

VAN DYKE CAPITAL INVESTOR GUIDE

Passive Cash Flow Multifamily Investing



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Powered by 40+ years experience in multifamily investing



Mission statement

Van Dyke Capital was founded with the mission of assisting investors in achieving their financial goals through multifamily real estate investing. Our philosophy extends beyond mere apartment investments; we are dedicated to enhancing the lives of residents and enriching local communities through property revitalization.





VAN DYKE CAPITAL

We have a proven track record of investing in multifamily properties nationwide:

- 3,706 Units & Growing
- \$309M Portfolio
- 37% Average ARR

At Van Dyke Capital, our main goal is to protect and grow the capital of our investment partners.

“90 percent of all millionaires become so through owning real estate. The wise man or wage earner of today invests his money in passive cash flow real estate”

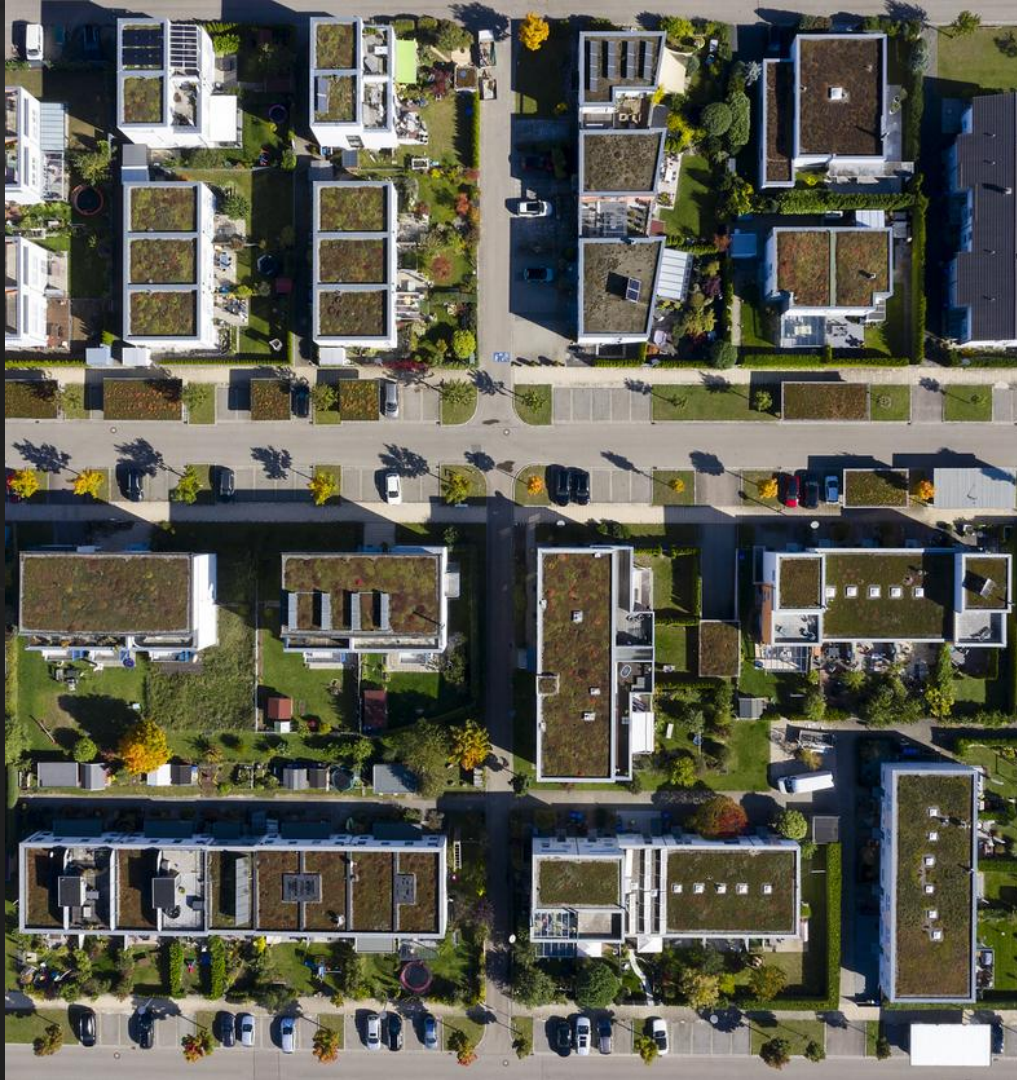
—Andrew Carnegie



01

Business overview

Deals have become popular due to high yield returns.



Business Overview

A few years back, private real estate investments were limited to exclusive networks and personal referrals. Trust was based on personal or professional connections. With rising popularity and investor sophistication, transparency has become crucial. Proper due diligence and education on various opportunities are now essential.

Different strategies cater to different investor needs. For instance, high-risk, high-reward value-add opportunities may not suit those seeking immediate liquidity.

At Van Dyke Capital, we specialize in value-add multifamily ventures, marking us as distinctive leaders. Our checklist, particularly crafted for 1980's garden-style properties in secondary sub-markets, aids passive investors in screening deals. Here's our nine-section multifamily deal checklist.



02

Deal Screening checklist

Know the difference of
each strategy

Deal Screening : Checklist

It's crucial for investors to understand the distinctions between each strategy, as the perceived risk of an investment might differ from its actual risk.

Those who prioritize stability and income generation should lean towards premium properties with minimal leverage or funds that provide a broad array of properties. On the other hand, individuals more tolerant of risk with a longer investment timeframe might explore value-add or even opportunistic approaches.

Core & Core Plus Real Estate Investments

Core = Income

- Best for conservative investors
- 7-10% annualized returns
- Majority of return generated from cash flow rather than appreciation
- Ex. Fully leased building in manhattan with little to no deferred maintenance

Core Plus = Growth & Income

- Low to moderate risk
- 7-10% annualized returns
- Ex. 15 year old building, well occupied, that needs light upgrades

Value Add : Real Estate Investments

Value Add = Growth

- Moderate to high risk
- Little to no cash flow at acquisition with potential to produce a lot of cash flow once value has been added and the asset is stabilized.
- 12 - 18% annualized returns

Opportunistic : Real Estate Investment

Major Reposition

Opportunistic = Risky Growth

- Riskiest of all real estate strategies
- No cash flow for 3+ years with potential for greater future returns.
- 20% + annualized returns

03 The Market

What is the historical & projected growth?



The Market

What has been the trend in population, income, and wage growth over the past 3-5 years, and what is expected in the coming years? How diversified is the employment landscape?

- Ideally, no single sector should constitute more than 18-20% of total employment. A well-balanced distribution among employers is preferable.
- For preliminary analysis, resources such as the city council, Wikipedia, and market insights can be useful.

Is the median income in line with the rents you're considering?

- Generally, we believe tenants should earn between 2.5 to 4 times the annual rent to qualify. What's the prevailing market vacancy rate?
-

The Market - Continued

What's the prevailing market vacancy rate?

- This is shaped by the balance of supply and demand and comparable property availability. It's advisable to review 3-4 post-renovation properties in the area for reference.

Could you describe the area's demographics?

- This is connected to the earlier point regarding income, wage growth, and your target tenant profile.
-

The Market - Continued

How do the local schools – elementary, middle, and high – rank?

We've observed that tenants who prioritize elements like school districts tend to be of higher quality.

What are the transportation options in terms of air, rail, and road? And how about proximity to facilities like hospitals, malls, and recreation centers?

Are there any crime concerns in the area to be mindful of?



04 Strategy & Business Model

Does the strategy work in this
sub-market?

Strategy & Business Model

Is the approach suitable for this particular sub-market?

When a sponsor focuses on reviving Class C properties, upscale neighborhoods like Highland Park (Dallas) or River Oaks (Houston) might pose challenges. Ensuring the strategy aligns with the sub-market is essential!

What's the intended duration of ownership?

In wealthier sub-markets, the investment approach might lean towards a long-term hold, possibly more than a decade. However, a typical strategy for Class B/C multifamily properties aiming to add value is often around 3-5 years.

Strategy & Business Model - continued

Is there a post-renovation property in the market for comparison?

This is crucial as it validates the feasibility of the suggested strategy and operational plan in a practical scenario.

Upon what are the rents determined after renovations?

How is the capex budget itemized?

Is the capex budget based on bids from subcontractors or an estimate?

Has the capex budget been determined through subcontractor quotes, or is it a rough estimate?

Strategy & Business Model - continued

What's the size of the contingency?

We're looking at a range of 10-20% of the overall budget.

What's the timeline for completing the renovations and achieving property stability?

This aspect is pivotal since the business approach heavily relies on induced appreciation.

Acquisition

The collage features several data visualization elements:

- Top Left:** A line graph with a blue line showing an upward trend. The y-axis has labels for 20%, 20%, 20%, and 35%. A text box labeled "DATA" contains placeholder text.
- Top Right:** A circular progress indicator showing 80% completion. The text "80%" is prominently displayed in the center.
- Middle Left:** A bar chart with green bars of varying heights. The x-axis is labeled with numbers 01 through 12.
- Middle Right:** A bar chart with blue bars. The x-axis is labeled with months: JAN, FEB, MAR, APR, MAY, JUN, JUL, AUG.
- Bottom Left:** A hand holding a white pen, pointing at a document. The document has a header "BACK" and a section titled "TITLE: DATA & DESI". A circular progress indicator shows 25% completion.
- Bottom Center:** A circular progress indicator showing 25.01% completion. The text "25.01%" is prominently displayed in the center.
- Bottom Right:** A row of four circular progress indicators showing 60%, 80%, 55%, and 75% completion. Below each indicator is a month label: JAN, FEB, MAR, APR.

The Acquisition

What is motivating the seller?

We aim to understand the underlying narrative. Many long-standing owners often decide to exit the industry due to feelings of exhaustion, disillusionment, a desire to liquidate their assets, or ambitions to invest in larger properties.

Delving into the seller's reasons provides us with a clearer view of the bigger picture.

Is the property's acquisition price comparable with similar sales?

The Acquisition - continued

What is the purchase cap rate? How is the NOI calculated?

By design, value-add multifamily deals are not being run efficiently, and have significant upside potential.

Some seller's account for capex in repairs and maintenance; this artificially lowers the NOI (and cap rate).

An underwriter should back out these charges to understand the true operating picture.



06 The Property

How visible is the property?

The Property

The frequently echoed real estate saying: "location, location, location" holds significant weight. It's essential to evaluate, at the very least, the number of cars that pass by, ease of access, and pedestrian flow (where relevant).

What's the history of capital expenditures?

This aspect highlights where top-notch sponsors excel through meticulous due diligence.

The Property - continued

How do the building's structure and systems fare?

Considerations should include:

Foundation, roof, HVAC, plumbing, electrical, water, sewer, windows, security, grounds.

Are there any physical constraints that might limit potential rent increases?

07

P&L Revenue & Expenses

What is the seller's motivation?



P&L : Revenue

How does the first-year projection align with the data from the trailing 12 months (TTM)?

Review assumptions like loss to lease, vacancy, concessions, staff accommodations, show units, administrative units, and bad debts to ensure they're reasonable.

What are the projected revenue growth rates throughout the intended ownership duration?

For primary metropolitan areas, anticipated long-term growth should typically range between 2.0% to 3.5%.

What's the projected value and growth rate for other revenue or income segments?

Are these projections backed by current market insights?

P&L : Expenses

How does the first-year projection stack up against the T12 (last 12 months)?

Review assumptions to ensure they are grounded in reality.

What are the foundational principles used, and how is the property tax reassessment determined?

In states with non-disclosure policies, like Texas, owners aren't mandated to disclose their purchasing capacity. However, tax authorities can adopt a more assertive approach in tax evaluation.

Potential buyers should usually operate under the assumption that property reassessment will range from 80-95% of the acquisition price. A third-party tax evaluation is often commissioned.

P&L : Expenses - continued

Over the intended ownership duration, what are the projected growth rates for expenses?

How do these figures measure up to the anticipated revenue growth?

What figures have been used for payroll and routine replacement expenses in the financial analysis?

Given the current buoyancy of our market, we've observed a surge in payroll costs.

The standard expenses for replacements hover between \$1,000 to \$1,200 per unit, influenced by the property's age and standard.

P&L : Expenses - continued

What expenses are related to the partnership?

These cover areas like management fees for assets, travel outlays, bookkeeping charges, technological costs, and more.



08

The Debt

Debt plays a critical role in financing Real Estate purchases.

The Debt

Financing through debt is pivotal in real estate acquisitions, which is why we're addressing it distinctly from the Profit & Loss segment.

What foundational principles are we using for the debt?

This includes factors like the amortization duration, loan terms, interest-only years, loan-to-value ratio, the minimum debt service coverage ratio to uphold, among other loan stipulations.

Have the debt assumptions been drawn from genuine quotations?

Is the debt type fixed or variable?

Has the interest rate cap been secured?

If it's a variable rate, has an interest rate ceiling been established?

The Debt - continued

How does the financing method complement the overarching strategy or business plan?

Are there any underlying principles when considering refinancing?

While we generally don't factor in refinancing, it's an added bonus to transition out of a loan. We view it as an additional perk, akin to the icing on a cake.

Predicting the future is impossible. Sponsors that are overly optimistic when framing refinancing projections are treading on thin ice.

09

Sale Assumption

What is the exit cap rate?



Sale Assumption

What is the exit cap rate?

To be conservative, the exit cap rate should be higher than the entry cap rate. We assume the exit cap rate to be .5 - 2% higher than purchase cap rate.

This is dependent on the market, macroeconomic analysis and the quality of the property being acquired.

What are the selling costs?



10 Return Analysis

How is the projected
AAR split?

Return Analysis

How is the projected AAR split between cash flow and refinance/sale?

The higher AAR attributable to refinance/sale, the riskier the project.

What is the stabilized cash-on-cash (COC)?

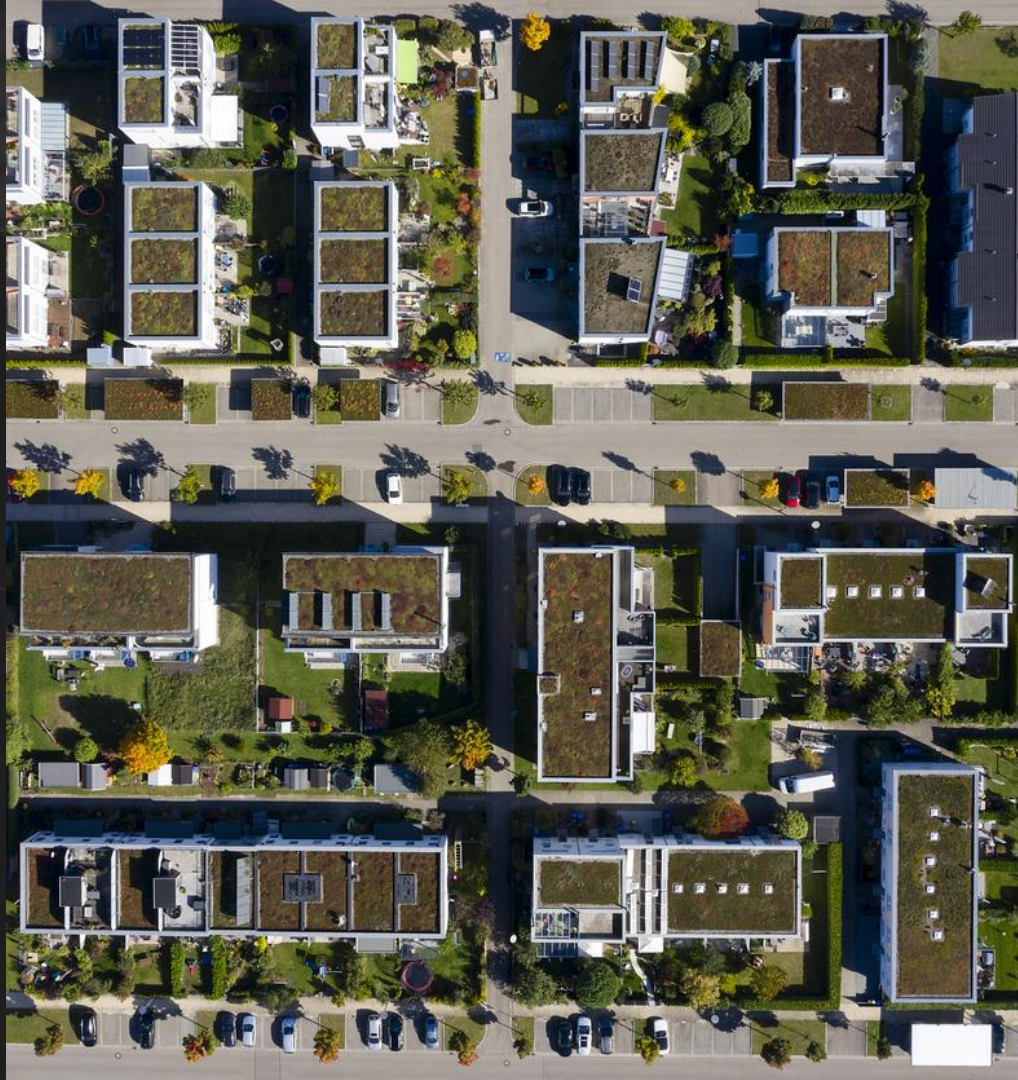
How does this trend?

Inquire about sensitivity analysis especially around holding period, purchase price and exit cap against project AAR (project and LP), equity multiple (project and LP) and COC.

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Van Dyke Capital

A privately held investment
company.



Van Dyke Capital

Van Dyke Capital stands as a private investment firm, honing its expertise in the procurement and administration of value-enhancing and opportunistic multi-family properties. Our forte lies in revitalizing prime assets in burgeoning markets, ensuring investor capital is safeguarded while promising substantial returns.

At Van Dyke Capital, we firmly believe that the cornerstone of any successful deal lies in its operators. While we systematically reduce risks by tapping into our seasoned team of investment experts, this identifies robust multi-family assets with potential value-increases in areas characterized by influential economic growth indicators. Though meticulous planning aids in smoother execution, challenges are par for the course.

Our distinct knack for troubleshooting is where our genuine value emerges. At Van Dyke Capital, our dedication to forecasting and circumventing issues is unwavering. When faced with challenges, our resolve to address them is even stronger. This commitment has fostered trust among our collaborators, financial institutions, property management entities, and our community of residents. It's this very dedication that should assure you of the wisdom in entrusting your investments with us, as you join our financial journey.

Proven Track Record



Units

Under Management

3,706



Portfolio

Current Assets

\$309M



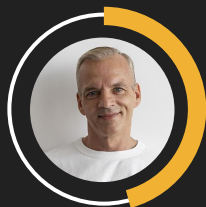
Average ARR

Asset Performance

37%

Investor Avatar

Gender



51%



49%

\$125,900

Average investment

Age

25 - 35  18.2%

36 - 45  27.3%

46 - 65  54.5%

Interests



Ambient



Modern



Lounge



Coronado

Management Team



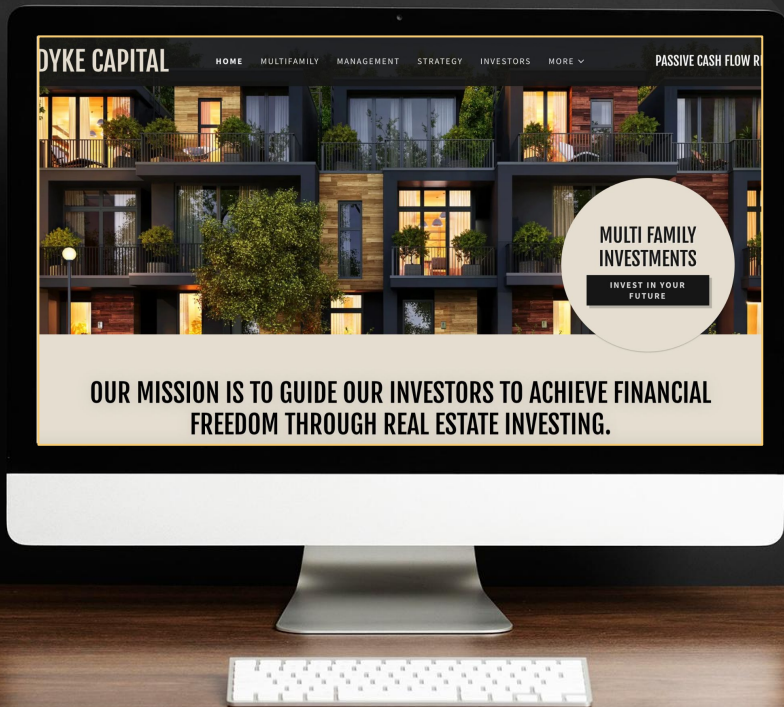
Grant Van Dyke

Managing Partner
VP Underwriting
Capital Funding



Mark Van Dyke

Managing Partner
VP Acquisitions
Investor Relations



Our Website

See our current offerings and get
access to ongoing deal flow

www.VanDykeCapital.com



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"Invest in your future with Van Dyke Capital"