



February 24, 2020



**Re: Management Proposal**

Dear [REDACTED] and [REDACTED]

It was a pleasure meeting with you both the other week in Provo. We would like to express our excitement at the opportunity to win your business and trust, and to work with you on the [REDACTED] Portfolio.

Redstone Residential is a nationally ranked, vertically integrated multifamily and student housing firm – a one-stop shop that integrates world-class leasing, management, technology, maintenance, renovation, and accounting into one package. Our goal is to create peace of mind for our clients and investors – so they don't need to worry about the day-to-day operations of their portfolios. Our team is comprised of approximately 450 team members managing 85 properties in 13 states and three countries, totaling over 30,000 beds / units. The company is big enough to use industry leading technology, processes, and systems, but small enough to give each property and owner our undivided attention at a moment's notice.

More specifically, the bottom-line performance of our portfolio speaks for itself. In calendar year 2019, properties that we had managed for at least 12 months achieved a same-store Net Operating Increase of 11.82% on a year-over-year basis. Additionally, on average, we see a 13.5% Net Operating Income increase in the first year of Redstone's operations at a property, compared to the Trailing-12 months prior.

We would like very much to have the opportunity to manage your portfolio. Contained in the pages below you will find what you can expect working with Redstone Residential, as well as our management fee proposal. If you have any questions, please do not hesitate to reach out to me on my mobile at (801) 999-0025.

Sincerely Yours,

Grant Collard  
Chief Executive Officer  
Redstone Residential, Inc



## **I. Working with Redstone Residential**

### **Utah Valley University**

While the UVU market will have significant additions to the market this year with the delivery of Axis (west of I-15, 1,000 beds), and The Green on Campus Drive (1,600 beds, east of I-15). We have recently started a marketing campaign at our properties at UVU that is specifically targeting the students living further out in the Vineyard and Provo markets. This marketing strategy was put in place after an analysis was performed of where the majority of UVU students lived. We found the 40% of single students at UVU are living in BYU or in the Vineyard area. With increases in beds being added pedestrian to UVU this is a forward-looking marketing campaign for our clients in the UVU area.

Redstone Residential currently manages over 80% of the purpose-built student housing in the market. This market share gives our properties several advantages. We know how the overall market is reacting to the leasing season, specials that properties are offering, and help the market not 'race to the bottom' if leasing is slower.

Redstone will also be managing both new builds that are currently under construction. This will help the market to raise the bar of rents that are being charged by setting higher price points in the market. This will help the existing properties ride the coattails of the new developments. While we predict the market to be slightly softer as the new builds are first pre-leasing, UVU has shown a steady increase in enrollment and projects to continue to grow over the next few years.

### **Brigham Young University – Idaho**

The BYU-I market is unique in the student housing market. As you know, the school operates on a track system where the properties in the market have to continually lease for 3 different semesters at a time. The occupancy in the market fluctuates wildly between year to year and semester to semester. We have been aggressive in signing multi-semester leases, renewing students for future tracks, and implementing tiered pricing along with utility caps. We are striving to train the market that the best prices are early in the leasing season rather than waiting until the last minute to get the best deal possible.

Currently Redstone Residential manages just under 40% of the single student beds and manages three conventional multifamily properties close to campus as well. This has helped us to have a deep knowledge of the market trends by tracking our internal numbers, the numbers that are shared in the market, and the numbers provided by the school.

Having a large market share creates a funnel effect for the properties if they struggle to fill. Before a property is filled, all leads, applicants, and traffic are used exclusively for that property. Once a property fills though they can start to send their traffic to other properties to help them fill as well. This process has helped our properties reach higher than market averages on occupancy and rents. We also will create some friendly competition between properties to help incentivize them to outperform the other properties.

Attached are example draft budgets for the 8 properties. These budgets were created using the provided income statements and some best guesses. The budgets are similar to the financial packages that we send to clients each month. The financials packets are customizable depending on the client needs but typically



include a T12 (P&L), Budget vs. Actual with variance notes, balance sheet, and a leasing and operational update. On a weekly basis our regional manager will send out a report that gives a snapshot covering the key performance indicators (KPIs) we are tracking at the property. Those KPIs are as follows:

**KPI 1: NOI vs. Budget.**

We carefully track property Net Operating Income, comparing it to budgeted expectations, prior year performance, as well as similar properties nearby.

**KPI 2: Leasing Velocity.**

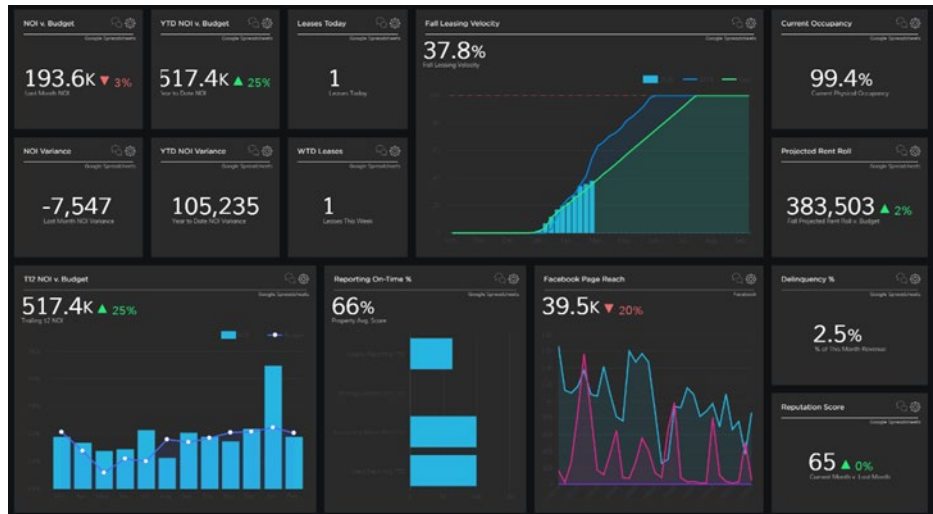
We track leasing velocity at all properties in real-time. Leasing velocities are measured carefully and tracked to our goal, last year's velocity, as well as the overall

university market or local submarket. Constant adjustments to pricing are made as we strive to optimize the leasing curve and maximize property revenue.

**KPI 3: Collections.** On a daily basis, we benchmark each property and its percentage of rent roll collected. Community Managers are incentivized and challenged to collect all revenue as quickly as possible.

**KPI 4: Reporting.** Site teams and Regional Managers follow a strict reporting protocol at Redstone. Weekly reports are compiled, analyzed, and sent to clients each Monday. Monthly financial statements are closed and reviewed internally by the 10<sup>th</sup>, and sent out for client review by the 15<sup>th</sup> of each month. We strive each month to have 100% compliance with on-time reporting.

**KPI 5: Secret Shop and Property Curb Appeal.** On a quarterly basis, each property receives a third-party secret shop, and a score out of 100 points. Site teams are benchmarked and incentivized based on their scores.



*Dashboard set up for a client – we track a number of items from our system on a daily basis.*

**Redstone Approach**

On a day-to-day basis, we have a “pod” system that oversees property operations. The pod consists of the following team members:

- **Regional Manager.** This team member oversees the Community Manager and site team directly. They are the principal point of contact with you, our client. The Regional Manager is the one that will finalize and send reporting to you each week and month. The Regional



Manager works with our Vice President of Operations to ensure that critical Redstone Key Performance Indicators (KPI's) are met for your property.

- **Regional Leasing Manager.** This position optimizes the portfolio for revenue. They focus on ensuring that the portfolio is leasing correctly, at top rents, and that there are no barriers preventing us from achieving our budgeted rent roll each year. They work daily with the site teams to ensure that advertising, leasing, and marketing are working
- **Property Accountant.** The property accountant prepares financial statements each month as well as ensures that on site teams are processing accounts payable on the appropriate schedule.
- **Operations Specialist.** The Operations Specialist assists the other members of the pod and helps with weekly and monthly reporting as well as with lease audits, preparations of property financials, and accounts payable proofing.

Generally, pods sit together at the Redstone Home Base office and works on the same properties together – generally a group of 4-6 student housing properties or portfolios. Due to our heavy presence in Rexburg, we do have a Rexburg-specific pod in-market in Rexburg. They are the direct link to your Community Managers and will be the ones sending reports to ownership.

## Leasing & Marketing

Leasing & Marketing for the properties will be coordinated by our Chief Operating Officer, Jacob Jarman, and our Director of Leasing, Jace Olsen. This will include development of a detailed marketing plan for the properties that includes thorough market research and resident surveys.

Additionally, leasing and marketing at Redstone Residential entails the following highlights:

- Senior Leadership review of each property in detail on a weekly basis
- Weekly status calls with each property by partners in the company
- Secret Shopping and Internal Audit procedures
- Marketing Plans reviewed and approved by corporate staff
- Weekly leasing trajectory reports to ownership
- Fresh new marketing campaigns each year

## Site-Level Controls

We have created many tools for our on-site Community Managers to readily attend to the leasing and marketing needs of the individual properties. Redstone Residential has created a portal where Managers order updated leasing swag, collateral, and make live updates to their site in the areas of pricing, specials, and wording of key areas on the website. While the overall design, pictures, and layout are controlled from our corporate office the site member will receive training and instructions on how to adjust the other areas,



so we are able to react quickly to the adjusting climate of property management. As soon as pricing changes or a new sale is happening the website can be adjusted immediately to reflect that. Any change that occurs to the website will send an email to the regional manager and marketing department to assure that information is accurate.

## Accounting & Reporting

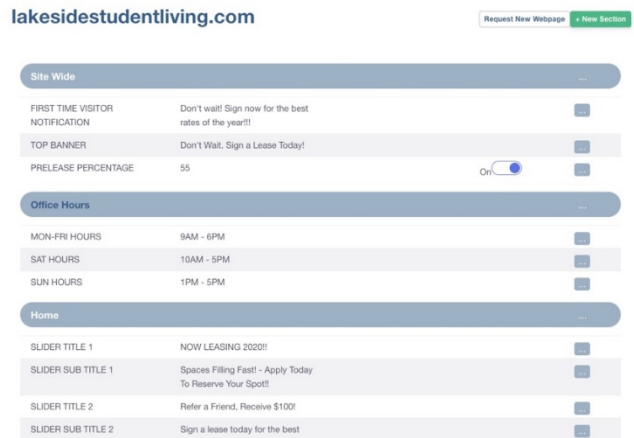
Redstone Residential will provide monthly financial and leasing reports including all transactions for the property. We will work with your team to manage the property using the Entrata management and leasing software.

Our accounting policies and procedures provide strict controls on property level transactions. All accounts payable batches are approved at the corporate office and are paid on a bi-weekly basis. Redstone principals as well as an internal audit team review financial statements and month-end reports prior to issuance to clients. We have high standards and controls that have been developed jointly with external auditors and consultants over the years in order to protect client assets and ensure accurate financial reporting.

## Best in Class Training

Redstone Residential has partnered with GraceHill to provide training to all employees. Each employee is required to take ongoing classes that cover all aspects of Property Management. A few examples of classes are Fair Housing training, Sexual Harassment prevention, marketing best practices, maintenance best practices, and so forth, in order to protect the property and its team members from any kind of liability.

In addition to the GraceHill training, we have a weekly class with all Community Managers to go over best practices, get ideas from other managers, and receive the training needed to be successful. Each new manager also receives a mentor. Mentors are other Community Managers who have been employed with Redstone for at least 3 years and have a proven track record of being successful leaders at their communities. This gives new Community Managers a peer that they can bounce ideas off of, receive additional support, and ask for advice on how to handle situations that arise on the property. Redstone Residential also has an internal leadership and development program to help different levels of employees develop into future leaders. This program is designed to help Leasing Specialists and Maintenance Technicians become ready to take on more responsibility and larger roles at properties.



*Example Manager Dashboard makes it efficient and easy to manage websites, make property marketing material orders, proof orders, etc.*



## Value-Add experts

Over the last 5 years Redstone Residential has directly overseen renovations for thousands of units. We are currently overseeing 350 units with a budget in excess of \$4,000,000. On average, the breakeven period for these renovations is less than 3 years. On average properties see a 15% to 20% increase in rental revenue after performing a renovation in the apartments.

During the renovation process we also strive to lower the carbon footprint of properties. This helps the overall environment, is a positive marketing point, but also decreases utility consumption. This decrease will lower the utility expenses the property pays.

Many properties in the [REDACTED] portfolio appear to be ideal candidates for a value-add renovation at some point. We have had properties perform the value add in conjunction with a refinance in order to take advantage of the value that has been created through the renovation.



*Example renovation during Summer 2019 at a UVU property. We run significant renovation projects each summer and are able to beat any reasonable bid and maintain strict timelines – ahead of Fall move-ins.*



## **II. Next Steps**

### **Finalize Budgets**

First, we would want to understand which properties are the subject properties, and get some more information. This would include accurate bed / unit counts to help build out a more accurate budget. We would want to add in property taxes, mortgage information, and also look at the expenses on a monthly basis to understand any unusual variances and provide recommendations on how to reduce or improve the expenses.

Two areas that jumped out on reviewing the financials is the Other Income is low compared to Rental Income, and the other area is the expense ratio. In the BYU-I market Redstone properties are seeing a 1.5% higher average than those provided in the financials. This would lead to an increase of \$71,258 a year across the [REDACTED] portfolio. In the UVU, market Redstone properties are seeing a 6% of revenue higher category average on Other Income. This would equate to \$105,137 in additional other income at UVU for the [REDACTED] portfolio.

The second area where we would project some improvement is in the expense ratio of the property. Taking out property tax numbers since those were not provided, the expense ratio of the properties is between 3-5% higher than our Redstone average. Most of this ratio could be attributed to a lower income per bed / unit number but we would need to know the unit mix to verify.

### **Property Visit and Analysis**

In many instances when taking over a property we are able to implement small changes to optimize the operation of the property. Because each property is unique and situations vary on the recommendations doing the site visits will help to best get the properties performing at a top level.

#### **a. Lease Audit**

Performing a lease audit of the current and future leases will help us to verify that rent amounts are being charged correctly, give recommendations on changes in rental rates, ancillary income, and other policy and procedure to conform with best practice.

#### **b. Recommendations**

After performing the site visit and lease audit we would like to send over a list of recommendations along with finalized budgets for each of the assets. The recommendation would include a multiyear business plan that we would begin executing upon award of the management contract.

