

STRATEGIC PROPERTY INVESTMENT QUARTERLY

A QUARTERLY NEWSLETTER FROM SPI ADVISORY, LLC



THIS QUARTER'S NEWS
AND UPDATES:

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*Nothing in this newsletter constitutes an offering. Offerings are only completed through a Private Placement Memorandum (PPM). Past results are no guarantee of future results.

FOREWORD FROM CO-FOUNDER & PRINCIPAL, MICHAEL BECKER

Written by Michael Becker

Ralph Seger once said, "*An investor without investment objectives is like a traveler without a destination.*" At SPI Advisory we are singularly focused on acquiring well-located and mispriced Multifamily assets. Our focus strengthens our ability to achieve superior risk-adjusted returns for our investors.

Michael Becker.

CO-FOUNDER & PRINCIPAL



NOTE FROM CO-FOUNDER & PRINCIPAL, SEAN MABARAK

Written by Sean Mabarak

FIRST, WE ARE HONORED TO ANNOUNCE JENNIFER WARDER AS SPI ADVISORY, LLC'S NEWEST SHAREHOLDER AND PRINCIPAL.

Jennifer joined SPI in 2015 and has been instrumental in our firm's ability to scale quickly from less than \$100M in assets under management to over \$2B today.

Jennifer's dedication to SPI's investment goals and business values has been unmatched since her first day with us. Jennifer's diverse background as a proven leader in project management, software development, process redesign, and education transformed SPI's operational capacities. Additionally, as the champion of SPI's culture, she has defined how we attract, hire, and train our talented and dedicated team members.

We look forward to the path ahead for SPI as Jennifer helps us transform in new ways to accommodate the rapid growth of our company.

WELL, THE MARKETS WE'VE FOCUSED ON FOR NEARLY A DECADE HAVE FINALLY MADE IT TO THE BIG LEAGUES WHERE THEY BELONG.

The number of large institutions with acquisition teams now focused specifically on Dallas and Austin (and even San Antonio) has grown substantially. They have to place massive amounts of money in a short period of time, which is causing current market values of Class A property to race higher at a dizzying pace. We are also seeing a "flight to safety" where firms are taking large profits from projects in traditionally boom and bust markets like Florida and Arizona and aggressively allocating them in Texas.

Traditionally, these large institutions are very disciplined and do not deviate from valuation practices that rely primarily on in-place operating data. However, they seem to be getting more and more comfortable pulling forward future revenues and focusing on cap rates relative to "marked to market" rental income. Given that old to new lease trade outs in these markets have averaged 15-30% for several months, it creates the situation we are in now where properties that would typically trade for an adjusted 3-4% cap are now trading for in-place cap rates in the low 2% range.

In this environment, it's more important than ever to maintain discipline. Partnering with a firm like SPI Advisory really levels the playing field for our investors looking to get into Texas Multifamily. These sophisticated institutional investors are coming for Texas Multifamily for a reason. The demographic and economic winds are at our back. They are betting billions and billions of dollars that Texas Multifamily will outperform the other investment alternatives for years to come. We concur with their investment thesis. Our job is to identify the mispriced assets and take them down.

We at SPI Advisory have well-established long-term relationships with the Texas Multifamily brokerage community. Additionally, we are based in Texas with offices in both Dallas and Austin. Every day on the multifamily playing field we are going up against these institutional teams. **It's a good thing for us every day we are playing at home while they are the away team.**

To a successful year ahead,

Sean Mabarak,

CO-FOUNDER & PRINCIPAL



STATE OF THE MARKET:

"2022 PREDICTIONS: KEY TAKEAWAYS FROM THE ANNUAL NATIONAL MULTIHOUSING COUNCIL MEETING"

Written by Michael Becker

HI MICHAEL BECKER HERE...

Every year the multifamily industry has a large gathering in mid-January where owners, brokers, lenders, equity providers, and other various vendors go to meet up and try to figure out what deals to work on in the current year. It's called **the National Multihousing Council Annual Meeting** or "NMHC" for short. This year NMHC was held in Orlando. It's typically attended by 10,000+ of your closest friends from all over the country. This year I would estimate there were about 7,000 people or so as I think the lingering effects of COVID limited attendance a touch. For this newsletter, I thought I would share a few of my takeaways from this event.

TSUNAMI OF LIQUIDITY

I am starting to feel a bit like a broken record saying the same thing for the past several years, but there is so much money out there. I have heard this described as there is a "Tsunami of Liquidity" chasing multifamily specifically in the Sunbelt. This seems to have accelerated as the calendar turned to 2022. So there is more and more money chasing the exact thing we at SPI Advisory have been doing for nearly a decade. For at least the near to intermediate-term I don't see demand letting up one bit.

LIMITED INVENTORY FOR SALE

One of the main goals I always have at the NMHC Conference is to come away with a deal to buy. After taking a bunch of meetings with the brokers who cover our 3 target markets DFW, Austin and San Antonio, it was shocking to see how little inventory was available for sale presently. That is more acute in the Class A space compared to the Workforce Housing space. That will change in the coming months but for Q1 there isn't a lot going to trade in DFW, Austin or San Antonio.

Why is that? In my opinion, it's a combo largely of 2 factors:

In 2021 with all the talk out of Washington about the Build Back Better "BBB" bill, its associated tax hikes, and potentially the elimination of the 1031 Exchange, that got a lot of owners debating when to sell their property to speed up that decision. In short, it brought forward the listing of deals that otherwise would be out now into 2021.

I know I was super busy in the 4th quarter and everyone I talked to in the business was as well.

Typically when a developer builds apartments they also have to operate them for 12-18 months to lease up and stabilize the buildings before they go to market and sell them. Historically, there have been few deals sold pre-stabilized as the developer would have to take a discount to price to not stabilize the building. Well, welcome to the post-Covid lockdown world of Multifamily. Nowadays, these developers can sell their building upon receiving their Certificate of Occupancy typically at 30-40% occupancy at fully stabilized pricing. The impact of this phenomenon was to take deals that would be out now and brought them forward into 2021 further limiting supply today.

Interestingly enough SPI has a deal on the market right now that we just called for offers on after marketing for nearly 5 weeks. It's a 2017 built Class A Wrap deal (has a parking structure not surfaced parked). I think for the first 3-4 weeks we were on the market we were the only Class A deal 5 years or newer on the market in DFW period. I am not aware of another Class A Wrap deal that is calling for offers in DFW within weeks of ours. That is an amazing statement considering DFW had nearly \$25B of Multifamily sales in 2021 representing tens of thousands of units. This is the most active apartment market in the entire country. We hit 50 tours (normally I am excited if we top 20 tours), had 32 offers and well exceeded our pricing expectations. It was unbelievable to see the depth and quality of the buyer pool.

INTEREST RATES

For the nearly a decade that I have been raising money to buy apartments, During that period I have had a ton of conversations with you our investors. For that entire time, our investors have been concerned about rising interest rates and what negative impact that will have on their multifamily investments. Also for that entire time rates have basically fallen, cap rates have compressed and our investors who invested have gotten fabulously wealthy along the way.

STATE OF THE MARKET:

"2022 PREDICTIONS: KEY TAKEAWAYS FROM THE ANNUAL NATIONAL MULTIHOUSING COUNCIL MEETING"

Written by Michael Becker

Here we are again, the Fed is banging their drum about raising interest rates, it appears there are several hikes in our future with 100% probability of that happening in the near term. As a result in almost every conversation I have with our investors, I talk about the impact of rising interest rates on their multifamily investment holdings.

So while I am the last person you should be taking advice on about what is going to happen to interest rates as I have been wrong for 20 years on this topic. What I can tell you is in the 100+ conversations I had out in Orlando, not a single one was about interest rates. So to the people who are buying, selling, and financing multifamily properties, rising interest rates isn't a major concern out of the gate in 2022 to their ability to get deals done. Maybe that should be a bearish sign that no one was talking about it. I guess time will tell on that one.

With the risk of being wrong and looking stupid, here is our house view on interest rates today. We think that we will see 150-200 basis points of increase over the next 12-24 months and then stuff will start to break in the economy, the yield curve will likely invert and we get back into rate cuts and more QE. Again I have been wrong on this topic for 20 years so take all of this with a grain of salt.

WHAT DOES ALL OF THIS MEAN FOR SPI ADVISORY IN 2022?

We are still bullish on Texas Multifamily. We are still going to buy deals in 2022. We are committed to being a firm that can do good deals at any point in the cycle.

I have learned that to win in the business it's all relative. Our main objective at SPI Advisory is to buy well-located high-quality deals at a relative value to the rest of the market. So in 2013 when 1970's deals were trading at \$40K a door and we found the deal at \$30K a door, we bought it and I felt like we were winning. In 2021 when Class A deals were trading at \$220K a door and we bought for \$190K a door, I felt like we were winning. So that will remain our objective going forward and our track record proves that we are really great at acquisitions.

Please stay tuned and bear with us. We expect to have some new opportunities to invest in soon, however, it might be Q2 before they are available due to the market conditions I covered above.

CHEERS,



CO-FOUNDER & PRINCIPAL



WANT TO READ MORE?

Gain insight from SPI Advisory's Co-founders & Principals on topics like: The State of the Multifamily Market, Market Forecasts & Predictions, Investing Insights every Investor should know, & so much more.

[READ MORE](#)

CAPEX SPOTLIGHT

MICHAEL CAGLE

Written by Michael Cagle & Lily Turner, Marketing Coordinator



MICHAEL CAGLE is currently Vice President of Renovations at [Velo Renovation](#), a property renovation company located in Dallas, TX. Michael graduated with a BS in Architecture from Texas Tech in 2004 & worked as an Architectural Illustrator until 2013 when he founded [CagleArt LLC](#), a company that focuses on developing state-of-the-art 3D architectural design imagery. Today, Michael has over 15 years of experience working in the field of architecture, design, & execution of commercial & residential real estate construction projects in the US. Before joining Velo, Michael oversaw the completion of several multi-million dollar designs & renovation projects on Class B & Class C properties for several Dallas-based private equity firms. One of the first projects Michael took on as VP of Renovations at Velo was for one of SPI's 2021 acquisitions, The Ventura (formerly known as Central Park Apartments).

I got to sit down with Michael & ask him more about where he draws his inspiration, processes, & his overall experience working in the architectural design industry.

WHAT INITIALLY ATTRACTED YOU TO THE FIELD OF ARCHITECTURAL DESIGN?

"I've always had an interest & passion for creating. When I was younger, before DIY was a thing, my mother & I would always make things together. My mother was very crafty, and I was passionate about art. I decided to follow architecture because it was a practical way to earn a living & fulfill my desire to create. **I am passionate about design, because at its best, it strikes a beautiful balance between the analytical & artistic."**

" I am passionate about design, because at its best, it strikes a beautiful balance between the analytical & artistic."

At Michael's first job out of college, he worked as an Architectural Illustrator. "I was labeled a 'visual designer' by my colleagues," Michael laughed. "I was always the guy who made people's ideas pretty, but I was never able to make my own designs." As an Architectural Illustrator, Michael was responsible for translating high-net-worth clients' visions into 3D visual renderings, managing project schedules, & documenting their completion.

In 2013, Michael founded his own company, CagleArt LLC. As Founder & Managing Member, CagleArt has allowed Michael to work closely with clientele to design & translate their vision into reality. It has allowed him to express his creative freedom as a designer & artist, something that his past jobs never allowed him to do.

Michael joined [MultiFamily Property Group](#) as VP of Repositions in 2017. The projects he collaborated on at MPG inspired the next collaborative venture. In the fall of 2021, Michael partnered with JC Castillo to form a new company, Velo Renovation, that focuses on property renovation & repositioning.

At Velo, I get to do what I love & work with great people, both on my team & on the client side," said Michael.



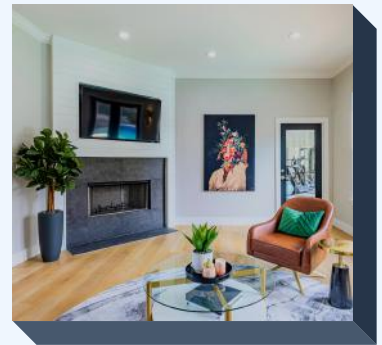
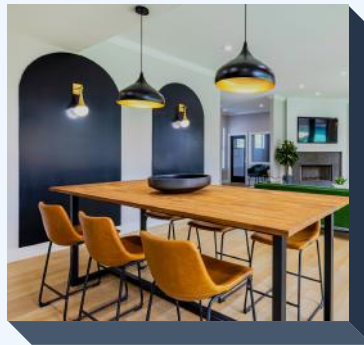
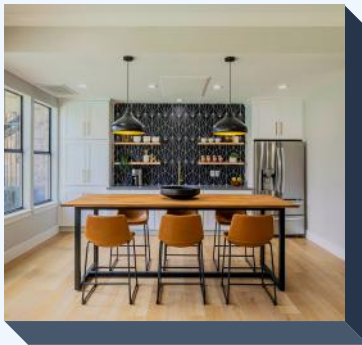
CAPEX SPOTLIGHT

WHAT WAS ONE OF YOUR FAVORITE PROJECTS?

"A recent project I enjoyed working on was Central Park Apartments because we were able to renovate the entire leasing center, rather than just augmenting with new furniture & accessories." Michael explains his favorite projects are the ones where he has "carte-blanche" to design & foresee the renovation of a project exactly how he envisioned, rather than design by committee.

Central Park was Michael's first renovation project as VP of renovations at Velo Renovation, LLC. SPI Advisory acquired Central Park Apartments (now known as "The Ventura") in March of 2021. Prior to acquisition, SPI planned on a renovation of the apartment complex's Leasing Office & enlisted the help of Michael. The project took around 2 ½ - 3 months to complete from design to construction.

THE VENTURA LEASING OFFICE RENOVATION, MICHAEL CAGLE



“Every project is a chance to try new styles & learn from past designs and iterations and **make things better the next time.**”

WHEN YOU'RE RENOVATING A PROPERTY, WHERE DO YOU LOOK TO FOR INSPIRATION?

My approach is practical, creative problem-solving, Michael explained to me. "One of the things I do well is understanding constraints. I want to create something exciting & inspired, but it has to be practical & on budget." Michael adds that being budget-conscious encourages him to come up with his most creative solutions.

When renovating a project, Michael discloses that he first looks to the properties themselves to come up with ideas. **"It doesn't make sense to me to force style, I try to embrace a property's original motifs & pay homage to them."**

HOW WOULD YOU DESCRIBE YOUR ARCHITECTURAL STYLE?

While Michael values the original style of the property he's renovating the highest, he admits his affinity to Modernism. "I try to make sense of styles for specific projects, but I am always infusing modernism in my approach," Michael explains. "Every project is a chance to try new styles & learn from past mistakes to make things better the next time. A lot of designers have a very specific style, but I'm always exploring, & I usually just follow what moves me for that particular project."

Q421 SNAPSHOT

Written by Lily Turner, Marketing Coordinator

In the last quarter of 2021, we started off by recapitalizing our ownership of Riverside Apartments, and used these funds to acquire 619 more apartment units in the San Antonio market. Today, SPI Advisory manages nearly 1,200 units in the San Antonio metro; at the beginning of the year, we owned 0. In 2022, we plan to continue our expansion in the San Antonio market.

RECAP



RIVERSIDE APARTMENTS

📍 ARLINGTON, TX

On December 8, 2021, SPI Advisory, LLC recapitalized their ownership of Riverside Apartments with the help of an institutional partner. SPI and its longtime JV partner acquired Riverside Apartments in 2018 and used the proceeds of the recapitalization to 1031 exchange into larger property in San Antonio. Built in 2017, Riverside Apartments offers Arlington, TX residents 188 units furnished with amenities such as granite countertops, patios/balconies, high-tech appliances and automated NEST thermostats.

LA MIRAGE

📍 SAN ANTONIO, TX

On December 14, 2021, SPI Advisory, LLC and its 1031 Exchange partners acquired their 3rd San Antonio property so far this year.

Located directly in the heart of the Medical Center of North San Antonio, La Mirage Apartments comprises 280 units that offer its residents amenities such as a controlled-access gates, covered parking, a fully-equipped business center, pool and spa. Residents enjoy quick access to many of the major employment centers in the San Antonio metro.



ACQUISITION

ACQUISITION



ENCORE SOFLO

📍 SAN ANTONIO, TX

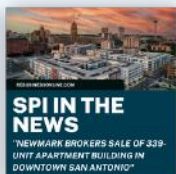
On December 17, 2021, SPI Advisory, LLC & its joint venture partners acquired Encore SoFlo Apartments, bringing its total acquisitions in the San Antonio market to 1,160 units over the last 5 months of 2021.

Located in the vibrant heart of Southtown, San Antonio, TX, Encore SoFlo Apartments offers residents close proximity to Downtown San Antonio's most popular shops, restaurants, & bars. The complex boasts luxury amenities, a Skydeck with sweeping downtown views, 10-18 foot ceilings, spacious closets, & a full-size washer & dryer in all 339 of its units.

SPI IN THE NEWS

In 2021, SPI was featured frequently in the news for their acquisitions in San Antonio, and the completion of 5 Mockingbird Mural Restoration.

[READ MORE](#)



2021 AT A GLANCE

~\$400MM
ACQUISITIONS

~\$90MM
DISPOSITIONS

~\$150MM
EQUITY RAISED

2021 ACQUISITIONS



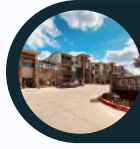
CANOPY AT SOUTH LAKES
Denton, TX

240
units



BIRWOOD HEIGHTS
San Antonio, TX

312
units



THE VENTURA
Mesquite, TX

111
units



SOUTHTOWN FLATS
San Antonio, TX

229
units



ELLA PARKSIDE
Austin, TX

309
units



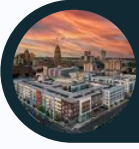
LA MIRAGE
San Antonio, TX

280
units



RIVERSIDE PARK
Farmers Branch, TX

136
units



ENCORE SOFLO
San Antonio, TX

339
units

2021 DISPOSITIONS



MISSION RANCH
Mesquite, TX

295
units



WESTPOINT AT SCENIC VISTA
Fort Worth, TX

264
units

CHECK OUT OUR PORTFOLIO

We recently redesigned our website. Each property thumbnail on our new portfolio page can be clicked on and will bring you to a page with more details about each property. Check out the website to try it out for yourself!

[VISIT OUR WEBSITE](#)



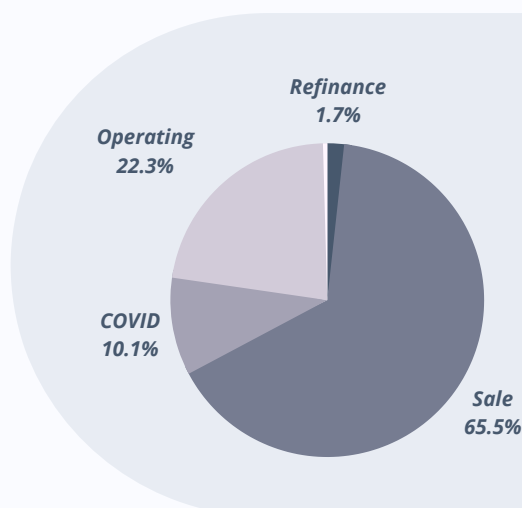
2021 PERFORMANCE

2021 DISTRIBUTIONS	Q1	Q2	Q3	Q4	TOTAL
OPERATING DISTRIBUTIONS	\$2,285,000	\$2,840,000	\$3,535,000	\$4,273,000	\$12,933,000
CAPITAL DISTRIBUTIONS	0	\$15,456,000	\$27,200,000	\$2,500,000	\$45,156,000
TOTAL DISTRIBUTIONS	\$2,285,000	\$18,296,000	\$30,735,000	\$6,773,000	\$58,089,000

2021 DISTRIBUTIONS

\$45MM+ TOTAL IN CAPITAL DISTRIBUTIONS

\$58MM+ IN TOTAL DISTRIBUTIONS



DIST. TYPE	AMOUNT
OPERATING	\$ 12.93MM
COVID ESCROWS	\$ 5.85MM
REFINANCE	\$ 1.00MM
SALE	\$ 38.05MM
ONE TIME	\$ 0.26MM
TOTAL	\$58.09MM

7,000+ UNITS MANAGED

ACQUIRED UNITS: 1,956
- DISPOSED UNITS: 559

+ 1,397 units

20.2% INCREASE
IN MONTHLY DISTRIBUTIONS
4Q 2020 v 4Q 2021

8.1% INCREASE
IN NET RENTAL INCOME
4Q 2020 v. 4Q 2021

Unaudited. For Internal Use Only.

*Nothing in this newsletter constitutes an offering. Offerings are only completed through a Private Placement Memorandum (PPM). Past results are no guarantee of future results.

2021 MILESTONES

1 INVESTOR PARTY

In November, SPI Advisory, LLC held its annual Investor Party at Delucca Gaucho Pizza & Wine. This event was a celebration of all the deal closings throughout 2021 and a way for SPI and its investors to come together.



4 NEW HIRES

We expanded our capacity in 2021 by adding 3 new members of the team who have already made important impacts: Accounting Coordinator, Kara Perez (1), Marketing Coordinator, Lily Turner (2), & Asset Management Analyst, Andrew Crosby (3). Just recently we hired a Project Analyst, Ashley Peacock (not pictured).

Now, SPI Advisory's team is made up of 12 members.

\$40K RAISED FOR CHARITY

In 2021, SPI Advisory, LLC gave back to those in need.

For Veterans Day 2021, SPI committed to donating a base of \$10,000 and matching up to an additional \$10,000 of investor donations to The Homeless Veterans Services of Dallas, a nonprofit that serves homeless DFW Veterans and provides them with hot meals, showers, access to laundry facilities, job & housing assistance, education, peer support, and a place to rest their heads. SPI and its investors raised a total of \$32,490 to go toward a brand new computer lab.



To celebrate Vogel Alcove's 35th anniversary, SPI made a donation of \$10,000. Vogel Alcove is a Dallas-based non-profit providing homeless Dallas children and families with services centered around fostering and/or rehabilitating their physical, intellectual, emotional, and social wellbeing.



This is the first year of SPI Advisory's new project called #SPICares. #SPICares is SPI's commitment to regularly give back to those less fortunate whether that be with financial support or the donation of time. Philanthropy is SPI's newest value. Read more about #SPICares [here](#).

INVESTING INSIGHTS

Written by Principal, Jennifer Warder

Although we proactively work towards tax season year-round, we are in the thick of Tax Season (with capital letters!) right now. And, the more deals we do, the more intense this season becomes! This year we will process 35 tax returns and issue more than 1,400 K-1s to our investors. **Given the time of year, I thought it would be helpful to briefly discuss the tax forms you will receive and what your responsibilities are when you receive them.**

When you invest in one of our offerings, you become a member of the investment entity that owns the multifamily property. Each year we will file a partnership return with the IRS for the entity, which has entity level values representing various income and expenses. In this return is also a Schedule K-1 that goes to each member. The values on the Schedule K-1 you receive are derived by taking entity level values and using your ownership percent to allocate to you your portion of those values.

It's important to note that we at SPI Advisory are not tax experts. We rely on our tax, financial, and legal advisors each year to assist us in both the planning and structuring of the investments on the front end as well as having our CPA prepare the tax returns for the investment entities each Tax Season.

As I'm sure you've heard us say before, it is our strongest recommendation that you have similar advisors in your corner and work with your advisors **in advance** of investing in deals like ours in order to determine the best way to take title in the deal. Having this discussion with your tax, financial, and/or legal advisors ahead of time only serves to benefit you, as how you take title can have significant impacts on your individual tax and estate planning situation.

Additionally, since you are responsible for taking the K-1 we provide and incorporating it into your tax return, as applicable, you will need a good tax and/or financial advisor on your team to answer your questions about the K-1. These advisors can help you understand how the K-1 applies to your own tax return and how its contents will impact your personal tax situation.

The Internal Revenue Code the IRS follows to create forms like the K-1 and to define how the completed form should be used for your tax return will need to be interpreted by a professional who knows how to apply the tax law to your individual tax situation, which is unique to you. **SPI Advisory is unable and unqualified to advise you, as we are not tax advisors and do not have insight into your personal tax situation.**

Wishing you all the best this Tax Season,



PRINCIPAL



[READ MORE
INVESTING INSIGHTS](#)

ABOUT SPI ADVISORY, LLC



SPI ADVISORY, LLC is a Dallas-based private equity firm that has been a principal investor in over \$2 Billion worth of multifamily real estate, with \$1.6 Billion in current Assets Under Management.

SPI is transforming the way high net worth investors identify, assess, secure & sell high-yield, tax-efficient multifamily real estate investments.

SPI offers tailored joint venture partnership and advisory services as well as passive investing opportunities in institutional quality multifamily assets to our increasingly diverse client base.



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