



Executive Summary

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Overview

Unprecedented inflows of foreign capital have combined with historically low domestic interest rates to force yields on multifamily real estate down to unattractively low levels in major American metropolitan areas like New York, Los Angeles, Boston, and San Francisco. With energy prices plummeting, areas like Texas suddenly seem riskier. Yet, attractive multifamily investment opportunities still exist in places like the Carolinas, Georgia, and Virginia (the “Southeast”), where yields on real estate remain comparatively high and population growth has outstripped the major Northeastern and Western metropolitan areas for decades.

Some investment firms have noted the opportunity in the Southeast, and yield compression has resulted there as well. However, most of these firms focus on larger deals (\$20 million and above), as their investment criteria make it difficult to invest in smaller assets, ameliorating the yield compression for smaller assets. Two Bridges Asset Management LLC (“Two Bridges”) focuses only on assets trading below \$10 million, allowing it to sidestep competition from larger players and deliver attractive yields in an otherwise low-yield environment. Moreover, an arbitrage opportunity exists to aggregate assets that, individually, are too small for larger firms into a portfolio that will attract substantial interest from large investors.

Few firms outside the Southeast have the expertise or relationships to access the region’s attractive sub-\$10 million multifamily opportunities. Few firms in the Southeast can reach investors outside the region. Two Bridges, with strong local connections, a reputation there for closing deals, and access to off-market assets, is uniquely positioned to find attractive opportunities in the Southeast on behalf of investors outside the region.

The Attractiveness of the Southeast

Two Bridges believes that several factors make the Southeast a compelling place to invest over the next decade. For example, according to the influential blog *New Geography*:

- Since World War II, the South has grown considerably faster than the Northeast; in the last several decades, it has grown considerably faster than California as well. In contrast, New York has grown at 1/3 the national rate for the last 64 years.
- Since 2010, the South has captured 52% of national population growth.
- From 2010-2014, North Carolina, South Carolina, and Georgia were the 3rd, 6th, and 10th largest recipients of migrants from other states. New York, New Jersey, Illinois, California, and Michigan lost the most people to other states during that time.



- Between now and 2042, the South will capture 51% of the nation's population growth (33 million residents), as compared to the Northeast, which will capture just 4% (2 million residents).
- The South's population will grow 1.6% annually between now and 2042, compared with 0.7% nationally. California's coastal cities of Los Angeles, San Francisco, San Diego and San Jose will grow by only 0.6% annually during that time. The fastest-growing Northeastern metro area will be Philadelphia at 0.3% a year, with the Northeast overall growing a paltry 0.2% per annum.¹

Growth in the South results from a combination of warmer climate, lower cost of living, lower taxes, and a solidly pro-business climate that attracts employers. Most, if not all, Southern states are non-union, which has attracted major manufacturers like Boeing, Michelin, BMW, Volkswagen, and others. One under-appreciated fact is that South Carolina now exports more cars than any other American state.

Despite this compelling growth and investment story, the capitalization rates in the Southeast are substantially higher than those in the major metropolitan areas.

Investment Approach

Two Bridges' approach is to find value by focusing on assets overlooked by larger investors and aggregating them to capture operational efficiencies and prepare the way for an exit to a larger investment firm at a compressed capitalization rate. Two Bridges approach includes:

- Focusing on older properties (built in 1970s, 1980s, and 1990s), which trade at a substantial discount to replacement value. These assets face little competition from Class A buildings on rent, face little threat from home ownership, and are relatively resilient in economic downturns, when people may seek out cheaper housing.
- Targeting assets containing 100-200 units, trading below \$10 million, which are generally too small for institutional buyers and too large for most local investors. They are also large enough to have operational efficiencies in staffing and services.
- Acquiring only stabilized, currently cash-flowing assets, selling at an un-levered yield of 7% or better, with minimal deferred maintenance.

¹ Wendell Cox, "Moving South and West? Metropolitan America in 2042," *New Geography*, January 29, 2014; and Cox, "2014 State Population: Rise of the South and West Continues," *New Geography*, January 3, 2015.



- Purchasing assets from non-professional “mom & pop” sellers, who frequently lack or miss opportunities to maximize value and price.
- Installing professional third-party management to enhance value.
- Assembling concentrated portfolios that permit economies of scale in staffing, purchasing, and bidding out service contracts.
- Financing conservatively at no more than 75% loan-to-value.
- Locking in historically low interest rates for 10 years through the commercial mortgage-backed securities (CMBS) market, allowing greater flexibility to time the market for sale or refinancing.
- Aggregating assets into a portfolio large suitable for sale to an institutional buyer at a compressed capitalization rate.

Management & Strategic Partners

- Two Bridges was founded in 2013 by Jonathan Twombly, previously a partner in the multifamily investment firm TRB Investment Group. Jonathan is a graduate of Harvard College and Columbia Law School and is a licensed attorney. He serves on the board of the Harvard Alumni Real Estate Organization.
- Red Drum Capital LLC of Mt. Pleasant, South Carolina, provides brokerage, consulting, and asset management services to Two Bridges, serving as Two Bridges’ team on the ground in the Southeast. Red Drum is run by Tyler Flesch, who has acquired, operated, and exited more than \$500 million of multifamily real estate assets over the course of a two-decade career.
- Ledic Management Group LLC, which manages 30,000 units of multifamily property throughout the Southeast, manages Two Bridges’ portfolio.
- Buist Byars & Taylor LLC, based in Mt. Pleasant, South Carolina, provides local legal services to Two Bridges.
- Moody CPAs & Advisors LLC, of Mt. Pleasant, South Carolina, provides accounting and tax services to Two Bridges’ properties.



Compensation Structure

Two Bridges' current compensation structure is based on a "1+20" model, subject to an 8% cumulative preferred return. Two Bridges charges a one-time acquisition fee equal to 3% of the capital raised from investors and an annual asset management fee equal to 1% of the capital raised from investors. Assuming that the cumulative 8% preferred return has been fully paid, Two Bridges receives a sponsor participation equal to 2% of the capital raise. All proceeds above the 2% sponsor participation are divided 80/20 in favor of the investor. Two Bridges also receives 20% of the net profit on sale, subject to the return of capital and payment of any preference catch-up. Two Bridges charges no disposition or refinance fees.

Further Information

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Two Bridges' Portfolio

Two Bridges has assembled a portfolio of 404 units across four properties, all located in the "Upstate" region of South Carolina. The Upstate region, which lies directly between Atlanta, Georgia, and Charlotte, North Carolina along the I-85 corridor, is the home of the South Carolina Inland Port as well as such well-known manufacturers as BMW, Michelin, Milliken and Cryovac. It has a combined population of nearly 1.5 million, and between 2010 and 2013 was the 11th fastest-growing region in the United States.

Valley Creek Apartments

Two Bridges acquired the Valley Creek Apartments in February 2014 for a purchase price of \$4.1 million. The property is located in Spartanburg, South Carolina, a metropolitan area of approximately 250,000 residents. The property was built in the 1970s, with extensive renovations in the 1990s and 2010s. It contains 102 residential units (21 1-BR, 60 2-BR, and 20 3-BR), a pool, gym, playground, and extensive onsite parking. It is well located at the intersection of Interstate 26 and Interstate 85-Business, within two miles of several thousand manufacturing jobs.



During a transition/stabilization year that involved substantial re-tenanting of the property, the Valley Creek Apartments still produced an annualized cash-on-cash return to investors of 5.2%, net of all fees and costs. The property is currently 91% occupied.





Village Park Apartments

Two Bridges acquired the Village Park Apartments, in Simpsonville, South Carolina, in July 2014 for \$4.85 million. Simpsonville is a suburb of Greenville, whose metropolitan area contains over 800,000 residents. Village Park contains 132 units, comprising 20 1-BR units and 112 2-BR duplexes, with a pool. Unusual for a suburban apartment complex, Village Park is adjacent to a city park and a short walk to downtown Simpsonville, with shops and restaurants. Two Bridges purchased the property with the intention to invest approximately \$150,000 for capital items such as re-coating driveways, replacing several roofs, and improving the overall curb appeal of the property with new landscaping and signage. That program is nearly complete. The property is currently 95% occupied.

In 2014, Village Park produced an 11.24% annualized net cash-on-cash return to investors.





Addison Townhomes

Two Bridges acquired the Addison Townhomes, in Taylors, South Carolina, in December 2014 for \$3.2 million. Addison received nearly \$1mm in upgrades from its previous owner, including new kitchens and bathrooms throughout. It is located in the path of progress on the major thoroughfare connecting the converging and increasingly affluent cities of Greenville and Greer, home of BMW North America.

Addison contains 54 units, broken into 12 1-BR flats, 36 2-BR duplexes, and 6 3-BR duplexes. Smaller than Two Bridges' typical target, Addison presented the opportunity to acquire a very attractive asset that can be managed together with Village Park. The property is currently 94% occupied. Two Bridges currently projects a five-year annualized net return to investors of 16.8% at an IRR of 14.7%, with a projected 10-year return of 22.5% and at an IRR of 15.5%.





Timbercreek Apartments

Two Bridges' most recent acquisition is the Timbercreek Apartments in Spartanburg, a short drive from Valley Creek. Two Bridges purchased Timbercreek in January 2015 for approximately \$5.6 million. Timbercreek is a 116-unit property, with a pool, playground, clubhouse, ample parking, and easy access to national retail and restaurant chains. There are 32 1-BR units, 64 2-BR units, and 20 3-BR units. Timbercreek's previous owner made extensive improvements to the property, including renovations to the pool, clubhouse, and many apartments. Two Bridges currently projects that Timbercreek's five-year annualized return to investors will be 18.2% at an IRR of 15.6%, and that the ten-year annualized investor return will be 24.9% at an IRR of 16.1%. The property is currently 99% occupied.

