The Reserve at Barry

Investment Summary

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PRG REAL ESTATE

INVESTMENT SUMMARY
SUBURBAN APARTMENT OPPORTUNITY IN KANSAS CITY, MISSOURI
Reserve at Barry
690 Units

An investment in PRG Reserve at Barry Associates, LLC, the Missouri limited liability company that will own and operate Reserve at Barry ("Reserve"), involves a high degree of risk and is only suitable for persons of substantial means who can make a long-term commitment to an illiquid investment and can bear the loss of their entire investment.

This Investment Summary does not constitute an offer to sell or solicitation of an offer to buy any securities. The sole purpose of this Investment Summary is to assist prospective investors in deciding whether to consider an investment in PRG Reserve at Barry Associates, LLC. This Investment Summary, including the financial projections attached to it, does not purport to contain all information that may be material to an investor and recipients of this Investment Summary should conduct their own independent evaluation of the investment.

Overview

PRG is under contract to purchase a very well located large garden apartment property at a favorable capitalization rate in Kansas City, Missouri, a market with strong economic fundamentals.

The Reserve at Barry is an institutional-quality, 690-unit, Class-B apartment community located in the high growth Northlands area of Kansas City. The property is located between the major thoroughfares of I-29, Missouri 152, and NW Barry Road, providing access to all major employers within a 20-minute drive – a relatively low figure as residents of Kansas City log more highway miles than any other city in the country.

The Reserve has been institutionally owned and operated since its construction in 1986. While the property exterior is in excellent condition, the unit interiors and clubhouse present themselves as tired and in need of upgrade being the classic scenario to add value.

PRG owns and manages Woodview Apartments in Kansas City; Woodview operates at a lower per-unit expense load than Reserve and has proved to be a very successful investment. Due to the large size of Reserve and the increased scale PRG will have in Kansas City, we believe there is no reason that the per-unit operating costs at Reserve should be greater than that of Woodview. Furthermore, PRG plans to institute its robust and sophisticated management platform, which will replace Somerset Apartment Management (an affiliate of the owner). While reputable, Somerset does not utilize the same tools as PRG, namely automated pricing software and a fully integrated enterprise software.

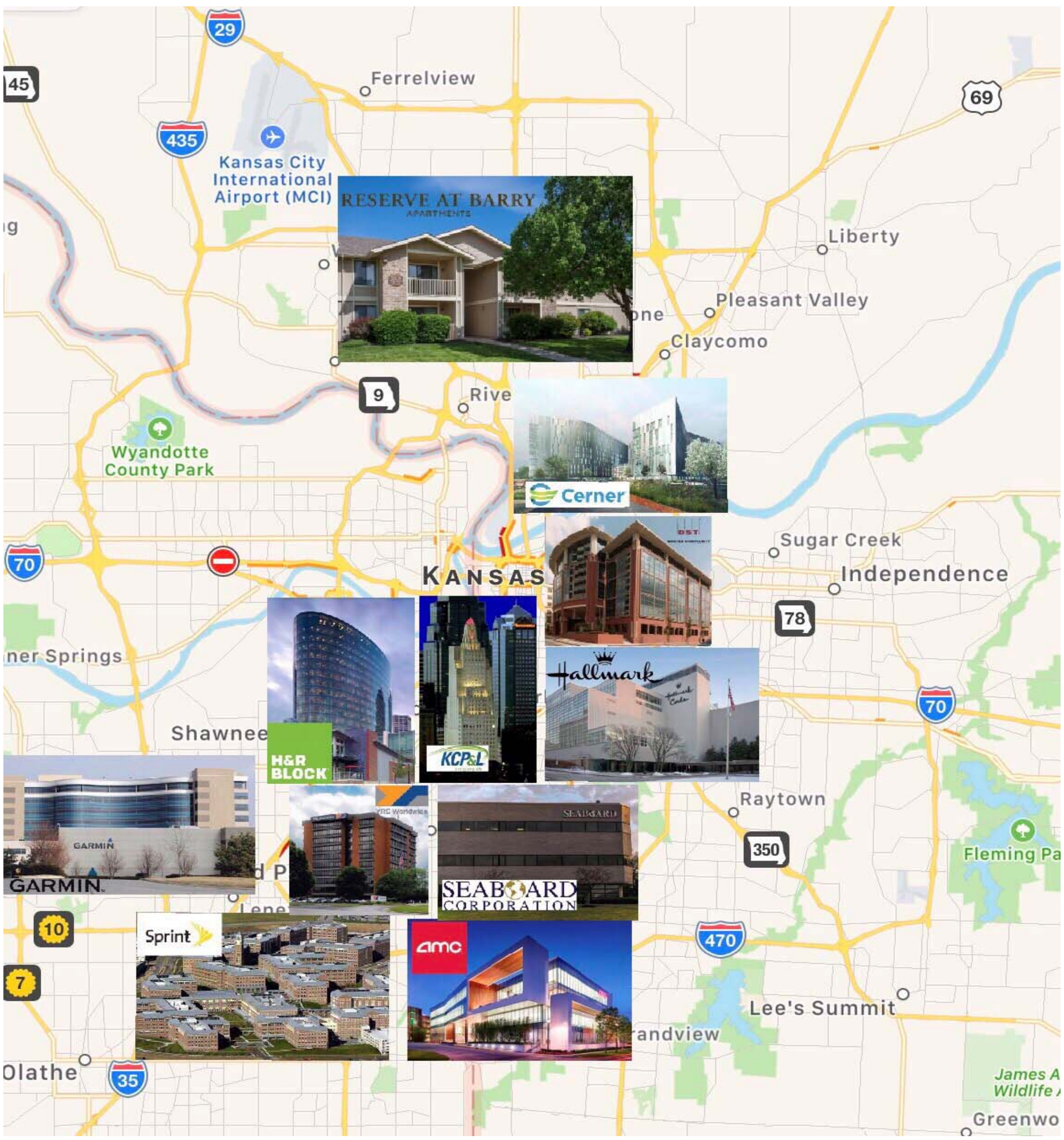
PRG is currently negotiating a Purchase and Sale Agreement for the purchase of Reserve for the price of $58,250,000, $84,400/unit. We anticipate closing to occur in January of 2017. The property is projected to return a cash on cash return of 8% over the hold period resulting in a net IRR to investors of 15%. In-place debt has a blended rate of approximately 5.20%, with 7 years of term remaining, and a leverage ratio of 76%. The mortgage also begins to amortize after year two. While the existing debt is more than 100 bps above market rate, it has allowed PRG to negotiate the purchase the property at a 15% below-market basis and at an above-market implied cap rate of 6.3%. The loan assumption also serves as a hedge of any interest rate risk that is normally associated with new acquisitions as the rate is already locked-in and built into our valuation.

Kansas City Market Overview

The Kansas City Metropolitan Statistical Area (MSA) is one of the fastest growing areas in the country seeing population growth of nearly 10% over the past decade. For the year 2015, the Gross Metropolitan Product (GMP) of Kansas City was $125.6Bn., up 3.7% over 2014. This growth propelled Kansas City to the 29th position in the national GMP rankings for 2015. The MSA has seen steady GMP growth over the past 15 years; the compound annual growth ratio yields 3.3%. While this is a solid number, the telling statistic is that Kansas City saw no statistical decrease in GMP throughout the recession. Per the Bureau of Labor Statistics, Kansas City has an unemployment rate of 4.5%, below the national average.

Kansas City's economy is recognized as one of the most diverse among the Nation's second tier cities, with no single sector making up more than 15% of the economy. Such diversity provides for a very stable market and strong job base. Also, note that nearly one-third of the city's workforce has at least a bachelor's degree, placing it well above the national average.

Kansas City is also a major financial and banking center for the Midwest; the global headquarters of the Cerner Corporation (largest medical record-storage company in the world) and the Sprint Corporation are located here, as is the Federal Reserve Bank of Kansas City. This strong financial base allows other industries such as technology, engineering, healthcare, and animal health to drive further economic growth.



Inexpensive office space and low energy costs are enabling Kansas City to attract back-office space and data center investment as companies look to control costs by outsourcing data storage. Kansas City has further set itself apart in the technology and data arena by being the first city to implement Google's "Google Fiber", a state of the art fiber optic network capable of delivering 1Gbps download speeds as well as ultra-high definition digital cable.

Fortune 1000 companies headquartered in Kansas City:

- AMC Entertainment
- Cerner Corporation
- DST Systems
- Garmin International
- Great Plains Energy (KCPL)
- H&R Block
- Hallmark
- Seaboard Corporation
- Sprint
- YRC Worldwide

Project Summary – Reserve at Barry

Completed in 1986, the 690-unit complex has a favorable mix of floorplans consisting of 1 bed/1 bath (37%), 2 bed/1 bath (21%), 2 bed/2 bath (33%), and 3 bed/2 bath (9%) units. Each respective floorplan has ample square footage and thoughtful floorplans, creating a wonderful living space for residents. Further, the buildings are spread across a generous 58 acre parcel of land, allowing for a density of just 12 units per acre.

Since the current ownership acquired the property in 2013, they have invested $2,700,000 on capital upgrades. These upgrades included exterior siding replacement, clubhouse and fitness center upgrades, flatwork/hardscape improvements around the site, landscaping improvements, and miscellaneous interior upgrades. Much of the amenity/clubhouse work as well as the landscaping has left much to be desired.

A capital fund of approximately $5,400,000 has been reserved for the following projects which will increase the desirability and curb appeal of the property:

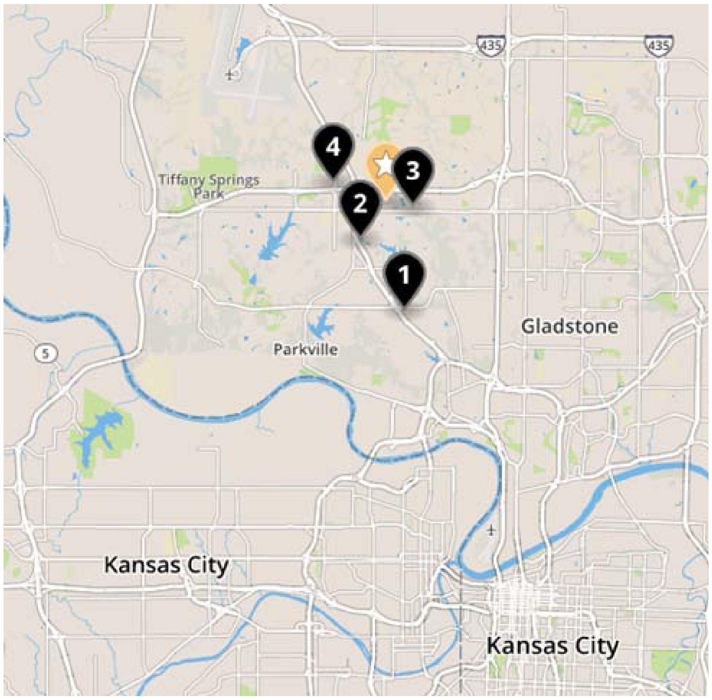
- Interior renovations to include the installation of:
    - Cabinet faces and modern hardware
    - Faux granite countertops
    - Stainless steel appliances
    - 2" plantation blinds
    - Contemporary light fixtures, faucets, and door hardware
- Exterior/common area renovations are to include:
    - Clubhouse(s) remodel
    - Model unit redecoration
    - Add large off-leash dog park
    - Build carports/detached garages
    - Landscaping improvements

PRG anticipates an average rental rate increase of $125 per unit as a result of these renovations.

Current unit interior at Reserve

Competitive Set Analysis

Compared to the competitive set, rents at Reserve are lagging. Rents trail the market averages by 21%, 31%, and 16% for one, two, and three bedroom units, representing $143, $250, and $165, respectively. Many like-vintage competitors currently have similar interior finishes to Reserve but are in the process of renovating units. As such, PRG assumes that rental increases of $95, $135, and $185 per respective floorplan from the renovations will not only bring the property closer to its competitors, but will also provide increased value per rent-dollar through its updated finishes and fulsome amenity package.



Save for Coves North which is next door to Reserve, all three of the other comparable properties have traded in the past five years. Northland Passage provides the best and most recent sales comparison. The property was sold at the start of November, 2016 for $60,100,000 or $100,839 per unit. At 596 units and 1988 vintage, it helps to prove the market-basis of a like-kind property. Similarly, the 1997 vintage Crossing at Barry Road traded in late 2012 for $54,550,000 or $87,420 per unit. Even four years ago, the post-recessionary market basis for a similar property was more than PRG's contracted basis today. Finally, the 2009 vintage Riverstone traded at the tail end of the recession in October of 2010 for $102,994 per unit. All three transactions are indicative of PRG purchasing Reserve at a below market price point.

	1BR	2BR	3BR	Finishes	Amenities	Vintage	Sale Date	Price	Price/Unit
Reserve at Barry	$686	$805	$1,050	White cabinets, partial faux wood laminate floor, Formica, black appliances	pool (x2), clubhouse (x2), fitness center, tennis courts, volleyball court, off-leash dogpark (proposed)	1986	Pending	$58,250,000	$84,420
Northland Passage (=)	$831	$988	$1,215	Renovated units: faux granite countertops, partial faux wood flooring, white shaker cabinets with straight pulls, stainless appliances	pool (x2), dog park, outdoor kitchen, lakes/waterfall, tennis court	1988	Nov-16	$60,100,000	$100,839
Crossing at Barry (=)	$846	$1,017	-	White cabinets, Formica, white appliances, partial faux wood laminate flooring	pool (x2), tennis courts, dog park, hot tub, fitness center	1997	Sep-12	$54,550,000	$87,420
Coves North (-)	$715	$848	-	Oak cabinets, spray counters, carpet/vinyl tile, white appliances	Pool, clubhouse	1985	N/A	N/A	N/A
Riverstone (+)	$925	$1,366	$1,610*	Maple cabinets, faux wood laminate floor, faux granite counters, black appliances	fitness center, pool w/ outdoor kitchen, car care center, fulsome clubhouse amenity set, sports court	2009	Oct-10	$33,370,000	$102,994
Comp Averages	**$829**	**$1,055**	**$1,215**	-	-	1994	-	$39,329,000	$97,084

Investment Details

Equity Requirement

Investors will acquire Class B membership interests in PRG Reserve at Barry Associates, LLC, a Missouri limited liability company, formed for the purpose of owning and operating the Reserve at Barry apartments. The Class A member, who will be responsible for the operation and management of the investment, will be an affiliate of PRG. The partnership will offer a total of $21,000,000 worth of Class B membership interests.

Debt

PRG is purchasing the property subject to two existing Freddie Mac mortgages. The first loan has $36,474,000 of principal outstanding, with 2 years of interest-only on the remaining 7 years of term. The loan carries an interest rate of 5.24%. The second loan is coterminous with the first, has $7,686,000 of outstanding principal, and carries a 5.0% interest rate.

Cash Flow and Distributions

Each Class B membership interest carries an 8% cumulative preferred return on the capital initially contributed by the purchaser of the interest. The preferred return shall be payable quarterly, but subject to annual compounding. Proceeds from a refinancing or sale of the property will be used first to return any due preferred return, then to any outstanding capital contributions, and then will be divided among the Class A and B members with 75% to Class B members and 25% to Class A members.

Compensation

An affiliate of PRG will receive a 50 basis point acquisition fee on the sale price, and a nominal refinancing fee of $20,000 on future refinancing(s) of the project. The Class A members will receive 25% of all distributions to investors once all preferred returns and capital contributions are paid in full. The management company, PRG Real Estate Management, Inc. will run the day-to-day operations of the property, for which it will receive an annual management fee equal to 3.5% of revenues and a construction fee of 5% on all capital projects.

Conclusion

Due to the property's size and loan assumption, general interest was restricted, meaning less competition during the bidding process for PRG. As such, PRG is purchasing the property with a below-market basis which will help create long-term value for investors as the property value continues to appreciate, widening the basis-market value spread. Given the nature of the loan assumption and the amount of capital invested by the previous ownership, PRG believes that the Reserve at Barry represents a fantastic value-added opportunity. Hands-on management and a defined and targeted capital injection will continue to increase the property's value while also creating strong cash returns for investors.

Attachments

- Operating and Investment Projections

Reserve at Barry

8504 N Cosby, Kansas City, MO 64154

Investment Summary

Deal Information

Units	690
Vintage	1986
Current Occupancy	94%
Effective Rent	$787
Price	$58,250,000
Price/Unit	$84,420
Implied Cap Rate	6.31%
Residual Cap Rate	7.00%

Investment Funding

Purchase Price	$58,250,000
CAPEX	$5,179,050
Due Diligence	$65,000
Working Capital	$933,100
Loan Origination	$441,600
Acquisitions Fee	$291,250
Acquisition Cost	$65,160,000
Total Debt	$44,160,000
Total Equity	$21,000,000

Return Metrics

Unlevered Returns	
Project IRR	9.69%
Project Equity Multiple	1.72x
Levered Returns	
Class A IRR	27.85%
Class A Equity Multiple	4.65x
Class B IRR	15.01%
Class B Equity Multiple	2.26x

Sensitivity Analysis

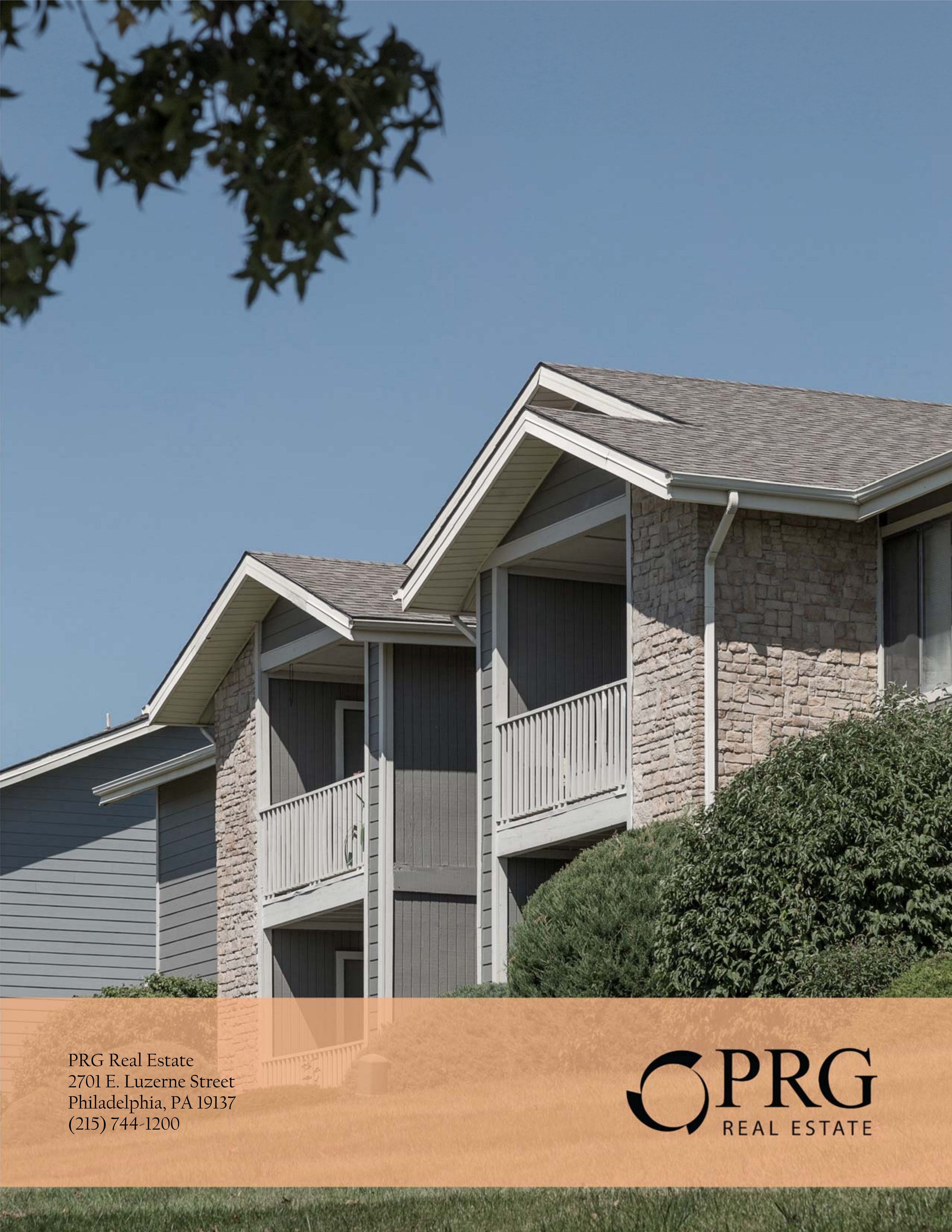
Exit Cap	IRR	Multiple
6.25%	17.18%	2.56x
6.50%	16.33%	2.44x
6.75%	15.51%	2.33x
7.00%	15.01%	2.26x
7.25%	13.93%	2.13x
7.50%	13.16%	2.04x
7.75%	12.42%	1.95x

Property Level Financial Projections

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
INCOME							
Gross Potential Rent	$6,856,712	$7,509,776	$7,923,451	$8,158,536	$8,374,357	$8,593,144	$8,814,940
Vacancy Loss	-$408,648	-$443,661	-$442,204	-$454,365	-$460,612	-$466,946	-$473,366
Apartments in Use	-$38,919	-$42,763	-$46,548	-$47,828	-$48,486	-$49,152	-$49,828
Concession Loss	-$8,011	-$8,779	-$9,293	-$9,570	-$9,832	-$10,096	-$10,365
Bad Debt Loss	-$25,605	-$28,058	-$29,702	-$30,587	-$31,422	-$32,268	-$33,126
Net Rental Income	$6,375,529	$6,986,515	$7,395,703	$7,616,186	$7,824,005	$8,034,682	$8,248,256
Other Income	$860,045	$958,697	$985,061	$1,012,150	$1,039,984	$1,068,584	$1,097,970
Net Income	$7,235,574	$7,945,211	$8,380,764	$8,628,336	$8,863,989	$9,103,266	$9,346,225
EXPENSES							
Administrative	$207,000	$212,175	$217,479	$222,916	$228,489	$234,202	$240,057
Management Fee	$253,245	$278,082	$293,327	$301,992	$310,240	$318,614	$327,118
Insurance	$165,600	$169,740	$173,984	$178,333	$182,791	$187,361	$192,045
Taxes	$725,000	$743,125	$761,703	$780,746	$800,264	$820,271	$840,778
Salaries/Burden	$714,413	$732,274	$750,580	$769,345	$788,579	$808,293	$828,500
Utilities	$567,148	$581,327	$595,860	$610,756	$626,025	$641,676	$657,718
Materials	$103,500	$106,088	$108,740	$111,458	$114,245	$117,101	$120,028
Contracts	$320,850	$328,871	$337,093	$345,520	$354,158	$363,012	$372,088
Replacement Reserve	$207,000	$212,175	$217,479	$222,916	$228,489	$234,202	$240,057
Operating Expense	$3,263,756	$3,363,856	$3,456,245	$3,543,983	$3,633,281	$3,724,731	$3,818,388
Net Operating Income	$3,971,818	$4,581,355	$4,924,519	$5,084,353	$5,230,709	$5,378,534	$5,527,838
Debt Service	$2,444,659	$2,439,350	$2,947,192	$2,948,566	$2,953,892	$2,947,192	$2,947,192
DSCR	1.62	1.88	1.67	1.72	1.77	1.82	1.88
Capital Reserves	$0	$212,175	$217,479	$222,916	$228,489	$234,202	$240,057
Net Cash Flow	$1,527,159	$1,929,830	$1,759,848	$1,912,871	$2,048,328	$2,197,141	$2,340,589

Investor (Class B) Level Financial Projections

Year	1	2	3	4	5	6	7
Annual Investor Dist.	$1,527,159	$1,929,830	$1,759,848	$1,912,871	$2,048,328	$2,197,141	$41,134,638
Cash on Initial Investment	7.27%	9.19%	8.38%	9.11%	9.75%	10.46%	11.15%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