

# McCombs Private Equity Real Estate Fund Annual Report

November 2021

SOUTHSHORE HIGHLINE – AUSTIN, TX

Exhibit L: Project Rendering



*Southshore Highline – MSB RE Fund's first investment*

## Table of Contents

- Introduction
- Current semester investments under consideration – Fall 2021
  1. Adler Fund V – light industrial value-add portfolio – Adler Real Estate Partners
  2. The Crescent Fort Worth – mixed-use urban development – Crescent Real Estate
  3. Hyatt Lost Pines – resort hotel value-add: Cedar Creek, TX – DivcoWest Fund VI
  4. Hanover Crossing – multifamily development: Hanover, MA – Hanover Company
- Active portfolio investments (oldest to newest)
  1. Marble Capital Fund II – Preferred Equity financing for multifamily development: nationwide – Marble Capital
  2. Advenir at Winterset – multifamily value-add: Marietta, GA – Advenir, LLC
  3. Millennium East Side – multifamily development: Austin, TX – The Dinerstein Companies
  4. Marshall Trade Center – industrial development: Marshalltown, MS, Memphis MSA – Hillwood, a Perot Company
- Completed investments (oldest to newest)
  1. TPEG Austin Highline – Multifamily development(s): Austin, TX – Trinity Private Equity Group (TPEG)
- Investment Committee members
- Advisory Board members
- Financial statements – FYE August 31, 2021

## Introduction

The McCombs Private Equity Real Estate fund is a \$10 million investment fund managed by McCombs School of Business MBA and undergraduate students.<sup>1</sup> The McCombs PE fund is the private investment portion of the overall McCombs Real Estate Investment Fund, which includes a \$1.3 million publicly traded REIT portfolio along with the \$10 million private equity fund. McCombs real estate students participate in the McCombs Real Estate Investment Fund class for one year, with the spring semester focused on the public REIT portfolio and the fall semester focused on the private equity fund. This report covers the PE fund. The REIT portfolio is covered in a separate REIT annual report produced each May.

## Fall semester real estate private equity fund class – timing and logistics

McCombs MBA students interview for spots in the investment fund class in the fall of their first year, and work as investment fund managers in the spring of their first year (REIT fund) and the fall of their second year (PE fund). McCombs undergraduate students interview for spots in the real estate investment fund class in the fall of their junior year and work with the MBA fund managers as investment fund analysts in the spring of their junior year and the fall of their senior year. Fund professors source four potential real estate private equity investments in the summer for class consideration in the fall semester. In the fall semester class, student investment teams of 4-5 MBAs, supported by 4-5 undergraduate analysts, analyze and underwrite each potential private equity investment and make a presentation and recommendation to the fund's investment committee in the first two weeks of November. Investment sponsors come to class in September to present their deals, meet the students, and take questions from the student investment team during their class presentations and throughout the semester while students work on their investment analysis. Based on their analysis and underwriting for each investment, student investment teams recommend a fund investment in each deal between \$0 (no investment) and \$500,000 (the maximum fund investment). Over the life of the fund through the fall 2020 semester, the fund class has analyzed 17 possible investments and made five investments totaling \$2 million. As of FYE August 2021, the fund has completed one investment and has four outstanding active investments in the portfolio.

---

<sup>1</sup> \$10 million in total donated funds, paid to MSB RE Fund over a five-year draw period

Class Investments under consideration in Fall 2021

Investment Name: Adler Real Estate Fund V, L.P.

Investment Sponsor: Adler Real Estate Partners, Miami, FL – Since 2010 Adler Real Estate Partners has exclusively invested in multi-tenant light industrial and related business parks. The sponsor is fully vertically integrated with asset and property management. The sponsor’s experience includes four previous funds with the same light-industrial investment strategy, comprising 36 acquisitions and \$1,433 million in total asset value. The sponsor’s funds I and II have completed with all assets sold. Fund III is fully invested with \$110 million in equity, and Fund IV has invested \$121 million of \$138 million raised. Fund I produced a gross IRR of 15.2% and net IRR to LPs of approximately 11%, and a gross Equity Multiple of 2.1x. Fund II produced a gross IRR of 21.3% and net IRR to LPs of approximately 17%, and a gross Equity Multiple of 1.9x.

Investment Description: Adler Real Estate Fund V, L.P. is raising \$250 million in limited partner equity to acquire under-managed industrial parks and drive value through superior operations and management. The fund’s return targets, assuming a 7-year hold, are 16-19% gross IRR and 12-15% net IRR, 2.2x – 2.4x gross equity multiple, and a 7-8% annual cash yield.

Rivers and Aviation: Baltimore, MD



Shopton Ridge: Charlotte, NC



South Florida Portfolio



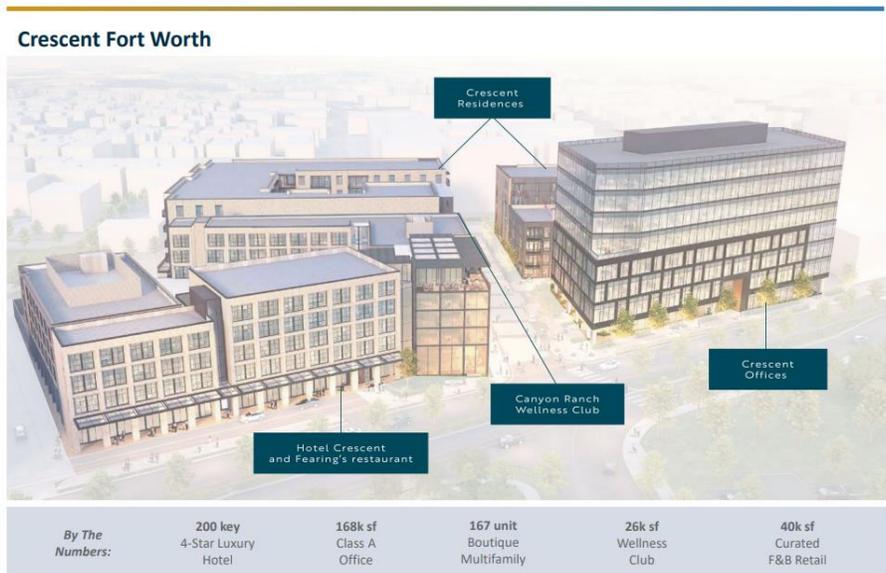
Class Investments under consideration in Fall 2021

Investment Name: The Crescent – Fort Worth

Investment Sponsor: Crescent Real Estate LLC, Fort Worth, TX – Crescent is a real estate operating company and SEC-registered investment advisory firm with assets under management, development, and investment capacity of more than \$10 billion. The company started as Crescent Real Estate Equity, which was founded by John C. Goff, its current chairman.

Investment Description: Crescent Fort Worth is a mixed-use development project including a 200-key boutique luxury hotel, a Canyon Ranch Wellness Club, 168,000 square feet of Class A office space, and 167 luxury for-rent residences.

Total development cost for the project is projected to be \$253.8 million, financed with \$152.1 million in debt in one single construction loan, \$20.4 million in equity from GPIF II Fund, a sponsor-related entity, and \$81.6 million of outside LP equity. The McCombs fund would come in as part of the outside LP equity.



Class Investments under consideration in Fall 2021

Investment Name: Hyatt Lost Pines – Cedar Creek, TX

Investment Sponsor: DivcoWest with joint venture partner Ohana.

DivcoWest is a San Francisco based, vertically integrated, real estate owner, operator, and developer with \$12.9 billion in AUM. DivcoWest has a national presence with a highly diversified portfolio in key innovation markets across all major property types, including life science and hospitality.

Ohana is an investment firm founded in 2009, based in Redwood City, CA, focused on luxury hospitality assets. Ohana currently has approximately \$1.4 billion in AUM and has overseen or transacted on more than \$4 billion in luxury hotels.

Investment Description: Hyatt Lost Pines is a Hotel & Resort located in Cedar Creek, TX, approximately 25 miles east of Austin. The new owners purchased the asset for \$275 million, which represents a 6.7% yield on 2019 pre-pandemic NOI. The Property is a 656-acre resort containing a 491-key hotel including 59 suites, 8 food and beverage outlets, spa, golf course, and horse-back riding. The rooms were recently renovated by the previous owner, Hyatt. The new owners' business plan is to stabilize occupancy to pre-pandemic levels, develop 75 new cabins, upgrade the restaurants, add a large meeting space to better suit conferences, and develop an exit strategy for the included adjoining undeveloped 250 acres.

**PROPERTY PHOTOS**



Hotel Lobby



Room Interior



Room Interior



Hotel Spa



Hotel Pool



Firewheel Cafe

Class Investments under consideration in Fall 2021

Investment Name: Hanover Crossing – Hanover, MA

Investment Sponsor: Hanover Company – Established in 1982 and located in Houston, Texas, Hanover Company is among the most active private real estate companies in the United States, specializing in the acquisition, development, and management of high-quality multifamily residential properties nationwide. Hanover is a vertically integrated company with acquisitions, development, construction, property management and asset management departments, focused on garden-style, mixed-use, multifamily projects.

Investment Description: Hanover is developing a surface-parked, multifamily residential development (Hanover Crossing) consisting of 297 units in four, four-story buildings, in Hanover, MA, a suburb of Boston. The residential development is in the Hanover Crossing Master Plan Development currently under construction and will include tenants such as Trader Joe’s, Market Basket, Macy’s, Dick’s Sporting Goods, and many others.

Overall development costs are approximately \$98 million, financed with a \$64 million construction loan (65% of total costs), and \$34 million in equity, equally provided by Crow Holdings (\$17 million) and the sponsor Hanover (\$17 million). Assuming a 5% exit cap, the going-in return on cost is 6.57% with an unlevered IRR of 15% and a projected levered IRR of 19.9% to Crow Holdings. The McCombs fund investment would be in an LP position equivalent to Crow Holdings’ position.



Current Portfolio Investments

Investment Name: Marble Capital Fund II

Investment Sponsor: Marble Capital – Marble Capital provides flexible capital solutions, including both preferred and common equity, for multifamily developers and operators nationwide. Founded in 2016 by a group of real estate professionals with broad industry experience, Marble Capital has to date invested \$3.3 billion in 73 different multifamily developments containing approximately 18,000 units.

Investment Description: MSB RE Fund invested \$500,000 in Marble Capital Fund II in December 2019, with \$490,113.50 called. Fund II’s overall capitalization is \$253 million invested in 26 multifamily developments, with 73% invested as Fixed Rate Preferred Equity, 19% Participating Preferred Equity, and 6% Common Equity. Fund II monetized its first multifamily investment in June 2021 and monetized two more preferred equity investments in July and early August of 2021. Including these three monetizations, Marble Capital Fund II has now returned 14% of investor capital. The remaining Fund II portfolio contains 23 multifamily properties and expects to monetize as many as 6 assets in the back half of calendar year 2021 and the remaining projects in 2022 and 2023.

MSB RE Fund Capital Statement:

MSB RE Fund Participant, LLC  
 2110 Speedway B6000  
 Austin, TX 78705

Capital Account Value	
	Inception-to-Date
Beginning Net Asset Value	\$ -
Contributions	490,113.50
Net Income (Loss)	136,468.63
Management Fees	(18,412.70)
Carried Interest	(23,611.18)
Distributions	(37,224.66)
<b>Ending Net Asset Value</b>	<b>\$ 547,333.58</b>

Current Portfolio Investments

Investment Name: Advenir@Winterset Investors, LP – Marietta, GA

Investment Sponsor: Advenir Inc. – Headquartered in Miami, FL, Advenir, Inc. acquires and operates multifamily rental communities throughout the United States on behalf of high net worth and institutional investors. Founded in 1996, Advenir has owned and operated 25,000 apartment units valued over \$2.5 billion.

Investment Description: MSB RE Fund invested \$200,000 in a value-add multifamily deal, Advenir@Winterset, with sponsor Advenir in November 2020, with the entire investment called November 13, 2020. The sponsor, Advenir, purchased an older 1984 construction apartment complex in Marietta, GA with the intention of improving the property, increasing rents, and ultimately selling the improved asset. The investment is currently performing well and generating NOI above pro-forma. The only complication is that demand for apartments in the Atlanta area is so strong that the complex's occupancy has remained very high and the improvements to the project are moving more slowly than projected. The investment pays a monthly yield of \$1,000.

MSB RE Fund Capital Statement:

**INVESTOR REPORT**

September 23, 2021

Created for: Greg Hallman

**SUMMARY BY ACCOUNT**

---

MSB RE Fund Participant, LLC

Investment entity	Committed	Contributions	Distributed	Equity balance
Advenir@Winterset Investors, LP	\$200,000 0.931%	\$200,000	\$9,000	\$200,000
<b>Total</b>	<b>\$200,000</b>	<b>\$200,000</b>	<b>\$9,000</b>	<b>\$200,000</b>

Current Portfolio Investments

Investment Name: Millennium East Side Austin Holdings – Austin, TX

Investment Sponsor: The Dinerstein Companies (TDC) – Headquartered in Houston, TX, TDC has over 60 years of experience in the multifamily and student housing development and property management business. TDC has developed 75,000 multifamily units and 44,000 student housing units with a total value of \$2.76 billion since 2010.

Investment Description: MSB RE Fund invested \$500,000 in a multifamily development project, Millennium East Side Austin with sponsor TDC in December 2020, with the entire investment called December 22, 2020. TDC purchased a 12.41-acre site located at 5701 East MLK Drive, at the intersection of East MLK and Hwy 183. TDC is in the process of developing and building Millennium East Side, a five-story, 304-unit Class-A multifamily property. The project is located just four miles east of the University of Texas at Austin, five miles east of downtown Austin, and 7.4 miles northeast from the new Tesla production facility, Tesla Giga Texas, which will employ 5,000 workers. The latest update from the sponsor, TDC, is that all permits have cleared, and construction is scheduled to start in November 2021.

MSB RE Fund Capital Statement:

Dr. Hallman,

Re: the investment made by MSB RE Fund Participant, LLC in Millennium East Side Austin Holdings, LLC on December 22, 2020.

Original Amount Invested	\$500,000.00
First Year Preferred Return (December 22, 2020 to December 31, 2020)	<u>1,369.86</u>
Current Capital Account Balance as of September 30, 2021	\$501,369.86

The Capital account will be adjusted again on December 3, 2021 and the 2021 preferred return amount booked to the account.

Current Portfolio Investments

Investment Name: HW MTC, LLC – Marshalltown Trade Center – Marshall County, MS

Investment Sponsor: Hillwood, a Perot company – Hillwood, based in Dallas, TX, is one of the largest investors and developers in the U.S. Founded in 1988 by Ross Perot, Jr., Hillwood has developed and acquired more than 208 million square feet of industrial space and currently owns and manages 50 million square feet of operating industrial/logistics real estate throughout North America and Europe.

Investment Description: Marshall Trade Center is a two-phase master planned industrial park in Marshall County, MS (Memphis MSA) consisting of four Class A industrial buildings. Phase I includes two Class A industrial buildings, and Phase II follows with an additional two industrial buildings. Hillwood Investment Properties IV, the sponsor entity, is working with the land owner in a joint venture in which the land owner contributes the 185-acre site and Hillwood pays for and develops the buildings. The total project stabilized cost for both phases is \$124 million, and Hillwood plans to finance the project with 55% debt. Using a 5.75% exit cap the projected levered IRR is 16% to the MSB RE Fund. The project has secured the land and intends to start construction in 2021 or early 2022.

MSB RE Fund Capital Statement:

	<b>HW Marshall Trade Center Projects, LLC</b>	<b>MSB RE Fund Investor 2021, LLC</b>	<b>Total</b>
Balance at December 31, 2019	-	-	-
Contributions	2,227,000	-	2,227,000
Net income (loss)	(17,366)	-	(17,366)
Balance at December 31, 2020	\$ 2,209,633	\$ -	\$ 2,209,633
Contributions	-	500,000	500,000
Net Income (Loss)	3,184	(3,184)	-
Balance at August 31, 2020	<u>\$ 2,212,818</u>	<u>\$ 496,816</u>	<u>\$ 2,709,633</u>

Completed Investments

Investment Name: TPEG Austin Highline Investors, LLC Sub Debt – Austin, TX

Investment Sponsor: Trinity Private Equity Group (TPEG) – Trinity Private Equity Group, based in Dallas, TX, sources capital from primarily high net worth individuals and family offices and invests with operating partners in new development and value-add investments, primarily in the multifamily space.

Investment Description: The MSB RE Fund invested \$300,000 in 12% mezzanine debt in the Austin Highline project on August 7, 2019. Austin Highline investors worked with developer Urban Genesis. Urban Genesis develops lower amenity, high-quality, multifamily buildings with units that lease for \$300 a month less than comparable more highly amenitized buildings. The mezzanine debt provided part of the Austin Highline Investors capital supplied to Urban Genesis to develop three multifamily buildings in Austin totaling roughly 400 units. On March 10<sup>th</sup>, 2021, TPEG announced the sale of the first of the three projects, South Shore, and used the proceeds from the sale of South Shore to pay off the mezzanine debt that MSB RE Fund invested in. On March 12, 2021, TPEG distributed \$360,412.91 to MSB RE Fund, representing a 12% annualized return and a 1.2 equity multiple to the MSB RE fund over the 1.6 year holding period.

MSB RE Fund Capital Statement:

**SUMMARY BY ACCOUNT**

---

MSB RE Fund Participant LLC

Investment entity	Committed	Contributions	Distributed	Equity balance
TPEG Austin Highline Investors LLC Sub Debt <small>This investment is completed</small>	\$300,000 <small>3.852%</small>	\$336,000	\$360,413	\$0

The MSB RE Fund is very thankful for the participation of experienced real estate investors on the fund's investment committee. Fund students conduct investment due diligence and analysis throughout the fall semester and present their analysis and investment recommendation to the fund's investment committee, typically in the first two class meetings in November. Investment committee meetings provide an opportunity for the students to get insightful feedback from experienced investors, and each presentation ends with a lively discussion and investment committee vote on the students' recommendation. An investment is approved by a majority vote of the outside investment committee members. Not all investment committee members attend all investment committee meetings.

The fund also owes a very special thanks to Jeff Matthews of Winstead PC for his pro-bono work as fund counsel. Jeff has worked with the fund since inception and reviews and advises on investment contracting for all the fund's investments. The fund is extremely grateful for Jeff's help and counsel with the contracting for this unique, student-run investment fund.

#### Investment Committee Members

- Kenneth Aboussie – Co-Founder and Managing Partner, Stonelake Capital Partners
- Tim Berry – CEO and Founder, Pennybacker Capital
- Amy Cureton – Real Estate Portfolio Manager, Employees Retirement System of Texas
- Patricia Gibson – CEO, Banner Oak Capital Partners
- Mary Hager – Executive Director, Greystar (formerly of Thackeray Partners)
- Garret House – CEO, Evergreen Real Estate Partners
- Scott Ingraham – Zuma Capital and publicly traded REIT board member
- John Kiltz – Managing Partner, Stonelake Capital Partners
- Todd Maclin – Maclin Management
- Collin Neblett – Partner, Banner Oak Capital Partners
- Robert Sessa – Advisory Director of Real Estate, Employees Retirement System of Texas

#### Fund Counsel

- Jeff Matthews – Shareholder and Chair of Business and Transactions, Winstead PC

#### Fund Professors

- Dr. Greg Hallman – Distinguished Senior Lecturer in Finance and Real Estate
- Joshua Brown – Lecturer, and Senior Advisor at First Washington Realty

The MSB RE Fund Advisory Board includes fund supporters who made significant donations to the fund, and incumbent Advisory Board members from the previously established McCombs REIT fund. The fund holds an Advisory Board meeting each November where students present abbreviated versions of their PE fund investment committee presentations and the results to-date of the REIT investments made in the spring semester. Following the students presentations Advisory Board members meet and mingle with students over drinks and dinner. The fund is grateful for all the donations that made this unique student-run real estate investment fund possible and is particularly grateful for the very generous contribution made by John Goff, who donated the majority of the \$10 million in total fund donations.

#### MSB RE Fund Advisory Board members

- John Goff – Chairman, Goff Capital Management
- Kenneth Aboussie – Stonelake Capital Partners
- Beau Armstrong – Stratus Properties
- Christian Bernasconi – B&I Capital
- David Busker – Tilden Capital Partners
- Doug Chestnut – StreetLights Residential
- Paul Curbo – Executive in Residence, Georgetown University
- David Deutch – Pinnacle Housing Group
- Bob Faith – Greystar
- Gary Farmer – Heritage Title
- Jamie Feldman – Bank of America Merrill Lynch
- Ben Friedman – Abacus Capital Group
- Greg Friedman – Peachtree Hotel Group
- Garret House – Evergreen Real Estate Partners
- Erik Johnson – White Point Partners
- Andy Lusk – Lionstone Investments
- Murray McCabe – Montgomery Street Partners
- Terry Montesi – Trademark
- Rich Moore – CBRE
- Ben Moreland – Crown Castle International
- Chaz Mueller – Progress Residential
- Keith Oden – Camden Property Trust
- Don Reese – Riverside Resources
- Luis P. Rhi – Barrow, Hanley, Mewhinney & Strauss
- Steve Rogers – Viceroy Investments
- Patrick Starley – Legacy Star Capital Partners
- Lenore Sullivan – TWV Capital Management
- John Thompson – PinPoint Commercial

**MSB RE FUND PARTICIPANT LLC**  
**Balance Sheet**  
As of August 31, 2021

	Total	
	As of Aug 31, 2021	As of Aug 31, 2020 (PY)
<b>ASSETS</b>		
<b>Current Assets</b>		
<b>Bank Accounts</b>		
Frost Bank - CD	3,000,000.00	
Frost Bank Checking Account	1,700,162.86	5,031,957.04
<b>Total Bank Accounts</b>	<b>\$ 4,700,162.86</b>	<b>\$ 5,031,957.04</b>
<b>Other Current Assets</b>		
Interest Receivable	0.00	40,635.57
<b>Total Other Current Assets</b>	<b>\$ 0.00</b>	<b>\$ 40,635.57</b>
<b>Total Current Assets</b>	<b>\$ 4,700,162.86</b>	<b>\$ 5,072,592.61</b>
<b>Other Assets</b>		
Advenir Investment	179,807.00	
HW MTC. LLC Investment	496,816.00	
Marble Capital II Investment	515,696.77	480,378.48
Millennium East Side Austin Holdings Investment	500,000.00	
TPEG Austin Highline Note Receivable	0.00	300,000.00
<b>Total Other Assets</b>	<b>\$ 1,692,319.77</b>	<b>\$ 780,378.48</b>
<b>TOTAL ASSETS</b>	<b>\$ 6,392,482.63</b>	<b>\$ 5,852,971.09</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities</b>		
<b>Current Liabilities</b>		
<b>Accounts Payable</b>		
Accounts Payable (A/P)	0.00	0.00
<b>Total Accounts Payable</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>Total Current Liabilities</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>Total Liabilities</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>Equity</b>		
Capital Contribution by MSB RE FUND	6,266,922.40	5,790,847.87
Retained Earnings	62,123.22	3,915.67
Net Income	63,437.01	58,207.55
<b>Total Equity</b>	<b>\$ 6,392,482.63</b>	<b>\$ 5,852,971.09</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 6,392,482.63</b>	<b>\$ 5,852,971.09</b>

**MSB RE FUND PARTICIPANT LLC**  
**Profit and Loss**  
September 2020 - August 2021

	Total	
	Sep 2020 - Aug 2021	Sep 2019 - Aug 2020 (PY)
<b>Income</b>		
<b>Total Income</b>		
<b>Gross Profit</b>	\$ 0.00	\$ 0.00
<b>Expenses</b>		
Bank Charges & Fees	557.83	
Interest Expense		7,787.60
Legal & Professional Services	3,145.00	1,800.00
Office Supplies & Software	522.34	469.04
Other Business Expenses	14.40	2.90
<b>Total Expenses</b>	\$ 4,239.57	\$ 10,059.54
<b>Net Operating Income</b>	-\$ 4,239.57	-\$ 10,059.54
<b>Other Income</b>		
Interest Income	19,777.34	36,098.58
Unrealized Gain (Loss) on Investments	71,688.58	50,403.05
<b>Total Other Income</b>	\$ 91,465.92	\$ 86,501.63
<b>Other Expenses</b>		
Investment Interest Expense	16,991.36	6,619.82
Investment Management Fees	6,797.98	11,614.72
<b>Total Other Expenses</b>	\$ 23,789.34	\$ 18,234.54
<b>Net Other Income</b>	\$ 67,676.58	\$ 68,267.09
<b>Net Income</b>	\$ 63,437.01	\$ 58,207.55

Wednesday, Oct 06, 2021 07:44:45 AM GMT-7 - Accrual Basis