

KNOXVILLE TRIO

ASTORY OF PERSISTENCE & OVERCOMING



KNOXVILLE, TN

THE NARRATIVE

QuattroCapital successfully procured a portfolio comprising 67 units from a second-generation property owner, whose father initially constructed the properties. The previous owner did not have a stellar landlord reputation and the properties were arguably in the roughest condition in North Knoxville. Despite their dilapidated state, the properties had a solid foundation, albeit in need of extensive work. However, it is often from such small-scale owners that some of the best investment opportunities arise.

THE HURDLES

The deal was set to be finalized in March 2020, but a lender withdrew just 12 days prior to the closing date, leaving us with approximately \$250,000 in earnest at stake. During uncertain times, the Collateralized Loan Obligation (CLO) market was highly unpredictable. After a six-month delay, we managed to finalize the deal with a Community Development Financial Institution (CDFI) balance sheet lender, acquiring the assets at a basis of around \$55,000 per unit.

Quattro typically maintains high liquidity for each project to accommodate unforeseen circumstances that may arise during the due diligence process. This project provided its own set of challenges, as we navigated not only the Covid-19 pandemic, which led to a decline in lease traffic, but also had to manage inflation while sticking to a budget drafted during a pre-inflation period. Nevertheless, we managed to control cost overruns and reallocate budgetary funds effectively.

THE OUTCOME

Quattro successfully renovated approximately 50% of the units to a Class B- level, emerging as a leading contender in terms of both rent and quality in the sub-market. We sold the portfolio to a larger, single operator at approximately \$92,500 per unit. The prospective buyer was appreciative of the improvements made and plans to complete the renovation project and hold the properties for cash flow purposes.

Our strategy of buying from small-scale operators and selling to larger ones is a key approach we use to drive capitalization rate (cap rate) compression in our projects. The common theme here is buy low and add value to sell high!