Duluth, Minnesota, 55802, St.Louis Investment Analysis Report

1. Executive Summary

Property Overview

- **Property Name:** GPA
- **Location:** Minnesota
- **Investment Type:** Section 8
- **Total Units:** 150
- **Unit Mix:**
  - o 1-Bedroom / 1-Bath (30% ELI): 44 units
- **Total Square Footage:** ≈595 sq. ft.
- **Occupancy Rate: 99%**
- **Current Rents:** 1356
- **Projected Annual Rent Growth:** 3.2%
- **Projected Expense Growth: 3%** annually
- **Cap Rate:**
  - o Entry Cap Rate: 8%
  - o Stabilized Cap Rate: 13%
- **NOI Growth Projection:**
  - o Year 1: $1,264,720
  - o Year 10: $2,138,056
- **Valuation Sensitivity Range**: $2.6 M - $27.6M
- **Investment Performance Assessment:** The property shows solid operating momentum, but the wide cap-rate/valuation dispersion signals meaningful pricing and rate-risk that should be stress-tested.

2. Property & Market Overview

Property Characteristics & Unit Details

Unit Type	Units	Sq. Ft.	Current Rents ($)	Market Rents ($)	Discount
1x1 (30% ELI)	150	595	**$1,356**	$1,403	-3.3%
Weighted Avg	**150**	**595**	**$1,356**	**$1,403**	-3.3%

Competitive Landscape & Comparable Properties

- **Market Comparable Properties:** Similar LIHTC properties in the Minnesota metro area generally operate at strong occupancy levels, suggesting demand remains steady for regulated units.
- **Market Rent Analysis:**
    - o The property's current rent of $1,356 is slightly below the market rent of $1,403 for similar 1x1 units (about a 3.3% discount), indicating limited upside to the market.
    - o Rent growth will remain constrained by affordability rules rather than pure market pricing.
- **Key Risks:**
    - o **Regulatory compliance** – Ongoing adherence to income and rent restrictions is required, and noncompliance can create financial/operational consequences.
    - o **Market pressures** –If operating costs rise faster than allowable rent increases, NOI margins could compress even with stable occupancy.

3. Financial Analysis: Revenue & Expenses

Projected Revenue & Operating Expenses

Year	Revenue ($)	Operating Expenses ($)	Net Operating Income (NOI) ($)
2024	$2,406,629	$962,652	$1,264,720
2025	$2,512,520	$974,203	$1,346,099
2026	$2,623,071	$985,894	$1,431,062
2027	$2,738,487	$997,725	$1,519,745
2028	$2,858,980	$1,009,697	$1,612,286
2029	$2,984,775	$1,021,814	$1,708,830
2030	$3,116,105	$1,034,075	$1,809,524
2031	$3,253,214	$1,046,484	$1,914,522
2032	$3,396,355	$1,059,042	$2,023,979
2033	$3,545,795	$1,071,751	$2,138,056

Expense Breakdown (40% of Revenue)

Category	Percentage of Expenses	Estimated Cost ($)
Property Management	15.00%	$153,192
Maintenance & Repairs	21.00%	$214,468
Utilities	17.00%	$173,617
Insurance	15.00%	$153,192
Marketing/Leasing	21.00%	$214,468

Key Observations:

- Revenue grows steadily over the hold period.
- Operating expenses rise, but much more slowly than revenue.
- NOI expands strongly and NOI margin improves.

4. Financial Valuation & Sensitivity Analysis

Discounted Cash Flow (DCF) Model

- **Key Assumptions:**
    - Discount Rate: 8% - 16%
    - Growth Rate: 1.5% - 5%
    - Final Year UFCF: 1,700,892
    - Formula: TV = UFCF × (1 + Growth Rate) Discount Rate − Growth Rate

Terminal Value Sensitivity Table

Discount Rate \ Growth Rate	1%	1.50%	2%	2.50%	3%	3.50%	4%	4.50%	5%
8%	11,367,432.68	12,302,453.80	13,393,311.78	14,682,507.56	16,229,542.50	18,120,362.99	20,483,888.60	23,522,707.24	27,574,465.42
10%	7,359,166.43	7,830,633.12	8,361,033.15	8,962,153.18	9,649,147.50	10,441,833.26	11,366,633.30	12,459,578.81	13,771,113.42
12%	5,028,345.08	5,293,868.25	5,585,943.74	5,908,764.02	6,267,453.21	6,668,341.14	7,119,340.06	7,630,472.17	8,214,623.15
14%	3,564,561.57	3,725,496.23	3,899,842.11	4,089,348.50	4,296,082.75	4,522,505.98	4,771,571.52	5,046,854.50	5,352,724.47
16%	2,596,132.38	2,698,949.51	2,809,110.71	2,927,432.01	3,054,854.94	3,192,471.70	3,341,556.53	3,503,605.26	3,680,385.69

Key Takeaways:

- The terminal value increases materially as terminal growth rises, peaking at about $27.6M under 8% discount / 5% growth.
- The valuation is highly sensitive to the discount rate.
- Discount rates are low and growth is high

5. Investment Performance Assessment

Pros

- Strong occupancy (99%) supports stable cash flow and lowers vacancy risk.
- NOI expansion shows meaningful operating upside over the hold.
- Rents are slightly below market, leaving room for improvement while still supporting strong demand for affordable units.

Cons

- Valuation is highly assumption-sensitive, making returns vulnerable to changes in discount rates and long-term growth assumptions.
- Regulated/affordable structure limits rent growth, so revenue upside is constrained compared with true market-rate properties.
- Maintenance & Repairs and Marketing/Leasing are the largest buckets (each 21%), so cost overruns in these areas could compress NOI.

Final Conclusion

GPA represents a stable, cash-flow-oriented Section 8 investment with strong occupancy and reliable cash flow supported by rents slightly below market and projected NOI growth over the hold period. However, the property's upside is capped by affordability restrictions and the valuation remains highly sensitive to discount rate and growth assumptions (PV range: $2.6M–$27.6M). Overall, the investment offers steady, defensive performance for investors comfortable with regulatory oversight and interest-rate sensitivity.

6. Appendix:

a. Underwritten Rent and Updated Rent Data for Duluth, Minnesota, 55802, St.Louis

Underwritten Rents									
Unit Mix	**Type**	**Restriction**	**No. Units**	**Sq. Ft.**	**UW Rents**	**Mkt Rents**	**Discount**	**G. LIHTC Rents**	**Discount**
1x1	Section 8	30% ELI	150	595	$ 1,044	N/A	N/A	N/A	N/A
Total / Wtd Avg			**150**	**595**	$ 1,044	N/A	N/A	N/A	N/A
Updated Rents									
Unit Mix	**Type**	**Restriction**	**No. Units**	**Sq. Ft.**	**Current Rents**	**Mkt Rents**	**Discount**	**G. LIHTC Rents**	**Discount**
1x1	Section 8	30% ELI	150	595	$ 1,356	$ 1,403	-3.3%	$ 566	-139.6%
Total / Wtd Avg			**150**	**595**	$ 1,356	**$ 1,403**	**-3.3%**	**$ 566**	**-139.6%**

b. Real Estate Appraisal - Market Comparables

#	Characteristics	Comparable Property No. 1	Comparable Property No. 2	Comparable Property No. 3	Comparable Property No. 4	Comparable Property No. 5
		Data	**Data**	**Data**	**Data**	**Data**

1	Unit Types	Two-Bedroom	One-Bedroom, Two-Bedroom	One-Bedroom, Two-Bedroom	One-Bedroom, Two-Bedroom	Studio, One Bedroom
2	Subject Property (Address)	Harbours Apartments, 300 West Michigan Street, Duluth, MN 55802 , St.Louis County	Highland Chateau, 822 Baylis Street, Duluth, MN 55811, St. Louis County	Highland Village, 502 North Oak Bend Drive , Duluth, MN 55811, St.Louis County	Miller Hill Manor , 1408 Maple Grove Road , Duluth , MN 55811, St Louis County	Mount Royal Manor, 100 east Elizabeth Street , Duluth, MN 55803, St.Louis County
3	Effective Date of Rental	Dec-25	Dec-25	Dec-25	Dec-25	Dec-25
4	Type of Project/Stories	Midrise/5	Graden/3	Graden/3	Midrise/6	Midrise/7
5	Floor of Unit in Building	Varies	Varies	Varies	Varies	Varies
6	Project Occupancy %	N/E	N/E	N/E	N/E	N/E
7	Concessions	N	N	N	N	N
8	Year Built	1988	1972	1969	1974	1952
9	Sq. Ft Area	2-BR-1212	1Br-895,2Br-1115	1-Br-765, 2-Br-915	1-Br-700, 2-Br-905	Studio-414, 1 Br-567
10	Number of Bedrooms	2	1Br-1, 2Br- 2	1Br-1, 2Br- 2	1Br-1, 2Br- 2	Studio-1, 1 Br-1
11	Number of Baths	2	1Br-1, 2Br-2	1Br-1, 2Br- 1	1Br-1, 2Br- 1	Studio-1, 1 Br-1
12	Number of Rooms	6	1Br-4,2Br-6	1Br-4,2Br-5	1Br-4,2Br-5	Studio-3, 1 Br-4
13	Balcony/Terrace/Patio	N	Y	Y	Y	Y
14	Garage or Carport	N	Y	Y	Y	Y
15a	Equipment - A/C	Y	Y	N/E	Y	N
15b	Equipment - Range/Refrigerator	Y	Y	Y	Y	Y
15c	Equipment - Disposal	Y	N/E	N/E	Y	N
15d	Equipment - Microwave/Dishwasher	Y	Y	N/E	Y	Y
15e	Equipment - Washer/Dryer	Y	Y	N/E	Y	Y
15f	Equipment - Carpet	Y	Y	Y	Y	Y
15g	Equipment - Drapes	N	N	N	Y	N
15h	Equipment - Pool/Rec. Area	N	Y	Y	Y	Y
16	Services					
	a. Heat/Type	Y	Y	N/E	Y	N/E
	b. Cooling	Y	Y	N/E	Y	N/E
	c. Cook/Type	Y	N	N/E	N/E	N/E
	d. Electricity	Y	N	N/E	N/E	N/E
	e. Hot Water	Y	N	N/E	N/E	N/E
	f. Cold Water/Sewer	N/E	Y	N/E	Y	Y
	g. Trash	Y	Y	N/E	Y	Y
17	Storage	N	N	N	N	N
18	Project Location	Superior	Similar	Average	Above Average	Average
19	Security	N	N	N	N	N

20	Clubhouse/Meeting Room	N	Y	N	N	N
21	Special Features	N/E	Y	N/E	N/E	N/E
22	Business Center/Nbhd network	N/E	N/E	N/E	N/E	N/E
23	Unit Rent Per Month - Underwritten **(If available)**					
	a. Studio/Efficiency	N/E	N/E	N/E	N/E	N/E
	b. 1 BR	N/E	$990.00	$975.00	$1,030.00	$850.00
	c. 2 BR	$1,750.00	$1,250.00	$1,099.00	$1,450.00	$1,250.00
	d. 3 BR	N/E	N/E	N/E	N/E	N/E
	e. 4 BR	N/E	N/E	N/E	N/E	N/E
	f. 5 BR	N/E	N/E	N/E	N/E	N/E
24	Unit Rent Per Month - Current					
	a. Studio/Efficiency	N/E	N/E	N/E	N/E	$1,075.00
	b. 1 BR	N/E	$1,350.00	$1,249.00	$1,495.00	$1,200.00
	c. 2 BR	$1,985.00	$1,575.00	$1,449.00	$1,475.00	$1,475.00
	d. 3 BR	N/E	N/E	N/E	N/E	N/E
	e. 4 BR	N/E	N/E	N/E	N/E	N/E
	f. 5 BR	N/E	N/E	N/E	N/E	N/E

c. Real Estate Appraisal - LIHTC Comparables

#	Characteristics	Comparable Property No. 1	Comparable Property No. 2	Comparable Property No. 3
		Data	**Data**	**Data**
1	Unit Types	One-Bedroom, Two-Bedroom	Studio	Studio,One-Bedroom
2	Subject Property (Address)	Lenox Place Apartments, 701 W Superior St, Duluth, MN 55802, St.Louis County	Garfield Square Apartments, 10 Piedmont Ave, Duluth, MN, 55806 , St.Louis County	Select Senior Apartments, 801 E 2nd St, Duluth, MN 55805, St.Louis County
3	Effective Date of Rental	Dec-25	Dec-25	Dec-25
4	Type of Project/Stories	High rise/7	Mid-rise/6	Graden/5
5	Floor of Unit in Building	Varies	Varies	Varies
6	Project Occupancy %	N/E	N/E	N/E
7	Concessions	N	N	N
8	Year Built	1980	2019	1962
9	Sq. Ft Area	1 BR-600, 2 Br-700	N/E	Studio-400,1 BR-650
10	Number of Bedrooms	1 BR-1, 2 Br-2	1	1
11	Number of Baths	1 BR-1, 2 Br-2	1	1

12	Number of Rooms			1
13	Balcony/Terrace/Patio	N	N	N
14	Garage or Carport	N	N	N
15a	Equipment - A/C	N/E	Y	Y
15b	Equipment - Range/Refrigerator	N/E	Y	Y
15c	Equipment - Disposal	N/E	Y	N
15d	Equipment - Microwave/Dishwasher	N/E	Y	Y
15e	Equipment - Washer/Dryer	N/E	N	Y
15f	Equipment - Carpet	N/E	Y	Y
15g	Equipment - Drapes	N/E	N	Y
15h	Equipment - Pool/Rec. Area	N/E	N	N
16	Services			
	a. Heat/Type	Y	Y	N
	b. Cooling	Y	N/E	N
	c. Cook/Type	Y	N/E	N
	d. Electricity	Y	Y	N
	e. Hot Water	Y	Y	Y
	f. Cold Water/Sewer	Y	Y	Y
	g. Trash	Y	Y	Y
17	Storage	N/E	N/E	Y
18	Project Location			
19	Security	N	Y	Y
20	Clubhouse/Meeting Room	N/E	N/E	N/E
21	Special Features	N/E	N/E	N/E
22	Business Center/Nbhd network			
23	Unit Rent Per Month - Underwritten **(If available)**			
	a. Studio/Efficiency			
	b. 1 BR			
	c. 2 BR			
	d. 3 BR			
	e. 4 BR			
	f. 5 BR			
24	Unit Rent Per Month - Current			
	a. Studio/Efficiency		N/E	N/E
	b. 1 BR	$1,553.00	N/E	$425.00
	c. 2 BR	N/E	N/E	$900.00
	d. 3 BR		N/E	N/E
	e. 4 BR		N/E	N/E
	f. 5 BR		N/E	N/E

d. Revenue from Rent

Years since purchase				1	2	3	4	5	6	7	8	9	10
Gregorian year				**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**
INFLATION & UPSIDE													
Inflation (CPI)	1.2%				1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
Rent increase (%/year)	3.20%				3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%
Rental upside (%/year)	0.0%				0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total (%/year)	4.4%				4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%
REVENUE FROM RENT													
Unit Mix and Restriction	**Occupancy**	**No. Units**	**Current Rents**										
1x1 - 30% ELI	98.6%	150	$1,356	$200,552	$209,377	$218,589	$228,207	$238,248	$248,731	$259,675	$271,101	$283,030	$295,483
Total ($/month)				$200,552	$209,377	$218,589	$228,207	$238,248	$248,731	$259,675	$271,101	$283,030	$295,483
Total ($/year)				$2,406,629	$2,512,520	$2,623,071	$2,738,487	$2,858,980	$2,984,775	$3,116,105	$3,253,214	$3,396,355	$3,545,795

e. NOI and Cap Rate

Years since purchase	1	2	3	4	5	6	7	8	9	10
Gregorian year	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**
Net Operating Income (NOI)	$1,264,720	$1,346,099	$1,431,062	$1,519,745	$1,612,286	$1,708,830	$1,809,524	$1,914,522	$2,023,979	$2,138,056
Cap-rate	7.53%	8.01%	8.52%	9.05%	9.60%	10.17%	10.77%	11.40%	12.05%	12.73%

f. Cash Flow

	Entry										**Exit**

Date	*12/31/2024*	***12/31/2025***	***12/31/2026***	***12/31/2027***	***12/31/2028***	***12/31/2029***	***12/31/2030***	***12/31/2031***	***12/31/2032***	***12/31/2033***	***12/31/2034***
Time Periods	*0*	1	2	3	4	5	6	7	8	9	10
Year Fraction		*1.00*	*1.00*	*1.00*	*1.00*	*1.00*	*1.00*	*1.00*	*1.00*	*1.00*	*1.00*
NOI		1,264,720	(177,379)	1,264,720	1,346,099	1,431,062	1,519,745	1,612,286	1,708,830	1,809,524	1,914,522
Less: Cash Taxes		316,180	(44,345)	316,180	336,525	357,766	379,936	403,071	427,207	452,381	478,631
Plus: D&A		280,000	280,000	280,000	280,000	280,000	280,000	280,000	280,000	280,000	280,000
Less: Capex		15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Unlevered FCF		1,213,540	131,966	(228,559)	1,274,575	1,338,297	1,404,809	1,474,214	1,546,622	1,622,143	1,700,892
(Entry)/Exit	5,040,000	1,213,540	131,966	(228,559)	1,274,575	1,338,297	1,404,809	1,474,214	1,546,622	1,622,143	13,364,934

g. Valuation

IRR	22.22%
Cap Rate	12.73%
Valuation (NOI/Cap rate)	13,364,933.58
Discount Rate	12%
PV of Equity	9,163,597.79

h. Sensitivity Analysis

Terminal Value Sensitivity Table									
Discount Rate \ Growth Rate	**1%**	**1.50%**	**2%**	**2.50%**	**3%**	**3.50%**	**4%**	**4.50%**	**5%**
8%	24,541,434.58	26,560,075.04	28,915,155.59	31,698,432.60	35,038,365.01	39,120,504.62	44,223,179.14	50,783,760.66	59,531,202.68
10%	19,087,782.45	20,310,645.62	21,686,366.69	23,245,517.24	25,027,403.58	27,083,426.28	29,482,119.42	32,316,938.60	35,718,721.61
12%	15,617,276.55	16,441,951.22	17,349,093.35	18,351,724.14	19,465,758.34	20,710,855.39	22,111,589.57	23,699,088.31	25,513,372.58

14%	13,214,618.62	13,811,239.02	14,457,577.79	15,160,119.94	15,926,529.55	16,765,930.55	17,689,271.65	18,709,806.56	19,843,734.23
16%	11,452,669.47	11,906,240.54	12,392,209.54	12,914,176.24	13,476,294.23	14,083,381.66	14,741,059.71	15,455,927.16	16,235,782.55

Present Value Sensitivity Table									
Discount Rate \ Growth Rate	1%	1.50%	2%	2.50%	3%	3.50%	4%	4.50%	5%
8%	11,367,432.68	12,302,453.80	13,393,311.78	14,682,507.56	16,229,542.50	18,120,362.99	20,483,888.60	23,522,707.24	27,574,465.42
10%	7,359,166.43	7,830,633.12	8,361,033.15	8,962,153.18	9,649,147.50	10,441,833.26	11,366,633.30	12,459,578.81	13,771,113.42
12%	5,028,345.08	5,293,868.25	5,585,943.74	5,908,764.02	6,267,453.21	6,668,341.14	7,119,340.06	7,630,472.17	8,214,623.15
14%	3,564,561.57	3,725,496.23	3,899,842.11	4,089,348.50	4,296,082.75	4,522,505.98	4,771,571.52	5,046,854.50	5,352,724.47
16%	2,596,132.38	2,698,949.51	2,809,110.71	2,927,432.01	3,054,854.94	3,192,471.70	3,341,556.53	3,503,605.26	3,680,385.69