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Multifamily Acquisition Case Instructions

A real estate private equity firm is evaluating the acquisition of Creekstone Apartments ("Creekstone"), a multifamily property with 100 units. Build a BoE model to answer the following:

1. Based on the following transaction assumptions, what are the levered IRR and multiple?
2. If the minimum IRR threshold is 15.0%, what is the highest possible exit cap rate?
3. What is the minimum rent premium necessary to achieve the 15.0% IRR threshold?

Historical Financials

Over the trailing twelve months ("T-12"), Creekstone achieved $1.45M in net effective rent, averaged 88% occupancy, and lost $30K of revenue to bad debt and non-revenue units. In addition, Creekstone generated $100K in total other revenue. Creekstone's T-12 operating expenses are below:

Repairs & Maintenance	$55,000
General & Administrative	$37,000
Payroll	$100,000
Utilities	$30,000
Real Estate Taxes	$255,000
Total OpEx	$477,000

Transaction Assumptions

- The REPE firm acquires Creekstone for a purchase price of $15,000,000 on 12/31/2020
- The REPE firm will own the property for 5 years and then exit at a 6.25% cap rate on 12/31/2025

Operating Performance Drivers

- Occupancy - YR1: 90%, YR2: 91%, YR3: 92%, and 93% thereafter
- Rent Growth - YR1: 0%, YR2: 2%, and 3% thereafter
- Bad Debt & Non-Revenue Units - T-12 constant percentage of Net Effective Rent
- Other Revenue Growth - YR1: 0% and 3% thereafter
- Expense Growth - YR1: 0% and 2% thereafter

Capital Expenditure Assumptions

- The REPE firm intends to implement a unit renovation business plan:
  - Cost Per Unit - $5K
  - Timing - YR1: 50% and YR2: 50%
  - Rent Premium - the renovations are expected to provide $100 in additional monthly rent per unit immediately and fully at the start of the year they are renovated (this is a simplifying assumption)
- Defensive Capex - $100K in Year 1

Financing Assumptions

- Loan Amount - $9.75M
- Interest Rate - LIBOR + 300
- Amortization - 5%
- Origination Fee - 1%
- LIBOR - YR1: 1.5%, YR2: 1.7%, YR3: 1.9%, YR4: 2.1%, YR5: 2.3%
- Assume the loan is fully paid off at the time the property is sold

Based on the assumptions provided above, calculate the IRR and Multiple on a levered and unlevered basis.