinance and/or sale.

Passive investors (also known as Limited Partners) typically own 70% of the equity split in a deal.

04

**ACCREDITED INVESTOR –** You qualify as an accredited investor if your individual income has been $200,000 or more for the past two years, and you have a reasonable expectation of reaching the same income level this year.

OR your joint income with your spouse has been $300,000 or more for the past two years, and you have a reasonable expectation of reaching the same income level this year.

OR your individual net worth (or joint net worth with your spouse) exceeds $1,000,000, excluding your primary residence

05

**SOPHISTICATED INVESTOR** – You qualify as a sophisticated investor if you have sufficient knowledge and experience in financial and business matters to make you capable of evaluating the merits and risks of the prospective investment.

06

***Who can invest in a syndication?***

Most real estate syndications will come in one of two designations, 506(b) or 506(c), as defined by the Securities and Exchange Commission, (SEC).

506(b) entities are not allowed to solicit the investment, but in addition to having accredited investors, it can have up to 35 non-accredited (sophisticated) investors. 506(c) entities can advertise and market their deals, but all investors must be verified, accredited investors.

07

**PPM (PRIVATE PLACEMENT MEMORANDUM)** – The PPM (also referred to as "subscription docs") is the official legal document you would evaluate and sign prior to committing any capital into a deal.

This document can be more than 100 pages in length as it outlines every detail of the deal, the organizational chart and sponsors bios, the deal structure, and business plan, operating agreement, any known disclosures or risks, fees, and expected proforma returns.

Approved investors can access and e-sign these documents through our private investor portal.

# CHECKLIST TO PROPERLY VET A MULTIFAMILY DEAL

## POPULATION

It's ideal to invest in markets where you can see a trend of consistent population growth. Population growth means there will be an increasing need for additional housing, shopping, restaurants, and job growth.

We target markets that are at least 250,000 in the city, and 500,000+ in the MSA (Metropolitan Statistical Area) with trends that are above the average of the national population growth rate.

## LANDLORD-FRIENDLY

Landlord-Friendly markets allow for a swift eviction process for tenants who are not paying rent.

In tenant-friendly markets like California, it could take 9-12 months to evict a tenant compared to a timeline of less than one week in a landlord-friendly market like Texas. In addition to factors like the eviction process, we steer clear of rent control markets as it affects our ability to increase the property's income and overall value.

## EMPLOYMENT SECTORS

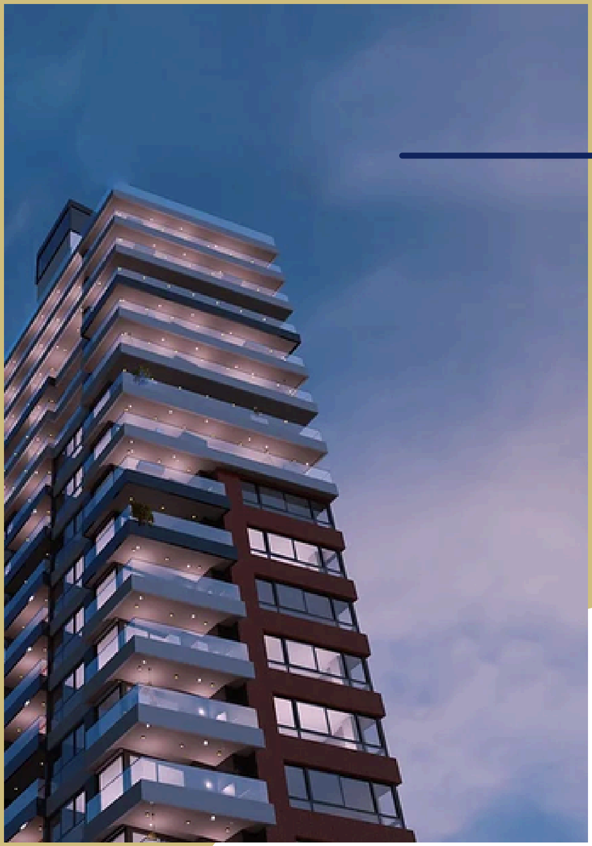
When investing in a multifamily deal in any market, it's important to evaluate the industries fueling job growth.

The most stable job markets typically have medical, government, and educational jobs contributing to the workforce.

We avoid markets where private industry supports the majority of employment as a single company going through contraction could create difficulties for a multifamily property.

## EMPLOYMENT GROWTH

Markets that are performing above the national growth averages are ideal, and job creation growth trends are a great indicator of the long-term health of a market.



# CHECKLIST TO PROPERLY VET A MULTIFAMILY DEAL

*(continued)*

## ABILITY TO INCREASE THE PROPERTY'S INCOME

The ability to increase a property's income is one of the most important factors when evaluating an investment opportunity. Increasing the NOI (net operating income) can exponentially increase the value of the property.

We source properties that have below-market rents and opportunities for additional income streams. Upgrading units through light renovation allow us to bring in new tenants at higher rent-rates.

Other income sources include covered parking, pet fees, internet, laundry, storage etc.

## EXPERIENCED PROPERTY MANAGEMENT COMPANY

A property management company handles the day-to-day operation of the property, under the guidance and oversight of our team's Asset Manager.

We select professional property management companies that have an existing portfolio of similar property types in the market, and a track record of raising rents post-renovation and stabilizing occupancy.

## PROPERTY OCCUPANCY VS. MARKET OCCUPANCY

It is common to see a multifamily investment opportunity with occupancy in the 60% to 70% range.

This low occupancy rate indicates the property has been mismanaged and gives us an excellent opportunity to increase occupancy, further increasing the property's income (NOI) and, in turn, increasing the property's value.

it's important to evaluate the occupancy rate of nearby properties (comps). Ideally, these properties would have a stabilized occupancy rate (above 90%), indicating it will be feasible to achieve once the property is managed properly.

# 8 MUST-ASK QUESTIONS

Before You Invest in Any Multifamily Opportunity

**Whether you're a brand new to multifamily, or a seasoned investor, these questions will help you gain the knowledge you need to feel confident about your investing decisions.**

## 1 What is the term of the project?

Most multifamily opportunities are a 5 to 6-year hold to fully execute the business plan and achieve projected returns. It's important to understand how investor returns flow year by year, and when you can expect to receive a complete return of capital.

## 2 Is there a preferred return?

A preferred return means you (Limited Partner) get paid a certain percentage return each year before the General Partner (us) receives any share of profits. A common preferred return is 6% to 8%.

## 3 What is the equity split between Limited Partners and General Partners?

Most of our investment opportunities are split 80/20. This means 80% of the equity is owned by the Limited Partners (you), and 20% is owned by the General Partnership (us).

As a limited partner, you get to enjoy the cash flow and appreciation without ever having to deal with the headaches of property management.

## 4 Are the projected returns net of fees?

It's common to see an acquisition fee of 2% to 4% of the purchase price, an asset management fee of 2% of the property's gross revenue, and a refinance fee or disposition fee ranging 1% to 3% each. The projected investor returns should be net of all fees.

## 5 What types of contingencies and assumptions were made in the underwriting to enhance the probability of this investment's performance?

Conservative underwriting is crucial to ensuring an investment is set up for success. Here are some examples -

**Contingencies** - Additional cash reserves are set aside to pay for unforeseen expenses. A healthy contingency fund would be 8 to 10% of the capital raise.

**Working capital** - 8.33% of annual gross revenues to fund the operating account

**Rent Increases** - While the rents could be 10% below market rents, it's difficult to make the full 10% jump versus gradual increases over time. Leases need to expire to be able to bump rent, and renovations need to be completed, which typically takes ~18 months. Make sure the underwriting is not front-loaded with full rent increases in Year 1.

**Real Estate Taxes & Insurance** - Assume 80% of the purchase price for the tax valuation and assume the insurance cost will go up as much as 25% to 30%.

## 6 When can I expect the first distribution?

Properties with a heavier renovation lift with lower occupancy can take up to 18 months to stabilize and make their first investor distribution.

The property could achieve stabilization (90% occupancy) by months 12-14, but most lenders require occupancy at 90% or more for at least 90 days before the General Partnership can make a distribution.

Properties already stabilized with 90%+ occupancy at acquisition can typically make the first distribution in 4 to 9 months.

After the first distribution, investors can expect quarterly distributions after that.

**It's essential to ask the lead sponsor if the capital raise includes the first distribution. If it does, this is a red flag.** Including the first distribution in the capital raise dilutes investor equity and is not an accurate indication of the property is performing according to the underwriting.

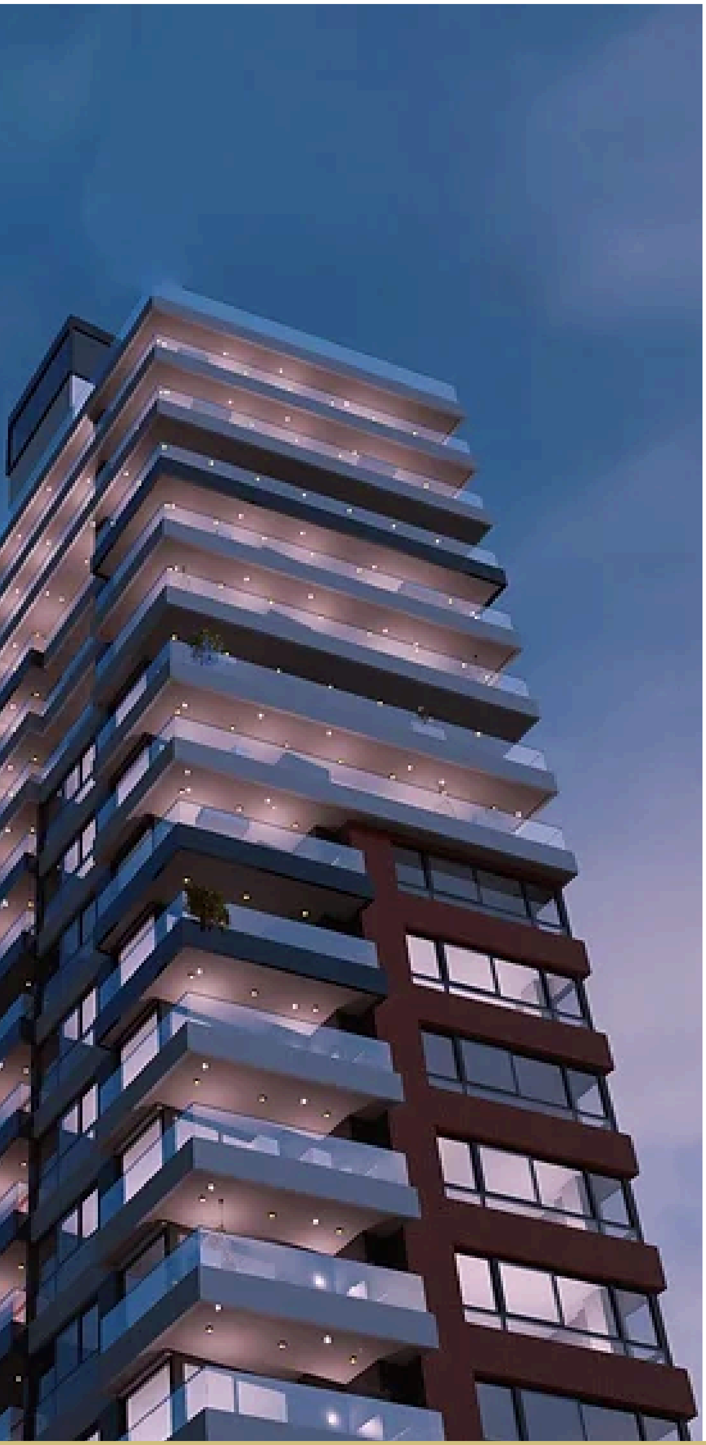
## 7 What was the cap rate at purchase and assumed cap rate at the refinance and sale? (Are you using a cap rate escalator?)

A **Cap Rate** is a way to benchmark a property's performance. It measures the return of a property if you paid for it in cash. Cap rates fluctuate based on the market's supply & demand.

The **formula to calculate a Cap Rate** is to take the NOI (net operating income) and divide it by the property's sales price.

**Remember this** - the higher the cap rate, the less expensive the property costs relative to its cash flow. The lower the cap rate is, the more expensive a property costs relative to its cash flow.

For example, a property in California that generates $500K per year in **net operating income (NOI)** at a 3% cap rate would cost $16.6M.



A property in a smaller Texas market with the same NOI of $500K per year would only cost $10M at a 5% cap rate.

These properties have the same NOI, but investor returns can be much higher because the property in Texas with the higher cap rate (5%) costs substantially less.

**Here's where the cap rate escalator comes into play:**

*We typically underwrite our deals using a cap rate escalator of .10% per year.*

This would mean that if we purchased the property at a 5.0% cap rate, we're assuming that by Year 3, when we refinance it, the cap rate would have increased to 5.3%.

By Year 3, we've likely increased the NOI by 20% to $600K per year. If we assumed cap rates have not changed, at a 5% cap rate, the property would be valued at $12M.

Instead, our conservative approach assumes a 5.3% cap rate, valuing the property at $11.3M at the Year 3 refinance.

**Bottom Line:** Steer clear of investments that assume cap rates will remain the same or compress as this is aggressive underwriting.

Cap rates dramatically impact investor returns. We prefer to remain conservative with plenty of hedges in place to be able to achieve or exceed our projected investor returns.

## 8 What is the lead sponsor's level of experience in Multifamily?

A solid lead sponsor should have a track record of acquiring and managing multiple deals, ideally in the same market where you're evaluating an investment. Be sure to ask about their performance track record compared to their projected returns and how they handled any unforeseen deviations from the business plan.

Investor communication is critical - make sure you understand how often you'll hear from the lead sponsor(s) and what reports you'll receive.

# INVESTOR RETURN MODEL

Below is an example of the investor return model for a multifamily investing opportunity. A model just like the one below is provided for investors to review when they're evaluating a deal.

You'll typically see 3 primary ways of evaluating projected investor returns - the **Total Return** over the full term of the project, the average annual "cash-on-cash" **(COC)** return, and the Internal Rate of Return **(IRR)**.

Notice there are 2 key capital events where a larger amount of capital is returned to the investor - the Year 3 refinance, and the Year 5 sale. Some properties will refinance again at Year 6 and hold the property instead of selling - it always depends on the current market conditions.

**IRR**- 16.0%
**Equity Multiple** - 2.02 X
**Avg Cash Flow**- 5.1%
**Annualized Returns**- 20.3%

Return Model Based on **$100K Investment**

| LP - Equity Member | Investment | Total Return | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 - Sale - |
|---|---|---|---|---|---|---|---|
| Cash Flow % | | | 3.6% | 4.0% | 5.7 | 5.6% | 6.6% |
| Cash Flow* | $100.000 | $25.411 | $3.575 | $3.980 | $5.658 | $5.645 | $6.553 |
| Return on sale | $0 | $176.221 | $0 | $0 | $0 | $0 | **$176.221** |
| TOTAL RETURN | | $201.623 | $3.575 | $3.980 | $5.658 | $5.645 | **$182.775** |

**NOTE 1:** Investors will receive an 8% Preferred Return, then a 80/20 LP/GP Split

**NOTE 2:** All Numbers are Net Returns – Net of Debt Service, 2% Acquisition Fee, 2% Asset Management Fee, and 30% GP Split



Most deals that we source will fall within the 90% - 100% total return range, with cash-on-cash returns of 4% to 7% per year. **These rewarding returns are how investors have the opportunity to double their wealth over time while mitigating their risk through recession-resistant assets like apartment complexes.**

We generally accept both accredited and non-accredited investors. Investors are able to invest as an individual, joint-registration (with a spouse), through an LLC, Trust, and/or Self-Directed 401Ks and IRAs.

**Divya** is a **technology executive** who turned to real estate investing for broader impact and purpose. Her goal is to help busy professionals build a passive income stream through real estate that allows them to achieve financial freedom and focus on what matters to them most.

**Since starting Ascending Avenue Investments**, Divya and her investors have invested in multiple deals in Arizona and Texas, resulting in a **portfolio size of 1293 units with a total of $174M Assets under Management**.

Divya has an extensive corporate background and has worked in multiple Fortune 100 companies in executive leadership roles. She brings the same rigor, strategic mindset, and execution abilities that helped her succeed in the corporate world into real estate. She currently resides in Dallas, Texas, with her husband, Aaron, and their two boys, aged 12 and 10.

Connect with Divya

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## DIVYA SMITH