M3 Multifamily Fund #2, LLC

Executive Summary

M3 MULTIFAMILY

September, 2013

About M3

M3 Multifamily, LLC is an apartment investment and management company, managing 1,315 units among seven properties located in Austin and San Antonio, Texas. Our company, and its affiliated management company M3 Property Management, Inc. were formed in 2008 and are co-owned by John Mosby and Jon Martin. The principals each have a successful 27+ year career in real estate. The M3 companies together employ 32 team members as of September 2013.

Track Record

In 2010, M3 formed M3 Multifamily Fund #1 in order to purchase a diversified pool of apartment properties. The members of Fund #1 consist of a select number of high net worth individuals, with M3 as the sole asset manager. The Fund is the direct owner of each apartment property. We deployed $22.3 million, purchasing five apartment communities, which has earned a **net 8.3% cash yield** for the members since inception (excluding value appreciation).

Investment Goals

Long-term, Tax-sheltered Cash Flow. We distribute quarterly cash flows to the members. These cash flows are tax-sheltered. The investment horizon of each property purchased is anticipated to be 10-12 years.

Value Add Purchases. M3 is an opportunistic asset manager. We typically buy properties that are under-performing where we believe that through our renovation and repositioning efforts, we can substantially increase cash flow and return on investment, and ultimately value at sale.

True Alignment of Interests. The Fund is structured so that the manager is paid only after a 5% preferred return to the members is actually achieved, there is no manager "catch up" provision common to most deals of this type.

Sale at Opportune Time. Like Fund #1, Fund #2 is a buy-and-hold model, allowing us to maximize gains at sale by only selling at the right time.

Transparency. A hallmark of our business philosophy is that the members are well informed each quarter on the operations and financials of each property that is owned by the Fund. A detailed quarterly report is prepared specific to each property which tracks actual performance to budget. This report accompanies each quarterly distribution.





Modest Leverage. We believe that a key ingredient to long-term success in income producing real estate is modest leverage. While leverage can increase return on investment, we balance the benefits of lower leverage with real returns.

Hands-On Management. Unlike large scale real estate investment companies, the principals of M3 are directly involved in day-to-day operations and property management. We manage only M3 related properties.

Diversification. An important benefit to being part of a Fund structure is that we are able to invest your commitment in a variety of properties, and we are able to insulate liabilities to each specific property.

Inflation Hedge. While inflation is a non-issue today, purchasing income producing hard assets represent an excellent hedge. With interest rates at historically low levels, we negotiate long-term fixed interest rates on assumable loans to safeguard against rates rising over time.

Target Market Characteristics

- Strong population and job growth trends.
- Capital cities with universities, with preference toward universities with medical centers.
- Presence of multiple employment drivers.
- Barriers to entry of similarly priced competition.
- High quality of life.

Target Returns

Net "cash on cash" yield to investors are anticipated to be 7% – 10% annualized. Typically, we look for deals that will produce a minimum cash yield by Year 2 of 6% – 7% on invested capital, and as long-term growth benefits the bottom line, we expect to see 8% – 10% net cash yield. "Cash on cash" yield means actual distributions paid out from property earnings as a simple return of investment.

Minimum return is 5% preferred to the members prior to any manager splits. It would be unusual that we would buy a deal that is not expected to meet the preferred return immediately.

The net levered IRR, which captures both cash flow along with a gain at sale, is expected to be in the 12% to 15% range.

Targeted Assets

- Preferential Asset Class - B/C properties in A/B locations
- Asset Size - $2 - $15 million
- Leverage – average 65% debt to value ratio
- Asset Type - well located, value-add or under-performing apartment communities with a preference to proximity to downtowns or job hubs.
- Properties with current cash flow where renovation or repositioning will result in significant upside.
- Assets suffering from under-capitalization, weak management and/or distressed ownership.
- Purchase price below replacement cost – typically less than 75%.

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Fund Structure/Terms Summary

Total Raise. $20 million. Fund can close between $18 - $22 million. This is a closed fund. New commitments are not accepted after closing.

Minimum Commitment. $1 million (with manager discretion to reduce the minimum on a case by case basis).

Draw System. Funds are not called for until deals are found, and then only for the deal being purchased.

Investment Period. Three years. Commitments cease for any funds not deployed within investment period.

Investment Horizon. The expected life of the Fund is 12-14 years.

Not a "revolving fund." With one exception, once investment funds are deployed and then returned (through a sale or re-finance), they are distributed back to the members as return of their capital investment.

Preferred Return. 5% first dollar out to members prior to any split to manager. Cumulative accrual to members. No manager "catch up" provision.

Asset Management Fees. None.

Manager Compensation. After payment of cumulative preferred return to members, distributions are split 75% to members and 25% to manager. After achieving an 8% net yield to the members, distributions are split 60% to members and 40% to manager. Gain at sale is always split 75% to members and 25% to manager. Manager will earn an acquisition fee upon purchase of each property in the amount of 1% of sale price. For complex renovations, manager may earn a construction management fee of 5% of the renovation costs. M3 Property Management, M3's affiliated property management company, earns a market-rate property management fee of 3% - 4% of the gross monthly income of each property depending on the size of the property, which is an operating expense at the property level.

Manager. M3 Multifamily, LLC has broad authority to act on behalf of the Fund. Manager may not assign its interest to another manager without approval of the members.

Contact Us

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