



★ Lone Star Capital

Acquisition & Sale Case Study
Cranbrook Forest – Houston, TX
January 2022

Cranbrook Forest Investment Summary

Investment Summary		Returns Summary		Projected:	Achieved:
Purchase Price:	\$15,400,000	Project IRR:	26.9%	26.9%	23.6%
Total Capitalization:	\$17,900,000	Net IRR:	18.9%	18.9%	17.0%
Acquisition Debt:	\$13,500,000	Equity Multiple (net):	1.66x	1.66x	1.69x
Equity Check:	\$4,400,000	Hold Period:	60 months	60 months	41 months

Acquisition / Deal Analysis

Cranbrook Forest was a true off-market, deep value-add asset acquired by Lone Star Capital in July 2018. The previous owner, a large global investment fund, had acquired it out of bankruptcy as a small piece of a large portfolio. While some basic maintenance had been kept up, this group allowed Cranbrook to slip through the cracks operationally. The result was a challenging property that was mismanaged, mostly unrenovated, and had high vacancy, leaving significant value-add opportunities from an operations and capex perspective.



This difficult situation allowed us to buy Cranbrook for \$15,400,000, resulting in a basis of \$59,004 per unit, an immediate discount to comparables. Lone Star’s capital expenditures budget of \$1,525,000 (\$5,843/unit) along with improved management, helped to close the gap between the market and Cranbrook’s lagging performance.

Property / Market Overview

Cranbrook Forest is a 261-unit apartment complex built in 1983 located in a workforce northwest Houston suburb. The property features five large floor plans consisting of one and two-bedrooms. The community features a swimming pool and a fitness center. The property suffered from a lack of any on-site laundry facilities. Lone Star turned this defect into an advantage by strategically installing washers and dryers, a rare amenity in this submarket.

261 UNITS

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17 BUILDINGS

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HOUSTON, TX

Cranbrook is located in the desirable Spring ISD school district in northwest Houston with convenient access to I-45, Beltway 8, George Bush Intercontinental Airport, shopping, dining and public transportation. In July 2018, the Houston market exhibited strong demand and was recovering well from the 2014–2015 oil recession. The University of Houston predicted 70,000 new jobs over the subsequent year. Per Integra Realty Resources, Houston was the only market in the recovery period of its multifamily market cycle, implying decreasing vacancy rates and solid rent growth for the foreseeable future. The Willowbrook / Champions / Ella submarket had seen 6% rent growth as well as 4% occupancy growth. Jobs were growing rapidly as the Pinto Business Park (less than two miles away) opened an 855,000 square foot Amazon fulfillment center. While under contract, Coca Cola announced it would build a 1,000,000 square foot facility nearby on 110 acres.

Business Plan / Value-Add

Cranbrook was not just another lease-up. At takeover, Cranbrook Forest's occupancy fell to 70%, with low quality existing tenants and average in-place rents of \$750, despite a market operating at 93% occupancy and average rents of \$850. We embarked on a comprehensive re-tenanting. All legacy tenants were gone or evicted after the first year of ownership. This re-tenanting + lease-up, combined with renovations to appeal to higher-quality renters in the area, comprehensively repositioned the asset. Both management improvement efforts and capital improvements were extremely effective and worked in harmony to turn around the property's performance in less than 12 months.

Exterior / Amenities:

- Lone Star Capital addressed substantial deferred maintenance needs, including carpentry and iron work, concrete repairs, electrical repairs, and fencing.
- Exterior amenities: added playground, dog park, poolside summer kitchen, and improved landscaping.
- Clubhouse renovated by adding a business center for residents and building a 24-hour access door to the fitness center, while keeping the leasing center secure and only accessible during business hours.
- Improved security by adding cameras to the community, installing LED exterior lighting to deter illicit activity at night, bringing a courtesy patrol officer onsite, as well as working with the local precinct.

Operations:

- Increased resident retention with raffles, events, amenities
- Drove leasing + reduced eviction costs with reduced security deposit via Rhino
- Occupancy brought to 90% by June 2019 while simultaneously raising rents almost 20%.

Unit Upgrades:

- Washers / Dryers installed to maximize Cranbrook's edge of in-unit laundry compared with other properties on Ella Blvd. This better attracted stable tenants and families vs. competing properties.
- Interior renovations also included vinyl wood plank flooring, appliance replacement, resurfaced countertops, updated paint, new hardware including faucets, doorknobs, and light switches, and new lighting.





Asset Management / Performance

Since takeover, Cranbrook Forest’s revenue is up 32%, occupancy up from 71% to 90%, and NOI up 53% from \$803,826 to \$1,233,403. The coronavirus pandemic and its employment impacts have weighed to some extent on Cranbrook’s leasing performance. Nonetheless, Lone Star’s management team handled the coronavirus pandemic extremely well; operations, even after a complete and thorough turnaround program, continue to strengthen.

Cranbrook Forest: Rent Analysis				
Unit Type:	Square Feet:	Rent (going-in):	Rent (achieved):	% increase
1x1	718	\$675	\$760	+12.6%
1x1	859	\$855	\$899	+5.1%
1x1	813	\$710	\$823	+15.9%
2x1	865	\$760	\$920	+21.0%
2x2	1033	\$930	\$999	+7.4%

Refinance / Exit

By taking a proactive and nimble approach, Lone Star navigated a favorable refinance in April 2020 during the treacherous early days of the Coronavirus pandemic. The resulting valuation of \$21.5M (\$82,375 /u), compared with going-in value of \$17.3M (\$66,100 /u), locked in some of the tremendous value created by Lone Star’s careful acquisition and effective management at a time of great uncertainty in the capital markets. The 10-year Fannie Mae fixed-rate loan at 70% LTV, 3.32% rate, with 2 years interest-only, delivered strong cashflow to our investors while maintaining the possibility of a supplemental for future buyers to gross up leverage.

On December 31, 2021, Lone Star Capital sold Cranbrook Forest for \$22.1M resulting in a 23.6% gross IRR (17.0% net to investors). The sale was subject to existing debt which held back maximum value: although in hindsight the loan assumption weighed on returns, refinancing was absolutely the prudent choice given the circumstances at the onset of COVID, protecting downside at an uncertain time and securing a foundation of returns.

The investment’s full cycle performance exemplifies Lone Star’s ability to transact on compelling off-market opportunities, enter tough property situations, and competently execute complex operational plans. Fitting our mantra of “buy complexity, sell simplicity” – Cranbrook Forest has been transformed from a low-quality asset plagued by low occupancy, crime, weak operations and poor upkeep, to a clean, turnkey, stabilized asset delivering consistent cashflow for our investors and strong total returns across the life of the investment.

About Lone Star Capital

Lone Star Capital is a real estate investment firm focused on acquiring underperforming multifamily properties in Texas. Lone Star delivers superior risk-adjusted returns through diligent sourcing and selection, in-house property management, and rigorous reporting. Lone Star Capital is a fast-growing real estate investment firm operating over 2,000 multifamily units in Texas worth \$200MM.

Lone Star Capital Principals



Rob Beardsley oversees acquisitions and capital markets for the firm and has acquired over \$200M of multifamily real estate. He has evaluated thousands of opportunities using proprietary underwriting models and published the number one book on multifamily underwriting, *The Definitive Guide to Underwriting Multifamily Acquisitions*. He has written over 50 articles about underwriting, deal structures, and capital markets and hosts the Capital Spotlight podcast, which is focused on interviewing institutional investors.



Kent Piotrkowski leads operations and asset management and is CEO of Radiance Living, Lone Star's property management affiliate. He oversees strategy, operations, business plan execution, and reporting for our 2,000+ unit portfolio. Prior to Lone Star, Kent was Senior Counsel at MetLife, where he advised on corporate and real estate tax issues. Kent received his J.D. and L.L.M in Taxation from New York University School of Law and is a licensed attorney and real estate broker in New York State.

Contact Us:

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