

SPIRE USA MULTIFAMILY FUND IV (AUD)

AVAILABLE TO WHOLESALE INVESTORS ONLY


BACKGROUND

The term ‘multifamily’ is one that may be unfamiliar to many Australian investors, quite simply because it is an asset class that does not yet exist in Australia. Multifamily describes an apartment complex or community, where all of the occupants are tenants, i.e. there are no owner-occupiers. The property is owned in whole by a single owner, often an institutional investor or family office. These can be large assets, providing between 300 and over 1,200 rental units in a single property. They can either be ‘downtown’ high-rise, or suburban low-rise, gated, ‘garden-style’ communities. Larger assets employ on-site property and leasing managers with 24/7 on-site security. Leases are for 12 months, although many tenants stay for much longer periods - from years to decades. Investors like the shorter term leases in multifamily, as it allows quicker access to market increases than other property types.

Approximately 35% of US households are ‘renters’ and over the past 30-years, the multifamily market has grown to the point where it is the dominant provider of residential rental accommodation in the US. New household formation, immigration, a transient US workforce, and - increasingly - downsizing seniors, are all important demand drivers.

Multifamily has also grown to become the second largest commercial property asset class in the US, second only behind the commercial office market. The US multifamily market has deep liquidity, with over US\$170 billion in assets traded during 2018. This liquidity is supported by many different lenders, from national and regional banks, to the largest lender in the sector - Freddie Mac - which underwrote and securitised US\$78 billion of multifamily loans during 2018.

Passive, yield focused investors in multifamily are attracted by the low volatile nature of the income streams that stabilised (i.e fully leased at market rates), well managed multifamily apartment communities generate. A multifamily community with 1,000 tenants provides much less vacancy risk and rental volatility than a commercial office or industrial property of the same leasable area, which may only have a handful of tenants. As such, multifamily has been called the ‘gold standard’ for institutional property investors since the GFC.

This low risk profile of multifamily is particularly the case with Class-B multifamily properties, as evidenced by the Fund’s US Investment Manager, Bridge Investment Group’s experience with its portfolio of circa 9,000 Class-B units during the Global Financial Crisis. Their experience was an initial GFC induced fall in Net Operating Income (NOI) of 3%, but recovery into positive territory within 12-months as housing affordability became paramount. Over the past decade, national multifamily vacancy rates have fallen to below 5%, and rents for ‘Class-B’ assets - where the fund will focus - and have been increasing between 4% and 5% per annum. In addition, most new supply has been in ‘Class-A’ product, which needs to achieve much higher rents (often 3 to 4 times higher), than Class-B, due to their higher land and construction costs. There is negligible new supply of Class-B product. Also, value-add Class-B multifamily assets, can be acquired at significant discounts to replacement cost, sometimes in the order of 50%. This provides substantial pricing power relative to Class-A and caters to a much broader target market. These are the reasons that Class-B remains the ‘smart’ choice in US multifamily investing.

OVERVIEW

Spire USA Multifamily Fund IV (AUD) (‘the Fund’) acts as a wholesale Australian feeder fund into the strategy and assets of Bridge Multifamily Fund IV LP (‘BMF IV’); a Private Equity Real Estate fund. BMF IV is targeting US\$750 million in equity via its capital raise. A Hard Cap of US\$1 billion is likely to be determined.

The Investment Manager for the underlying fund is Bridge Investment Group LLC. Bridge is a specialist US real estate funds manager with over US\$15 billion in assets under management. Bridge is headquartered in Salt Lake City, Utah, with offices in New York, San Francisco and Orlando. Over the last 24 years Bridge has invested, managed and sold several billion dollars of property assets across all segments of the market. Bridge has a strong operating and property management platform, comprising over 1,000 management, leasing and facilities employees across the 30 states in which assets are owned.

BMF IV will essentially create stabilised multifamily investments for passive, 'buy & hold', often institutional, investors to acquire via a competitive process, either individually or as part of a portfolio. BMF IV will be a 'manufacturer' of institutional grade assets, on a 'buy, fix & sell' basis in order to identify, unlock and return added value to investors. Typically (as the following case Study shows) the strategy will be executed by acquiring a 1980s or 1990s vintage B-grade, suburban garden style asset, which is tired and under ammenitised, and is therefore leased at rentals below the current market for fresher product with better ammenities.

Bridge will implement a business plan which will involve a capital expenditure program to refresh and ammenitise the asset, and then drive a new leasing and renewal strategy at the higher market rents now unlocked as a result of the repositioning of the asset within its market. When it has stabilised the asset (typically 93%+ occupancy at market) and added full value, Bridge will then seek to sell the asset via a competitive process.

BMF IV may also develop new assets (5-10% of the portfolio).

The targeted IRR on invested capital for BMF IV is 12-14% net (USD denominated).

HOW THE FUND INVESTS

The Fund will commit, as a single Limited Partner, capital into the underlying fund progressively during the capital raising period, which is expected to run through until the end of Q3 2019. By doing so, the Fund will acquire a proportionate interest in the underlying funds' assets, at the original cost of those investments. The Fund will also pay an equalisation premium (estimated at between 2-4%), which is paid to earlier Limited Partners to compensate them for their dilution in the current portfolio.

The underlying fund, BMF IV, will continue to raise committed capital during its capital raising period, which will run between 12 and 18 months from its first close, depending upon if and when BMF IV reaches its target or hard cap. The underlying fund will also continue to invest committed equity during its 3 year (from first close) Investment Period. Following the Investment Period, the underlying fund will have a Harvest Period of up to 5 years*, during which time it will sell assets which have completed their value-add plan, and are thus considered stabilised. During the Investment Period rental income will be distributed to investors on a six-monthly basis as at 30 June and 31 December. During the Harvest Period, income from rentals and profits from sale, together with original capital, will be distributed to investors on the same six-monthly basis.

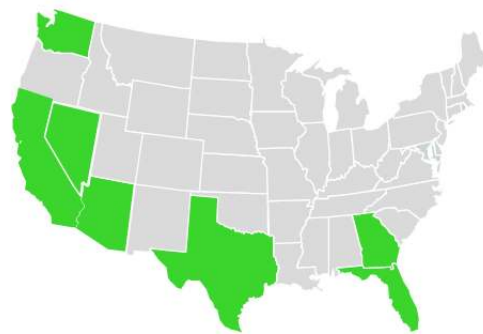
* The Harvest Period contains a 1+1 year extension provision which may be exercised at the discretion of the Investment Manager.

THE INITIAL PORTFOLIO (AS AT DECEMBER 2018)

BMF IV currently has 16 value-add multifamily assets already acquired or under contract at a total purchase price of approximately US\$916 million. These are summarised below. If the targeted equity raise of US\$750 - \$1,000 million is achieved, then Spire would expect a total portfolio size of 50 - 60 assets with a total purchase price of circa US\$2.5 billion.

Bridge Multifamily Fund IV Portfolio

Bridge Multifamily IV will invest primarily in Class B value-add multifamily housing in select high-growth U.S. markets



	Closed	Under Contract	Total/wtd avg
Total Markets	6	2	7
Assets	14	2	16
Estimated PP	\$851,875,000	\$63,950,000	\$915,825,000
Estimated Equity	\$358,134,394	\$51,147,078	\$409,281,472
Target Gross IRR	15.31%	18.83%	15.75%
Target Equity Multiple	1.72x	1.88x	1.74x
Avg CoC	5.8%	5.7%	6.1%

	Closed							Under Contract				
	Woodcreek	Chapel Hill	The Grandstand	Parkside at Town Center	Windrift	Rancho Park	Southwest 5 Portfolio	Grammercy	The Retreat at Maple Hill	Laguna Village	Verona Park	Jarupa Valley Crossroads
State	Texas	Texas	Georgia	Georgia	Florida	Nevada	Arizona Nevada	Washington	Washington	Arizona	Arizona	California
Metropolitan Statistical Area	Dallas	Dallas	Atlanta	Atlanta	Orlando	Las Vegas	Phoenix Las Vegas	Seattle	Seattle	Chandler	Mesa	Jarupa Valley
Units	200	1,183	680	234	288	228	1,658	382	300	460	304	460
Purchase Price	\$18,000,000	\$165,000,000	\$82,600,000	\$41,300,000	\$39,300,000	\$20,425,000	\$271,000,000	\$87,150,000	\$56,850,000	\$70,250,000	\$43,750,000	\$20,200,000
% of Replacement Cost	56%	87%	54%	78%	76%	39%	71%	76%	63%	51%	72%	19%
Total Equity	\$9,651,892	\$76,852,642	\$34,119,191	\$15,592,168	\$17,459,157	\$8,876,469	\$108,886,376	\$35,861,221	\$24,195,762	\$26,639,516	\$16,957,507	\$34,189,571
Target Gross IRR	15.83%	16.07%	15.18%	14.33%	14.93%	14.95%	15.01%	15.35%	15.06%	15.40%	14.86%	20.80%
Target Multiple	1.82x	1.66x	1.76x	1.73x	1.75x	1.82x	1.59x	1.73x	1.72x	1.76x	1.73x	1.95x
Avg Cash on Cash	6.2%	5.7%	6.3%	3.4%	5.8%	5.8%	5.7%	6.3%	6.2%	6.2%	5.7%	n/a

THE PREDECESSOR FUNDS

BMF IV is the fourth fund in the Bridge series investing into value-add US multifamily strategies.

Readers should note that the historical returns detailed below are US Dollar denominated and detail the performance of the underlying Bridge Investment Group predecessor funds investing in value-add multifamily apartments and commercial office properties.

Warning - Past performance is not always a reliable indicator of future performance. Dollar amounts are in US dollars.

	Equity Invested	Portfolio Allocation	Realised Assets / Total Assets	Net Equity Multiple	Net IRR ¹	Multifamily Only Gross IRR
Real Estate Opportunity Capital Fund (renamed Bridge Multifamily Fund I)² <i>March 19, 2009 through December 31, 2016</i>	\$120.0	80% Multifamily 20% Office	39/39	1.75x	15.2%	31.0%
Real Estate Opportunity Capital Fund II (renamed Bridge Multifamily Fund II)³ <i>April 3, 2012 through September 30, 2017</i>	\$555.2	80% Multifamily 20% Office	61/61	1.85x	23.4%	33.8%
Real Estate Opportunity Capital Fund III (renamed Bridge Multifamily Fund III)⁴ <i>January 7, 2015 through September 30, 2017 Note: Fund still in deployment mode.</i>	\$724.3	75% Multifamily 25% Office	2/61	1.38x	20.1%	28.4%

1. Internal Rate of Return on invested capital
2. No retail feeder fund was available for this fund as it was institutional only
3. Underlying Fund of Spire USA ROC II Fund (AUD)
4. Underlying Fund of Spire USA ROC III Fund (AUD)

CASE STUDY: OASIS PORTFOLIO

Note this an asset of Bridge Multifamily Fund III and is illustrative only. All amounts and returns are in US Dollars.

Warning - Past performance is not always a reliable indicator of future performance.

Location	Las Vegas, NV	Number of Properties	6
Asset Size	1,299 units	Capex per Unit	\$8,900
Age of Construction	1984-1996	Acquisition Cap Rate	6.0%
Acquisition Opportunity	September 2017	Targeted CF from Ops	8.8% - 11.6%
Acquisition Price	\$109,230,000	NOI CAGR ³	7.3%
Total Equity Required	\$41,941,000	Targeted Exit Cap Rate (YR 4)	6.1%
Loan-to-Total Costs ²	66%	Pro Forma YR 4 Gross IRR / Multiple	18.0% / 1.82x

Property Highlights

- Six garden-style apartment communities consisting of 1,299 units
- 120 two-story buildings across 60 acres (22 units/acre)
- Amenities across the six properties include swimming pools on each property, fitness centers, clubhouse/ leasing offices, business centers, and controlled access gates.

Location Highlights

- Located in the East Las Vegas submarket, northeast of The Strip
- Properties are accessible via local surface streets, but with good access to I-15, I-215, and I-515
- Surrounding neighborhoods consist of box retail and restaurants that appropriately cater to resident demographics

Transaction Highlights

- Renovate 87% of unit interiors, with a blend of "full", "partial", and "light" upgrades to provide renters with various price points and unit amenity packages.
- Re-paint building exteriors, add outdoor kitchens at main pools, add new dog parks, upgrade fitness centers, update the existing playgrounds and add new ones, improve landscape with additional xeriscaping, and update exterior lighting with "Green" energy saving fixtures
- With these common area and unit interior renovations, rents should increase \$40 to \$125, depending on specific upgrades in the units, providing an average ROI of 12% on capital invested in improvements.



¹Prospective Investors should bear in mind that past performance is not necessarily indicative of future results and that Bridge Multifamily IV may not achieve its objectives and may achieve substantial losses. For a complete summary of the investment performance of the assets in prior Bridge-managed funds, please see the appendices for performance details and important disclosures performance summaries in the appendices to the Fund's PPM. ²Loan-to-Total Costs represents the loan amount as compared to total acquisition price, loan and closing costs, and capital rehab. ³The NOI CAGR is the compound annual growth rate of the Net Operating Income for the hold period.

FUND SUMMARY

Fund Name:	Spire USA Multifamily Fund IV (AUD)
APIR Code:	SP11337AU
Information Memorandum & Term Sheet:	Available on request.
Fund Type:	Wholesale closed ended fund
Trustee:	Spire Capital Pty Limited
Custodian:	One Managed Investment Funds Limited
US Investment Manager:	Bridge Investment Group LLC
Applications:	Units will be processed and issued daily during the capital raising period at the AUD equivalent of one US Dollar.
Minimum Investment:	\$100,000
Capital Raising Period:	The capital raising period is expected to close during Q3 2019, unless the Fund's allocation to the underlying funds has been capitalised prior to this date, in which case the Fund will close to applications earlier.
NAV Unit Pricing:	Net Asset Value (NAV) unit pricing will commence on a monthly basis following the capital raising period.
Distribution Frequency:	Biannually as at 30 June and 31 December
Liquidity:	Nil - Closed-ended fund
Tax considerations:	Unitholders are not required to file US tax returns but will need to provide a current US IRS W8-BEN or W8-BEN-E form to be entitled to reduced US withholding taxes. The Fund will invest into the assets of the underlying funds via a leveraged blocker subsidiary, which will elect to be taxed as a corporate for US tax purposes on its taxable income. Depreciation and other allowances, such as interest expenses, may be used to reduce US taxable income. US corporate tax paid by or withheld from this subsidiary is expected to generate a proportionate Foreign Income Tax Offsets (FITOs), which may be used by unitholders to offset Australian income tax liabilities on foreign sourced income or gains, including but not limited to returns from the Fund.
Sourcing & Structuring Fee:	A one-time Sourcing and Structuring Fee of 0.5% of the proceeds of this offer, payable to Spire.
Management Fees:	0.50% per annum of Net Asset Value, payable to Spire
Fund Expenses:	Anticipated to be 0.15% per annum of Net Asset Value
Underlying Fees:	Based on 2% of Committed Equity during the Investment Period(s) and 2% of invested equity thereafter, payable to Bridge.
Performance Fee:	Calculated within the underlying fund(s) on the basis of 20% of profits, subject to investors in the underlying funds receiving a minimum 8% IRR (annualised hurdle rate), payable to Bridge.

Up to date information

Price, performance and other fund information is available at www.spirecapital.com.au.
 Factsheets are updated regularly.

Further information


Talk to your Adviser



02 9047 8800



www.spirecapital.com.au

Important Information

Spire Capital Pty Ltd ("Spire") ABN 21 141 096 120 and (wholesale) Australian Financial Services Licence Number 344365 is the Fund Manager of the Fund. This Fact Sheet has been prepared by Spire for general information purposes only. It does not contain investment recommendations nor provide investment advice. Neither Spire nor its related entities, directors or officers guarantees the performance of, or the repayment of capital or income invested in the Fund or the accuracy of information in this document and accepts no liability to any person who relies on it. Past performance is not necessarily indicative of future performance. Professional investment advice can help you determine your tolerance to risk as well as your need to attain a particular return on your investment. In preparing this information, we did not take into account the investment objectives, financial situation or particular needs of any particular person. You should not act in reliance of the information of this Fact Sheet. We strongly encourage you to obtain detailed professional advice and read the Information Memorandum for Spire Capital Master Trust and the relevant Sub-Trust Term Sheet in full before making an investment decision. Applications for an investment can only be made on an application form accompanying a current Term Sheet.