INVEST WITH US

MAC ASSETS

How Ugly Apartments Deliver **Beautiful Returns**

YOUR GUIDE TO MULTIFAMILY PASSIVE INVESTING

UGLY DOESN'T MEAN POOR CONDITION

Benefits of Being a Passive Investor

Q4 2022 Economic Indicators

Outsized Returns: Passive Investing

Why invest in Multifamily?

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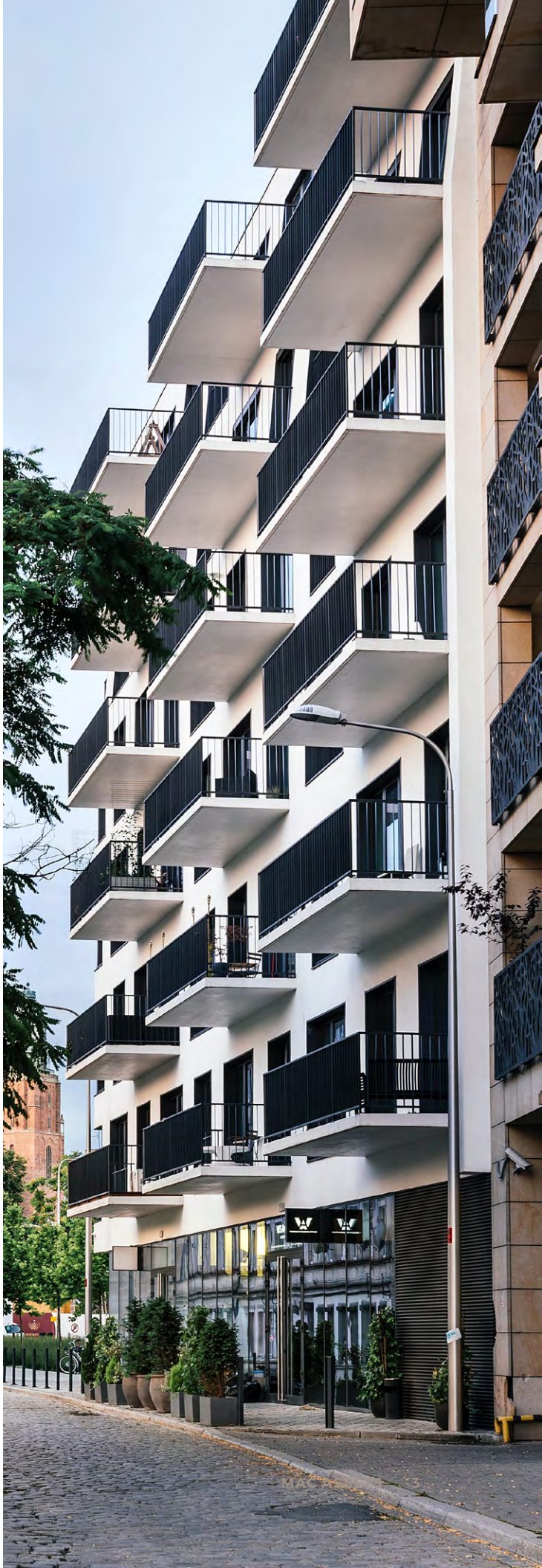
Introduction

Over the years the access to capital has greatly changed. For the majority of people, private placement investments were the purview of the rich, famous and well connected. Think pro athletes, multi-millionaires and those with private connections to country club locker rooms.

Congress changed this quietly with the Jobs Act in April of 2012. This act created an exemption from the Securities Act of 1933 under Regulation D 506 program known as "506c" exemption. What this means is that an accredited investor can be solicited for private placement of capital via advertising. From this simple change, crowdfunding developed. The evolution of crowdfunding created publicly available real estate syndications. Internet promises of the early '00s have materialized and today choice is prevalent. Cultural changes have demonstrated that younger investors are much more comfortable with technology and understand the ability to share in benefits investing with people that other generations would have labeled as "strangers." These younger, savvy investors have gained a tremendous amount of wealth by embracing the sea changes in our society. Syndications, crowdfunding, and shared economies are here to stay.



The majority of syndications offered today focus on several asset classes:

MULTIFAMILY

RETAIL

SELF-STORAGE

SMALL OFFICE

FUND OF FUNDS

(FOCUSING ON ONE OF THESE CLASSES OR SINGLE FAMILY)

Anywhere you turn on a podcast, you can hear someone's story about how they "became a millionaire by investing in real estate." We have definitely heard these stories and love hearing them. However, this book is not focused on the emotional reasons to invest passively in real estate. Rather, the next 20 minutes of your life will be devoted to learning the rationale behind why you should spend your time and energy to learn more and ultimately, invest your hard earned commissions in real estate.

ACTIVE VS. PASSIVE

Passive Investing makes a tremendous amount of strategic and practical sense to build greater wealth.

A foundational decision you must make as an investor is if you will be Active or Passive. The distinction is significant in terms of the IRS and tax consequences. There are a ton of pros and cons to each, but simply stated it generally comes down to simple items: Time, energy, experience, skill and desire. If you're reading this book, chances are very high that you are more inclined to be a Passive investor.

ACTIVE INVESTMENTS

Active Investments are those in which you, as an investor, are actively involved in the performance of the investment. Think General Partners (also known as Operators, Syndicators, Sponsors) doing day to day management, executing business plans, decision making, accounting, etc. The IRS has a myriad of criteria and we are not tax experts so I'll say it simply.* To be Active you must be working in the business. At MAC Assets, we are syndicators. We earn our income via ownership based on performance of our assets.

PASSIVE INVESTMENTS

Passive Investments (or Limited Partners) are literally just that–an investor that has a passive role. Much like buying a share of stock in your 401K, you purchase shares of an LLC in a syndication or a fund and do nothing else. You are rewarded for putting capital into the business and you take on some of the risk. For that risk, you are rewarded with better terms on the upside of the investment. Thankfully, you are not involved in the day to day management or headaches of the company.

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As a Multifamily investor...

You will:	You won't:
Receive regular communication on the financials	Hear all the minutiae of Toilets, Tenants, and Troubles
Information on execution of the business plan	Receive any problems to solve in your inbox
Performance updates	Be responsible for any aspect of the business

Passive investors usually receive **a preferred rate of return**, **huge tax write offs**, and ultimately, **a much higher return** than a traditional stock market investment.

Benefits of Being a Passive Investor

Each investor has their own motivations and needs, so accordingly, we will cover a summary of the benefits but the **most important benefits that the passive investor reaps is profiting from the extremely experienced sponsor's time, expertise, knowledge and assumption of liability**.

TIME

As a limited or passive investor, your time requirement is almost zero. Read the reports, ask questions, cash or reinvest preferred returns. This allows you to prioritize your own life, family, job and hobbies. In essence, as Warren Buffet suggests, your money works while you sleep.

EXPERTISE & KNOWLEDGE

Our commercial real estate sponsors live, breathe and operate every day much like you do in your professional role. We have been there and done that, and know how to make sure that the projects we bring to market succeed.

LEVERAGE

Passive investors pool money by definition, generating greater purchasing power and larger returns based on simple math. A 15% return on $500K is 75K, but a 10% return on $15M is $1.5M.

LIABILITY & CREDIT

Passive investors typically hold shares in an LLC that precludes them from decision making powers. By definition of their shares in the PPM, their liability exposure is usually eliminated.*

TAXES

Bonus Depreciation allows depreciation at a far greater rate than most investors realize. We often have a 50-75% tax LOSS in year one which can be used to offset other passive tax losses, or carried forward to future years. Think about it as a tool to realize virtually zero capital gains.*

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DIVERSIFICATION

Taking advantage of a Syndicator's offerings allows investors to have risk spread across properties, geographies, investment classes. This is extremely beneficial in managing risk as well as volatility within your portfolio.

This eBook is written to highlight benefits of passive investing in Multifamily Syndications and is not intended to lay out every benefit or risk. In short, we believe that Multifamily has a very bright future. More detail is on the next several pages.

Economic Indicators

(WRITTEN Q4, 2022)

2020 brought us Covid-19. Everyone's world changed and we've all experienced this in a myriad of ways including the changes to Work From Home cultures, masks / vaccines, new vocabulary, the fastest recession and recovery on record and so much more. On the heels of Covid we've also experienced outsized once-in-a-generation inflation in 2022. It's been a roller coaster ride for all. However, in the ride, lies tremendous opportunity. Demographic shifts and lifestyle changes are more pronounced and apparent than before.

Clearly, six-figure incomes aren't the rare bird they once were. More people are living paycheck to paycheck than not.

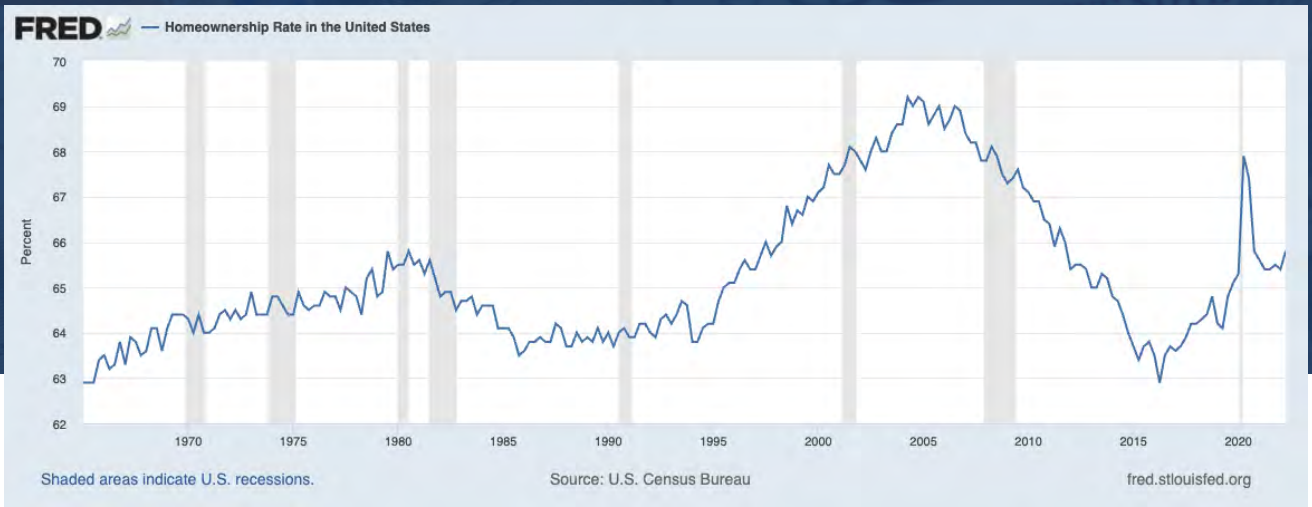
Let's look at what this means for investors...

ACCORDING TO US CENSUS DATA AS OF 2022:

39%
of US Households have an income of $50K or less.

31%
of households have an income of $100K or greater.

The national average wage for 2020 is
$56,628



HOUSING DEMOGRAPHIC SHIFTS

People are afraid we're on the brink of financial housing armageddon, however, if you dig into the numbers of supply and demand we can see that we're not. We are definitely in a shifting demographic situation. Supply is constrained and will continue to be so for a while. The building industry is simply not building enough new housing units to offset years of underbuilding. This is driving up rental rates, increasing occupancy levels and reducing home sales. More on that in a bit. Overall, the housing sector is not in a bubble. As of this writing, after home interest rates have doubled in the same year, we've seen the speed of used home sales slow, pricing reduce its growth yet *we have not experienced values rapidly declining.*

According to the St. Louis Fed, home ownership reached its peak in 2005 and then started to trend downward. Note in the graph above how significant the downturn was during the '08 financial crisis that continued for 10 years. This was the last time mortgage rates were as high as they are today. We foresee a lessening of home ownership during this next economic cycle, further driving demand for rentals.

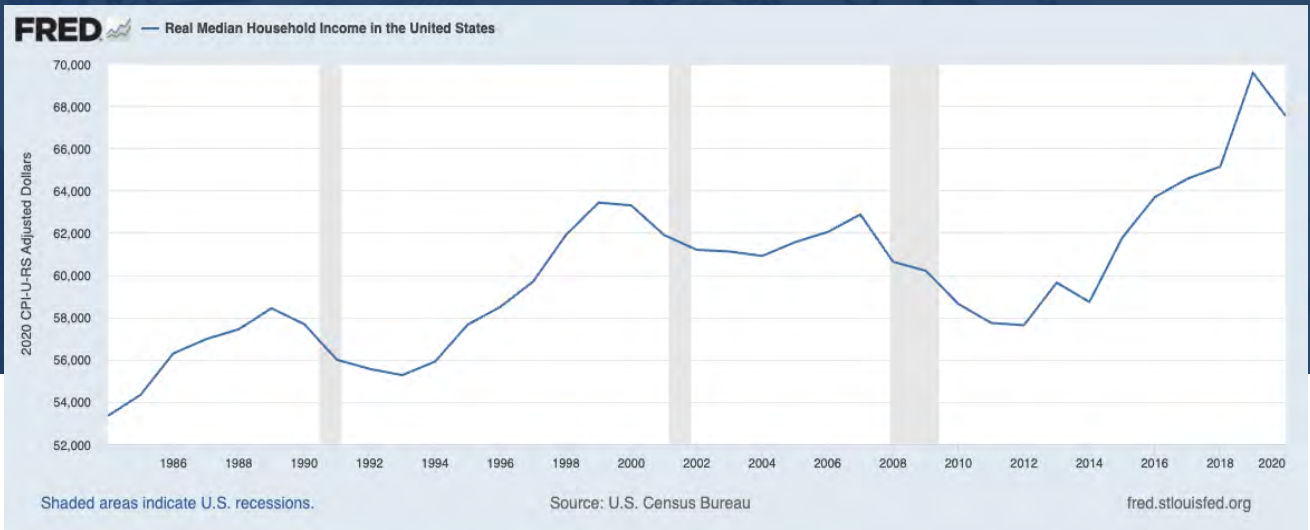
Nationwide occupancy trends continue to be 95% or higher and we don't see this decreasing anytime soon.

EMPLOYMENT & INCOME

According to the Fed, real median household income has been rising steadily for a long time until Covid hit. Since '86, looking at the graph on page 9, it's been a fairly steady upward trend. Recessionary drops have been relatively mild with a bottom tail about a year out from the end of the recession for these key wage-earners.

We are at full employment and have been post Covid for some time. In fact, we are experiencing the longest run of full (or near full) employment in generations for the last 10 years. By July 22, we had returned to pre-pandemic employment levels of 3.5% per BLS. The pandemic was actually a short term albeit very significant hiccup.

The executive takeaway is that the doomsayers are trying to sell ratings and viewership. We're not facing a meltdown from rates rising. We are in the midst of a change and we can't foresee exactly how that change will end.



INTEREST RATES

30 year mortgage rates are at multi year highs between 6-8%. They have more than doubled in the last 12 months. As of this writing, the FED has raised interest rates by 300 basis points in 180 days with more expected over the coming 12 months. What does this mean? A few things:

a. We're already seeing the housing market slow down substantially. Cost to borrow has doubled and that is taking a great deal of demand out of the system. This is the goal of the Fed actually–to slow growth and demand in order to balance with supply. Forecasts look for the FED to change course sometime in '24.

b. People are nervous their hard earned equity in their homes will be negative. The classic "I paid too much" fear. We believe we will see a housing correction but do not foresee a sharp, sustained decrease in housing values because of fundamentals laid out including lack of supply, very little new home building (which has further slowed with higher rates), continuing population growth, the demographic shifts in lifestyle at present (think millennials and having babies) and so many more. The correction could be as much as 10% to the downside; however, those who take advantage of this opportunity to purchase solid assets will yield a beautiful return.

c. There will be continued strong demand for rental housing as mortgage rates climb. This is a place of opportunity for the savvy investor.

When adding up the key economic factors, we see an opportunity to realize strong growth in real estate investments. Put simply, there's a need, an economic benefit and market for Multifamily. In our next section we will detail why we are favorable for this asset class.

Why Multifamily?

Benefits laid out earlier regarding Active vs. Passive investments are very closely aligned with why Multifamily. In a word, **SCALE**.

Shelter

Cash flow

Appreciation

Leverage

Equity

Let's explore what we mean at MAC Assets when we express benefits in this context.

Shelter

Everyone needs it. It's at the base of ***Maslow's Hierarchy of Needs*** after food, and clothing.

In many ways, stability is also at the core of the concept of Shelter. We know from research that stable housing is beneficial to the individual, their community and the economy. One of the key benefits we deliver with our Multifamily assets is increasing stability for our residents and enhancing pride of residence. We do this by bringing new amenities to our residents, upgrading our units and doing the heavy lifting of deferred maintenance many owners avoid.

Another element of the stability of shelter is the reality that technology revolutions will not change the core product or the core demand. It will not be replaced by an app. It might be improved, streamlined and morphed differently on the edges. Regardless, the walls, the roof, the core product will sustain market evolutions. We all need a place to live. In looking across our business / investment landscape since the development of the iPhone in '07 it's very easy to see how the rise of technology has disrupted almost every sector in our economy in a significant way. Multifamily will evolve around the edges but no microchip is going to allow someone to sleep under it.

To put a fine point on Shelter, let's also look at renting or owning. As laid out, cost of ownership is continuing to grow. The economic spread between the upper and lower income levels is growing. This points to continued demand for Multifamily.

MULTIFAMILY WINS OVER OTHER SECTORS FOR MANY REASONS:

- Affordability compared to purchasing
- Less cash up front required than renting a single family home
- More flexibility for the residents
- Greater amenities
- Often nicer residences than they could afford otherwise

Cash Flow

Properties provide positive cash dividends to Passive Investors (Limited Partners) much like a value stock paying dividends on a set time table.

A dividend stock typically has millions of shares outstanding and the amount paid is very small. The long term average yield of S&P 500 is 1.85%. Top paying dividend paying stocks yield 3-4% whereas passive investments in Multifamily deliver a preferred rate 6-8%. **The Pref alone in Multifamily yields triple the cash flow of an S&P 500 average stock.**

As investors this is highly beneficial to us. Your investment functions as a safety net during periods of employment risk. We've all lived the life of budgets, KPIs and various corporate initiatives which impact our pay on a quarterly, monthly or annual basis. It's a fact of life that high performing professionals accept. Imagine being able to weather these changes and not worry about if you can pay your monthly bills because you know you've got passive cash flow coming in from your commissions you earned 3 years ago?

YOU INVEST $100K AT A 7% PREF → $100,000 X .07 = $7,000 / 12 MONTHS = $583 MONTHLY DIVIDEND

$583 DIVIDEND X 12 MONTHS = $6,996 YEARLY DIVIDENDS = $34,980 5 YEARS OF DIVIDENDS

AT THE END OF THE INVESTMENT, YOU'VE MADE

$35K

IN DIVIDENDS ALONE.

THAT SAME S&P 500 STOCK AT 1.85% WOULD BE

$9,250

The difference in Multifamily is that in addition to dividends *money is grown on several fronts:*

TAX BENEFITS

It's been said that death and taxes are unavoidable. In Multifamily, taxes are not always negative!

Our Tax Code is written to favor investing in real estate over many other segments in the economy including the stock market. Our government's goal is to increase growth in real estate and real estate investment. To that end, investments here realize tax benefit in ways that other investments simply do not. Think Depreciation, Enterprise Zones, Urban Redevelopment incentives, Low Income Housing Tax Credits, 1031 Exchanges and many more.

By just utilizing Cost Segregation combined with Bonus Depreciation our investors will commonly receive a paper loss in year one of between 50-100% of their investment.* These paper losses can be utilized to offset passive gains.

Each property is different; however, it's realistic to think about these investments as opportunities to either equalize capital gains via depreciation losses or defer them under IRS 1031 Exchange rules. It is very realistic to have a doubling of your investment with zero tax consequences! And, that has a tremendous impact on your effective tax rate.

Remember, it's the wealth you get to keep that matters. Real estate affords great tax benefits to high income earners and successful sales professionals. Often as w-2 Employees, real estate investing affords a tremendous opportunity you otherwise would not have to reduce your effective tax rate.

*Obviously, we are not familiar with your particular tax picture and are not providing advice. In fact, we are far, far, far from Tax Professionals. Talk to your CPA.

REDUCTION OF MORTGAGE PRINCIPAL

Most commercial loans have 1-3 years of Interest only payments to improve cash flow during the forced appreciation segment of the hold period, then the remainder of the hold also has principal payments, reducing mortgage principal balances from someone else's money. This is a key benefit of all rental real estate and Multifamily is no different.

FORCED APPRECIATION

This is such a big segment that we made it its own section.

Appreciation

With Multifamily, and other commercial real estate, the value of the asset is centered around Cash Flow and derived using a Capitalization Rate (Cap Rate). Cap Rate is created from the formula net operating income (NOI) over expenses equals value. Sentence should read "Simply laid out, the greater the NOI, the less the expenses—the greater your value. Thus, just like most businesses, the more profit you deliver to your bottom line, the more valuable your company.

This is different from the substitution principle applied to residential real estate or single-family rentals. The substitution principle basically says a house is a house and all else being equal there are minimal differences between your property and your neighbor's if the two houses are in similar locations, similar sizes, age, construction quality, etc. In residential, your value is based on comparable market sales from your neighbors. So if they are selling properties while distressed (perhaps a death, or divorce) it negatively impacts your values. Or if a house is foreclosed in your subdivision, your value is decreased. That's crazy logic. Regrettably, it's also how our residential mortgage market determines values they will loan.

Multifamily allows us to force appreciation by being strong operators of good businesses. Unlike residential, banks loan to Multifamily on values of real income and expenses. So, we stand on our own business operations and successes rather than our neighbors. Forced appreciation occurs constantly with changes that grow revenue while not growing expenses, such as increasing average rent.

CAP RATE FORMULA:

$$\frac{\text{ANNUAL NET OPERATING INCOME (NOI)}}{\text{MARKET VALUE OF THE ASSET}} = \text{CAP RATE}$$

ANNUAL NET OPERATING INCOME (NOI): income generated by the real estate asset ($)

MARKET VALUE OF THE ASSET: fair market value of the real estate ($)

CAP RATE: (%)

HERE'S HOW FORCED APPRECIATION WORKS

Buy a property with an average monthly rental rate of $1,000. We have 100 units with Operating Expense of $50,000 per month.

NOI = $1000 X 100 = $100,000 – $50,000

=$50K PER MONTH OR $600K / YR / CAP RATE OF 5% = $12M VALUATION

We increase average unit rate $100 by adding Washers and Dryers to each unit.

NOI = $1100 X 100 = $110,000 – $50,000 (no operating expenses were changed by adding W/D)

=$60,000 / MONTH, $720,000 / CAP RATE 5% = $14.4M

Simply adding 100 Washers and Dryers ($120K from a CapEx budget) will yield an increase in value to the business of **$2.4M or 20%** with only a 10% increase in income. This is the power of forced appreciation via Cap Rate values. Adding a Washer / Dryer to a single family rental will increase your value by $1,200 if you achieve the $100 rent bump. **Multifamily SCALE wins EVERY TIME.**

Appreciation ultimately turns into Capital Gains, which are taxed, so *let's look at how we defer tax burdens*.

We utilize **cost segregation**, an accounting methodology, which allows us to allocate various components of the building, real estate and purchase to different "buckets." The "buckets" are real property and personal property. Here we get into technical definitions that are specific and laid out by the IRS. We hire 3rd party firms to do an analysis and at the end we have all property allocated to these buckets. We then depreciate them over a specified schedule of years. With Bonus Depreciation we can allocate 100% of the value of certain property types against the first year in service. (Note: in 2023 this tax problem starts stair-stepping down by 20% per year, so in 2023 we can use Bonus Depreciation of 80% in Year 1) What this means is that for some of our investors, we can deliver an accounting loss that can offset accounting gains. There are lots of nuances to this; top-line is that we often deliver losses in Year 1 that are able to be applied against gains and your investment growth might be offset by tax losses from Cost Segregation.*

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COST SEGREGATION "BUCKETS"

REAL PROPERTY

BUILDING, IMPROVEMENTS, LAND

PERSONAL PROPERTY

LIGHT SWITCHES, APPLIANCES, CARPET

Leverage

Another word for Leverage would be lending. By borrowing between 50–75% of the purchase price, you are able to realize the value of the entire asset's growth without using your money. This is a really simple concept that people often take for granted but it's crucial to realize the power of this phenomenon. You can purchase larger assets thus providing economies of scale, greater risk adjusted returns, and faster growth. The table below illustrates the power of growth if you invest $100,000 and all things are equal except leverage*. The difference in actual cash returned is compelling.

Commercial real estate is valued based on Net Operating Income (think of it as all profits before any debt service). Since everyone's debt terms, amounts, and needs are different, the industry has created a Cap Rate to compare apples to apples. It is the rate of return if an asset were owned and paid for in all cash. In essence, the value expresses the rate of return the property yields each year. So a 10% cap rate means it would yield 10% cash each year if owned free and clear. Or said another way, it would take 10 years to make your money back. Cap Rates are inverse of growth. When they compress or decrease, the asset's actual value is increasing and when they expand or become larger, the property is decreasing in value. It's counterintuitive for sure and often trips people up as they learn this concept.

Leverage also has an economic impact many investors tend to ignore. When you are a passive investor, you receive economic benefit from the leverage of other's work product, experience, skill and networks. This benefit cannot be stressed enough. Imagine trying to run a $2-5M side business while also performing at the high level you do in your current role. **The leverage of people, time and resources is truly invaluable.** Leverage keeps you from going at it alone.

In the example above, the $100,000 spread is only possible via leverage. In combining your investment with like-minded others, you can realize the same scale. Let's discuss the next benefit.

*Conservative Assumptions of 6% Cap Rate, 6% Interest Only loan for a 5 yr hold period and 5% annual increase in property value

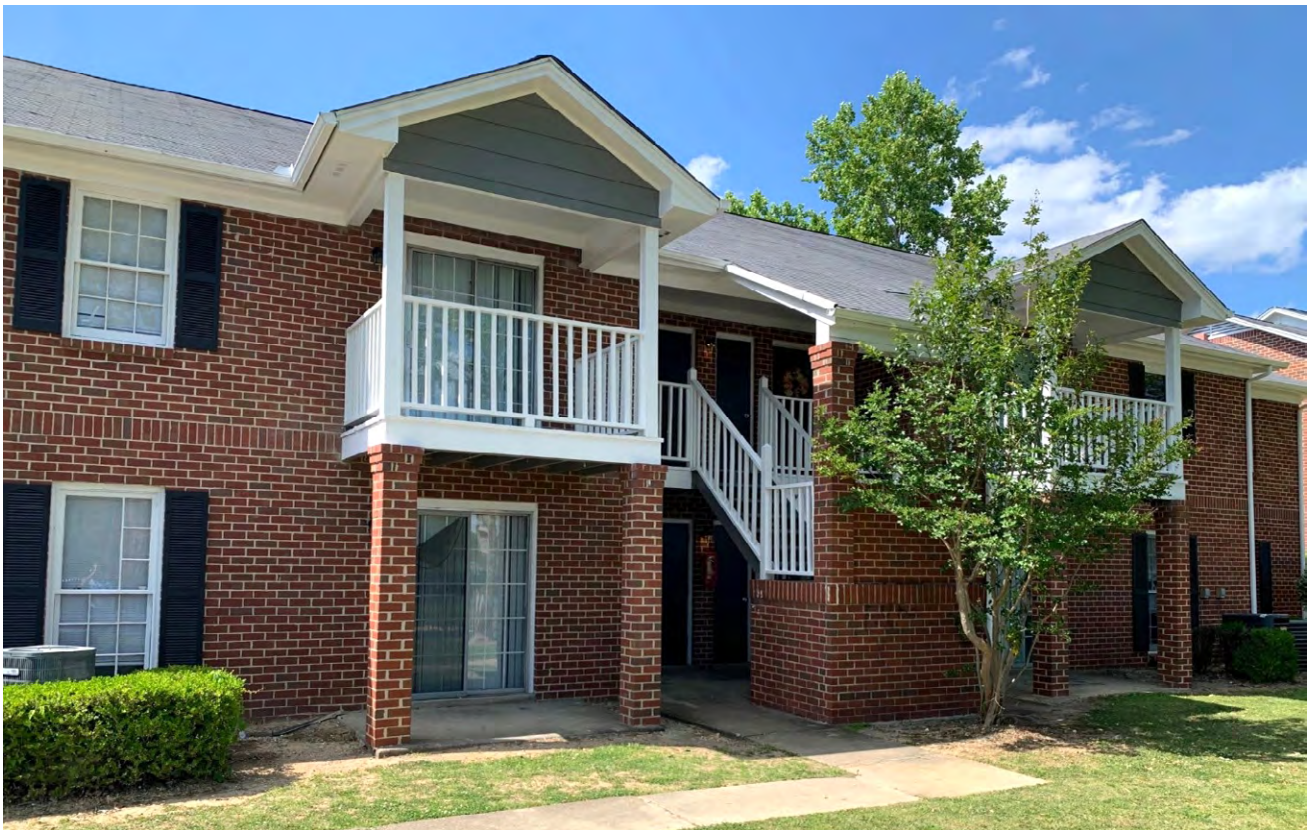
	EQUITY INVESTED	PROPERTY ACQUIRED	FREE CASH FLOW (5 YRS)	YR 5 SALE @ +5%/YR	TOTAL EARNINGS + INITIAL RETURN OF CAPITAL (NOT SHOWN)	INTERNAL RATE OF RETURN
NO LEVERAGE	$100K	$100,000	$30K	$125,000	$55,000	9%
50/50 LEVERAGE	$100K	$200,000	$60K	$150,000	$110,000	16%
35% DOWN/65% LEVERAGE	$100K	$285,714	$85k	$171,429	$157,143	22%

Equity

We touched on this in Leverage and to expand upon it, we know that combining equity into a syndication affords someone the ability to acquire more real estate more quickly with a whole lot less work! Think about the dollar growth opportunities we illustrated with $100K difference based on a simple purchase of a low priced property. Now change the purchase price to $20M. That 5% growth rate makes a $5M impact on returns. That same 100K would represent approx 1.4% ownership or $70K in growth plus the same share of free cash flow. Combining the two delivers a realistic forecast of $110K in returns plus the initial return of capital. The other factors remain unchanged; when your valuation basis grows like this, so does your return. Simple math used to your advantage by combining your equity into passive investments can yield very powerful returns over time.

Adding upon economic benefits of leveraging other's skill sets, knowledge and ability, equity also compounds this value. By combining investment dollars with like-minded professionals, you are able to realize **SCALE**.

Surely, after learning about the benefits of **SCALE** in Multifamily, you're starting to ask yourself why haven't you done this earlier?



Outsized Returns: Passive Investing

The title of this ebook, *How Ugly Apartments Deliver Beautiful Returns* is all about recognizing people's wants. Across the board, consumers, clients, really everyone, always wants a beautiful product, amazing service and the least amount of headaches. No one wants to pay a penny more than is absolutely necessary.

Even more common, they want the perfect item on sale at a huge discount. This is just unrealistic. It's the same in investing. Everyone wants zero risk, huge returns and amazing, beautiful properties. They say in construction you can only have two out of three things: On time, on budget or quality. Take your pick.

We hate that concept and understand its guiding principle. You can't always get what you want as Mick Jagger sings. Our trade off has been simple. We don't always buy the prettiest building nor the ugliest. ***But our reality is that we are centered on economics far more than aesthetics***. Working class housing for us is about delivering a home for our residents that is safe, clean, well maintained, has community, treats everyone with respect and is also realistically priced. These attributes deliver huge returns on a risk-adjusted basis with strong downside protection.

Do you exclusively use every stock product you own? Most people don't. It's similar in Multifamily. You might not want to live in our buildings. That's reality. If you're an accredited investor, you are in the Top 5% of economic households. Workforce housing is not where you live. Accept that concept and enjoy the returns.

Due Diligence

Due Diligence is crucial to the success of a Multifamily property. Our approach is not to know every single thing about a property–we have learned that's just not realistic. Rather, our goal is to find the issues, investigate the unknowns and decide if we can achieve our goals knowing the problems.

Every project will have surprises and unknowns. As a passive investor it's why you pay the operator to run the business–so you don't have to worry about the tenants, toilets or turns. Due diligance is all about details and planning.

When acquiring a property, often you are able to tour it for an hour, maybe two. During this tour you go through some vacant units (if available), walk the grounds, enter the common areas and meet employees the Seller is ok with meeting you. It's just like buying a house–you can't possibly know everything when you see it for the first time. You don't see every unit and you don't get to see every detail.

Due Diligence is often several days in length. During this time, our teams tour every unit looking for damages, appliance conditions, making renovation plans, determining levels of rehabs / finishings in various units, looking for other things that aren't normally disclosed to us (think standing water, holes, drainage, signs of roof leaks, etc etc). We also bring in experts to check the systems including HVAC, Sewer, Electrical, Pool, Roof, etc. If we are looking at extensive renovations we will conduct research on building codes, parking lot feasibility, perhaps a solar program. Every property has a unique and distinct business plan to maximize our investor's return.

At the same time, a team will also go over all the leases, bank accounts, and financials to ensure that our financial models hold up and that we are not inputting poor data or incorrect figures. We will actually cross reference bank deposits with income statements to ensure the funds are present.

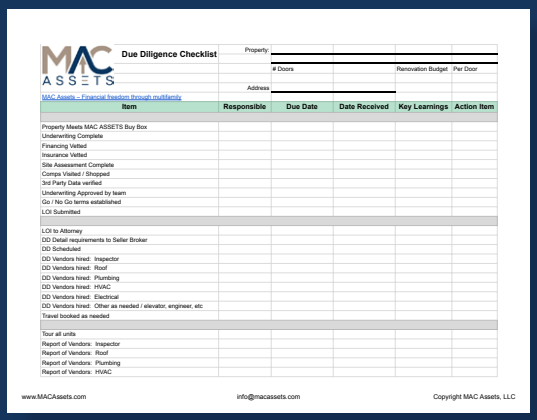
We dig into each contract that conveys with the property. We decide if we want it or if we are going to discard the contract. During this time on site, we also make efforts to do all of this with our 3rd party property management team. The key to this is that we don't do it in a vacuum; rather, we gather all the data we possibly can. We replan. Reprioritize. Assemble tighter forecasts on repairs or remodel items.

Next, we reassess. Each acquisition has a go/no go date certain in our purchase and sale agreements. It's crucial that before we pass the no go date we are crystal clear on where we sit and how we are going to achieve the business plan.

Due diligence is about putting a very sharp pencil to our business plan and seeing if it holds up. If it does, we go forward. If it doesn't, we make the needed changes. Sometimes, there is no way forward and we terminate. Sometimes the way forward involves consulting with more experts and the Seller to find new solutions. Each deal is different. So we use a framework to ensure that our business plan is always achievable.

For you, as a passive investor, the key things to look for are:

- ☑ **WHAT IS THE BUSINESS PLAN?**
- ☑ **PERSONEL**
- ☑ **TIMELINE TO EXECUTE?**
  - Forecast risks to the timeline?
  - Forecast risks to the execution?
- ☑ **REASONING YOU BELIEVE THE BUSINESS PLAN CAN ACHIEVE:**
  - Rents
  - Operational improvements
  - Renovations in timeline
- ☑ **FINANCIAL DETAILS (THIS IS THE ELEMENT THAT WILL MOST INFLUENCE DEAL OUTCOME).**



MAC ASSETS

Due Diligence Checklist

Property

Doors | Renovation Budget | Per Door

Address

MAC Assets – Financial freedom through multifamily

Item	Responsible	Due Date	Date Received	Key Learnings	Action Item
Property Meets MAC ASSETS Buy Box					
Underwriting Complete					
Financing Vetted					
Insurance Vetted					
Site Assessment Complete					
Comps Visited / Shopped					
3rd Party Data verified					
Underwriting Approved by team					
Go / No Go terms established					
LOI Submitted					
LOI to Attorney					
DD Detail requirements to Seller Broker					
DD Scheduled					
DD Vendors hired: Inspector					
DD Vendors hired: Roof					
DD Vendors hired: Plumbing					
DD Vendors hired: HVAC					
DD Vendors hired: Electrical					
DD Vendors hired: Other as needed / elevator, engineer, etc					
Travel booked as needed					
Tour all units					
Report of Vendors: Inspector					
Report of Vendors: Roof					
Report of Vendors: Plumbing					
Report of Vendors: HVAC					

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Click below if you'd like to receive a copy of our Due Diligence checklist.

GET MY DUE DILIGENCE CHECKLIST

Financing

It was alluded to earlier in the book. Financing of the project is the top or second most important part of an acquisition. The other is cost basis. These two things impact every other metric and outcome to a great extent.

Let's start with Financing. This is an entire field of study and we're not going to delve too deeply into the minutiae of specifics. Our goal is to deliver a topline summary discussion covering some of the industry norms enabling you to understand what is being covered in pro formas and investor calls.

Basically, most financing lands into two buckets, stabilized or bridge. Stabilized financing is usually long term fixed debt backed by Fannie Mae or Freddie Mac designed to contain risk over a variable term. These loans may be interest only for a period of time then changing to a fully amortizing note. Often these notes have significant prepayment penalties called yield maintenance which is typically structured in a step-down format corresponding with the number of years left on the note. There are several restrictions to these notes including occupancy, which most are at or over 90% for a period of time, excess cash flow sufficient to cover a percentage determined by the note and condition of the property.

Bridge financing is just what it sounds like, a bridge to utilize until you can achieve stabilized financing. These are short term loans (up to 5 years) which come with floating interest rates tied to SOFR or some version of a T-Bill. These products typically allow for greater leverage on the Loan to Cost ratio as most will lend large amounts of Capital Expense to improve or rehab a property. These are very common in the value add space for the increase in leverage and borrowing proceeds. Biggest risk is the floating rate; the way to manage that risk is to purchase a rate cap concurrently with the loan. This is an insurance policy that the property won't incur an unknown cost risk with rising interest rates.

Downside for Stabilized loans really center around lessor leverage and huge prepayment penalties which might mean you can't sell or adapt to market conditions as desired. Downside for Bridge loans is that they are variable rates, shorter in term and may force decisions that are contrary to market conditions.

Loan decision making on these loans is not like a residential property. Valuations are determined as we covered in the leverage section based on Cash Flow and Cap Rates. In brief, the stronger your property cash flows in a stronger market, the more valuable it is. Amounts loaned are also scaled against what the lender believes is required to pay the debts and operate the business on an ongoing basis.

The beauty of financing is that you can also employ other levers as values change, A cash-out refinance is a very beneficial tool if NOI is higher than when it started and/ or Cap Rates are compressed versus earlier financing terms. This can allow owners to take out capital (often with no tax consequences) and have the business cover the debt service. These are the home runs of Multifamily and they are not impossible to achieve.

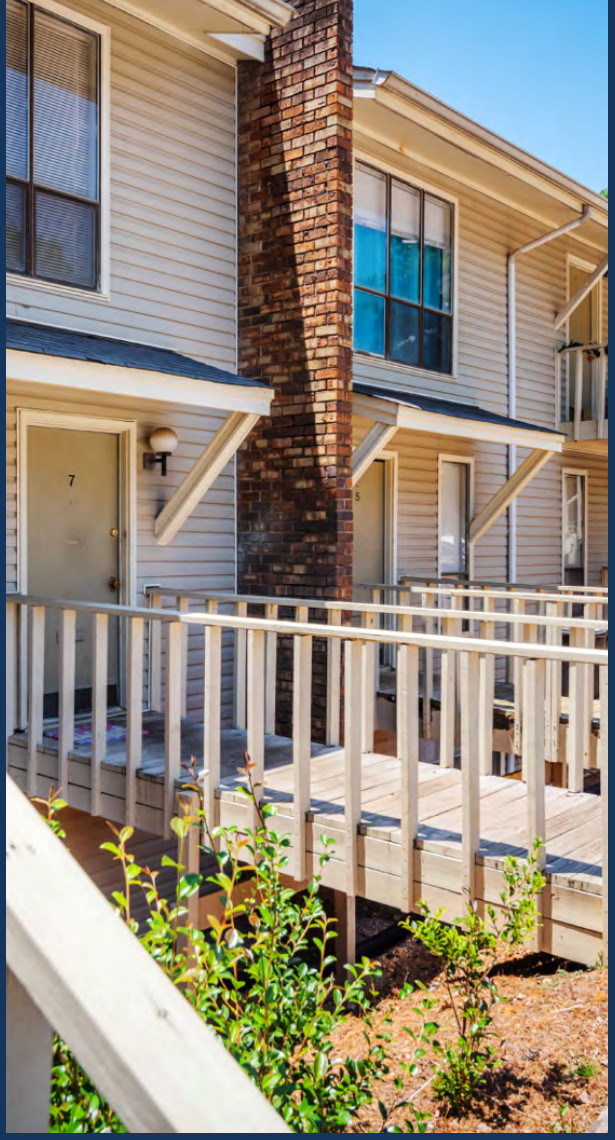
Key takeaway is that you should understand which risk every property is structured against. There is no perfect solution.

Conclusion

By now you have begun to learn the depth of knowledge needed to successfully operate a Multifamily complex as a General Partner. As a Passive investor (Limited Partner) ugly apartments might look unattractive on the face, and may seem like a huge risk. Often we hear that they "must be in poor condition" or that "no one wants to live there." The concern makes a great deal of sense coming from top-tier professionals like yourself. However, in investing you must look at the data; not the emotion. Data shows time and time again that forced appreciation is greatest in buildings such as these. Your risk-adjusted returns are maximized.

Ugly does not equate to poor condition. The two are very different. Ugly typically means it was designed a generation ago. This makes it easy to improve interiors, update aesthetics and generate strong forced appreciation. Remember the illustration of installing washers and dryers? A $120K CapEx expenditure yielded a $2.4M change in value! Often low lying fruit like this is not available at the "pretty" apartments.

There is no need to be scared as you consider passive investing. Educating yourself is a constant requirement. Remember, our business is constantly in flux. Market conditions drive purchase/ sale opportunities, demographics dictate decisions, financing changes every day. It's impossible to know it all by yourself. That's why you bring in a team. At MAC Assets we work diligently every day to learn what's changing, implement best practices as well as seek partners to learn together.



Another way to learn more on your own is to visit **www.MACAssets.com**. If you have not created an account with us, make sure to join our Investor Club so that you can be included in our communications to investors.

Our team is dedicated to delivering financial freedom through Multifamily. If you have any questions, please don't hesitate to contact us at 720-560-2285 or **Info@MACAssets.com**

Follow us on social media or connect with us directly.

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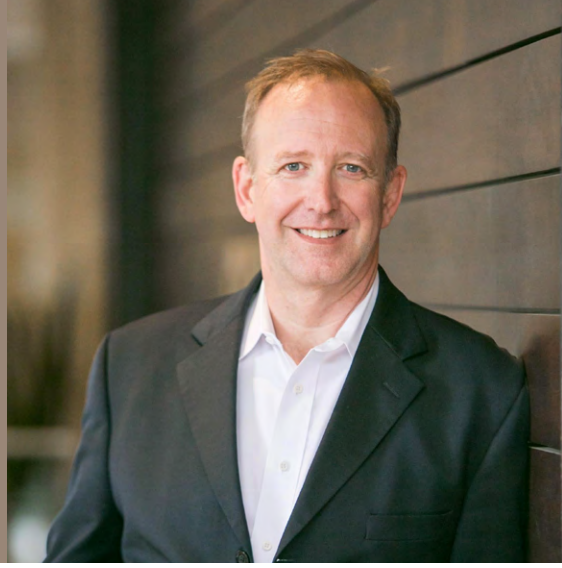

David McIlwaine is a seasoned entrepreneur and successful executive with deep experience in business growth, scale and delivering results. His real estate experience is vast—spanning over 20 years. Experience, knowledge and understanding have been gained firsthand by either currently owning or having owned Multifamily units, commercial retail developments, asset management, single family, vacation rental properties, second homes and custom builds. As the owner of Colorado Realty Experts for the last 5 years, he oversees a residential real estate brokerage serving the south Denver metropolitan area. He founded MAC Assets in 2019 and its portfolio currently includes property in the southeast and mountain west. At present he is a general partner in 1,000 doors.

David's entrepreneurial experience spans a highly successful sales career in several areas including Real Estate, Marketing/Advertising, and Information Technology start ups. He has a variety of first hand experience including having held C Level positions, led teams across the US to overperformance, raised capital, executed mergers, implemented improvements in operating systems, coached diverse constituencies, created and delivered strategic growth initiatives all leading to successful outcomes. David graduated from the University of Kansas with a BS in Journalism and Advertising.

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