



# ★ Lone Star Capital

Acquisition & Refinance Case Study  
Verandas at Bear Creek – Houston, TX  
November 2020

## Verandas at Bear Creek Investment Summary

Investment Summary		Returns Summary	Projected:	Actual:
Purchase Price:	\$11,500,000	Project IRR (implied):	19.4%	36.6%
Total Capitalization:	\$12,700,000	Equity Multiple (implied):	1.67x	1.48x
Acquisition Debt:	\$9,300,000	Cash on Cash (MRQ):	8.5%	7.37%
Equity Check:	\$3,400,000	Hold Period:	60 months	16 months

### Acquisition / Deal Analysis

Lone Star Capital first began pursuing the acquisition of Verandas at Bear Creek in early 2019 when the seller engaged a local brokerage firm to market the property for sale. Lone Star participated in the bidding process, but a buyer was never chosen since no one was able to meet the seller’s initial high price expectation. Lone Star continued to engage with the sales broker to see if the seller would be willing to lower their pricing and potentially transact outside of a competitive marketing process (also known as a “best and final offer” process which can go on for multiple rounds and often squeezes pricing to the absolute maximum). Finally, in February 2018, Lone Star was awarded the property for \$11,500,000 (\$71,875 per unit) and closed on the asset on June 26, 2019. We found this acquisition compelling due to its low basis and the possible upside through lease up and improved management, neither strategy being capital intensive. Lone Star planned an initial capital expenditures budget of \$500,000 (a modest \$3,125 per unit). The capex spend ended up marginally over budget at \$518,000 but the business plan proved effective as demonstrated by the speedy and successful lease up of the asset, reaching 100% occupancy in less than 12 months while raising rental rates by over \$50 (6.6% increase).



### Property Overview

Verandas at Bear Creek (“VBC”) is a 160-unit multifamily property located in the Bear Creek submarket of Northwest Houston, Texas. Built in 1982, Verandas at Bear Creek is situated in a pocket of similar vintage communities serving a largely B class tenant base, with relatively strong median incomes of around \$70,000. This pocket of communities had an average occupancy of around 93%, yet VBC was in the low 80s upon Lone Star’s acquisition despite being nearly fully renovated by the seller. Prior to acquisition, according to Apartment Data Services, the Bear Creek / Copperfield / Fairfield submarket ranked 1st of 42 total submarkets in their list of “Houston’s Hottest Performing Submarkets” with annualized growth rates of 6.7% in occupancy, 5.7% in rental rates and 1.17% in absorption over the prior 3 months. Additionally, there were no new or proposed apartment communities in a 3-mile radius of VBC.

**160 UNITS**

—

**14 BUILDINGS**

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**HOUSTON, TX**



## Business Plan / Value-Add

As indicated previously, Lone Star identified operational inefficiencies that caused suboptimal performance:

- Part-time manager overseeing the asset
- Lack of regional corporate oversight of that manager
- Furthermore, over year-long sale process, the on-site team at VBC experienced management fatigue and failed to maintain stable occupancy.

Fortunately for Lone Star, this below-stabilized occupancy limited the buyer pool since:

- Most buyers seek stabilized value-add assets, rather than mostly-renovated assets with non-stabilized operations, which show a less straightforward path to value creation than simple interior renovations.
- Deals under 90% occupancy are not eligible for permanent agency debt, requiring a bridge loan with a higher interest rate and shorter term than permanent financing.
- Confident that we could execute the business plan, we pursued a bridge loan execution with a plan to refinance the debt quickly post-stabilization.

Lone Star's business plan included:

- Renovation of 10 remaining classic units
- Install backsplashes in all kitchens throughout the property
- Complete 30 remaining washer / dryer installs
- On the exterior, Lone Star added perimeter fencing, as demanded by the residents to improve safety and enhance image / perception of the community.
- Lastly, we upgraded amenities –poolside barbeque grilling and picnic station, repainted stair railings, restriped the parking lot, upgraded exterior LED lighting, patio fence repairs, siding repairs, additional minor deferred maintenance items.

Both management improvement efforts and these capital expenditures were extremely effective in turning around the property's performance in less than 12 months.

## Asset Management / Performance

VBC’s operational performance has been roughly 5% below underwriting projections (based on net operating income), which can at least partially be attributed to the negative impact to rent collections associated with the coronavirus pandemic. Lone Star’s management team handled the coronavirus pandemic extremely well and the resident base worked with staff on payment plans to maintain occupancy and mitigate collection loss.



Rent Analysis: Underwriting vs. Achieved				
Unit Type:	Square Feet:	Rent (going-in):	Rent (projected):	Rent (achieved):
Studio	535	\$730	\$785	\$781
1x1	645	\$830	\$850	\$865
1x1	664	\$855	\$900	\$879
2x1	748	\$945	\$1,015	\$985
2x2	864	\$1,045	\$1,100	\$1,085

## Refinance / Exit

As of this writing, Verandas at Bear Creek has been a tremendous success for Lone Star and its investors as the partnership executed a cash-out refinance on October 9, 2020 at an appraised value of \$14,700,000 (\$91,875 per unit), returning 36% of investor’s original capital. Lone Star’s acquisition underwriting assumed a sale in five years (July 2024) for \$14,284,728 (\$89,280 per unit) using a very conservative 6.5% terminal capitalization rate. The investment’s actual performance and execution to date has been a strong example of Lone Star’s ability to under-promise and over-deliver.

## 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 by implementing moderate to extensive renovations, improving management, and designing creative capital solutions. In addition, Lone Star provides preferred equity and capital markets advisory to multifamily sponsors nationwide. Lone Star owns over \$100MM of multifamily properties throughout Texas and the Southeast. Click through to view our company presentation [here](#).

## Lone Star Capital Principals



Robert Beardsley oversees acquisitions and capital markets for the firm and has acquired over \$100M 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. Robert also helps run Greenoaks Capital, his family's real estate investment and advisory firm. Robert grew up in Silicon Valley and currently lives in New York City, where he enjoys reading nonfiction, traveling, working out, meditating, playing golf and piano.



Kent leads operations and asset management for the firm and is the CEO of Radiance Property Management, Lone Star's property management subsidiary. Kent has overseen the acquisition and management of over \$100M in multifamily properties. Prior to Lone Star, Kent was a Senior Counsel at MetLife, where he managed a variety of corporate and international tax issues, advised on the tax implications for the company's real estate and alternative investment transactions, and proposed, designed and implemented a global online platform for tracking all enterprise tax issues. He also led the tax department in MetLife's \$180M acquisition of the Fairmont Washington hotel in DC. Kent received his J.D. and L.L.M in Taxation from NYU and is a licensed attorney and real estate broker in New York State.

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Schedule a call with Rob at [www.calendly.com/robbeardsley](http://www.calendly.com/robbeardsley)

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