

PRESERVE & VALLEY AT MILL CREEK

UNEXPECTED CHANGES, EXCEPTIONAL OUTCOMES



DALTON, GA

BUSINESS CHALLENGES

Previously, the Seller of the property had entered a master lease agreement for the entirety of the units at The Valley at Mill Creek. However, due to the impacts of Covid, they informed us that they had not finalized their corporate training program for 2022, leading to their decision to break the master lease.

In addition, there was a legal oversight on the loan documents by our financing partner. They had intended for us to maintain a \$407,000 reserve for the project duration but failed to include the terms in our loan documents. Consequently, this prevented them from selling the loan to another investor as is common in the industry. Although technically this was not our issue, it indirectly affected us. If the lender failed to execute their business strategy due to our unwillingness to comply, it would have strained our long-standing strategic partnership and complicated future acquisitions or refinances. Worse still, this could have potentially tarnished the property's reputation from a future lending perspective.

SOLUTIONS

The company's decision not to renew the master lease was, in fact, a blessing in disguise. It allowed us to overhaul all units at one time rather than as future leases expired and lease them at the prevailing market rate. By doing so, rents increased from \$780 to \$1,175 within 2-3 months, a significant jump ahead from the initial 18-month plan. We managed to renovate and lease 95% of the units between January and April, a monumental accomplishment by the team.

In addition, the swift increase in rents aided us in our negotiations with the lender. We convinced them that by April, the loan would be even more robust. Instead of contributing an extra \$407,000 reserve to the lender that wouldn't be returned until loan termination, we only had to contribute \$250,000 until the property was re-stabilized. This amount was released one month after we achieved our performance target. Additionally, we put up a \$157,000 construction guarantee to ensure we carried out the improvements, which permitted us to control the funds rather than using a draw. As a result, our finances remained unscathed.

AND now for the BEST PART!

We acquired the The Valley at Mill Creek Apartments as a part of the Dalton Portfolio for \$3.52M. Due to the immediate rent hike previously mentioned, the property's value soared to approximately \$6.05M, a \$2.528M increase. In simpler terms, by April 2022, the apartment complex's worth surged by around 75%!