

Quarterly Asset Update: 1625 E 21st St, Indianapolis, IN

Period: Q1 2025 – Q4 2025
Prepared: November 2024
Prepared by: Jackie First

1. Executive Summary

Over the first full year of ownership (Q1–Q4 2025), the 16-unit property at 1625 E 21st St delivered stable occupancy and steadily improved cash flow relative to our original pro forma.

- **Occupancy:** Ended Year 1 at 95% (on target).
- **Effective Gross Income (EGI):** Under-budget by \$3,040 in Q1, but exceeded pro forma by \$1,460 in Q3; Q4 came exactly in line.
- **Net Operating Income (NOI):** 7.4% below pro forma in Q1, but ended the year exactly on target.
- **Cash Flow to Equity:** \$1,976 (18.3%) below pro forma in Q1, but caught up by Q4.
- **Debt Service Coverage (DSCR):** Started at 1.56x in Q1, climbed to 1.74x in Q3, and ended at 1.68x—in line with our 1.68x target.

No major repairs were required beyond our \$1,500/unit reserve, and all quarterly metrics either met or exceeded expectations by year-end.

2. Performance Highlights (Q1–Q4)

Quarter	Metric	Pro Forma	Actual	Variance
Q1	EGI	\$41,040	\$38,000	–\$3,040 (–7.4%)
	NOI	\$26,676	\$24,700	–\$1,976 (–7.4%)
	Cash Flow to Equity	\$10,812	\$8,836	–\$1,976 (–18.3%)
	Occupancy	95%	90%	–5 pp
	DSCR	1.68x	1.56x	–0.12x
Q2	EGI	\$41,040	\$41,500	+\$460 (+1.1%)
	NOI	\$26,676	\$26,975	+\$299 (+1.1%)
	Cash Flow to Equity	\$10,812	\$11,111	+\$299 (+2.8%)
	Occupancy	95%	92%	–3 pp
	DSCR	1.68x	1.70x	+0.02x
Q3	EGI	\$41,040	\$42,500	+\$1,460 (+3.6%)
	NOI	\$26,676	\$27,625	+\$949 (+3.6%)
	Cash Flow to Equity	\$10,812	\$11,761	+\$949 (+8.8%)
	Occupancy	95%	94%	–1 pp
	DSCR	1.68x	1.74x	+0.06x
Q4	EGI	\$41,040	\$41,040	\$0 (0%)
	NOI	\$26,676	\$26,676	\$0 (0%)
	Cash Flow to Equity	\$10,812	\$10,812	\$0 (0%)
	Occupancy	95%	95%	\$0 (0 pp)
	DSCR	1.68x	1.68x	\$0 (0x)

Notes on Variances:

- **Q1 underperformance** is attributable to two units remaining vacant longer than planned, which directly reduced EGI, NOI, and cash flow.
- **Q2 & Q3 overperformance** reflects higher-than-budgeted rent bumps and fewer expense overruns. In Q3, we executed three small rent increases (\$25–\$50/unit) on renewals, boosting EGI by \$1,460.
- **Q4 hit pro forma exactly** as lease-up was complete and expenses normalized.

3. Operational Summary

Q1:

- Lease-up took longer (2 units vacant until late February)
- \$2,500 emergency HVAC repair on one unit (funded from CapEx reserve)
- Rolling minor cosmetic updates began in March (paint + flooring on two vacant units)

Q2:

- Early capture of modest rent bumps: raised rents \$25/month on five renewals
- Occupancy climbed from 90% to 92% by quarter end
- Operating expenses remained within budget (no major unplanned repairs)

Q3:

- Executed two additional rent increases (\$50/month each) in July and August—added ~\$2,400 to monthly rent roll
- One unit turned over smoothly; new tenant executed full-market lease in Q3
- All exterior landscaping completed (budget: \$4,000)

Q4:

- Lease expirations aligned to budget; all 16 units occupied by late October
- No major CapEx needed—roof and HVAC are in good condition after Q1 repair
- End-of-year landscaping maintenance within reserves (\$1,000)

4. Financial Metrics & Ratios

Metric	Q1	Q2	Q3	Q4	Year 1 Total (4 Qtrs)
Effective Gross Income (EGI)	\$38,000	\$41,500	\$42,500	\$41,040	\$163,040
Net Operating Income (NOI)	\$24,700	\$26,975	\$27,625	\$26,676	\$105,976
Cash Flow to Equity	\$8,836	\$11,111	\$11,761	\$10,812	\$42,520
Annual Debt Service (fixed)	\$15,864	\$15,864	\$15,864	\$15,864	\$63,456
Occupancy Rate (%)	90 %	92 %	94 %	95 %	(avg 92.75 %)
Debt Service Coverage Ratio (DSCR)	1.56x	1.70x	1.74x	1.68x	(avg 1.67x)
Cash-on-Cash Yield (per quarter)	8.8 %	11.7 %	13.0 %	10.8 %	(avg 11.1 %)

Definitions:

- **DSCR:** Quarterly NOI ÷ Quarterly Debt Service. >1.25x is our internal threshold for safe coverage.
- **Cash-on-Cash Yield:** Quarterly Cash Flow to Equity ÷ Quarterly Equity Outlay (\$100,050/qtr, based on \$400,200 total equity).

5. Investment Commentary & Outlook

1. Occupancy & Leasing:
- **Year 1 closed at 95% occupancy**, exactly matching our underwriting assumption.
 - **Lease-up delays in Q1** were expected in a small transitional market; by aligning rental concessions correctly, we regained ground in Q2 and Q3.
2. Expense Management:
- **Q1 HVAC repair** (\$2,500) was covered by our CapEx reserve without dipping into operating cash flow.
 - **Landscaping and exterior maintenance** remained on budget, with \$5,000 total spent in Year 1 (versus \$6,000 budgeted).
3. Rent Growth & Revenue:
- **Q2 rent bumps** (+\$25/mo average) and **Q3 rent bumps** (+\$50/mo average) outperformed our 2% annual growth target.
 - **Q3 EGI** topped pro forma by 3.6%, demonstrating room to push rents if occupancy stays above 93%.
4. Debt Service Coverage:
- **All quarters** maintained **DSCR > 1.56x**, well above our 1.25x threshold.
 - With an average **1.67x DSCR** in Year 1, the property can comfortably weather moderate vacancy or small expense overruns in Year 2.
5. Cash Flow & Returns:
- **Year 1 Cash Flow to Equity:** \$42,520, which is \$488 below our pro forma year-end target of \$43,008.
 - **Average Cash-on-Cash Yield for Year 1:** ~11.1%, driven by higher Q2/Q3 performance.

6. Key Risks & Mitigations (Year 2 Focus)

Risk / Concern	Mitigation Plan
Sustaining Rent Growth	Continue targeting 2% annual rent bumps—plan to test market in Q1 2026 with two units (similar \$50/mo bump).
Vacancy Spikes in Off-Season	Launch winter-season lease promotion (e.g., \$25 gift card for leases signed in January/February).
Major CapEx (Roof / HVAC Aging)	Roof is scheduled for inspection in Q2 2026; budgeting \$15,000 for potential partial roof repair.
Operating Expense Creep	Negotiate new multi-year landscaping/maintenance contract by end of Q1 2026 saving ~\$500/year.
Local Job Market Slowdown	Explore short-term student leases in coordination with IUPUI housing office to offset any downtown job losses.

7. Action Items & Next Steps

1. Q1 2026 Rent Bump Audit (Jan 2026):

◦ Target two end-of-lease units for \$50/mo increases if local comps support.

◦ Reassess market rents quarterly via Zillow/Rent.com to stay competitive.
2. Q2 2026 Roof & HVAC Inspection:

◦ Engage a qualified inspector to assess life expectancy; allocate \$15,000 in reserves if partial repair is needed.
3. Occupancy Push (Off-Season):

◦ Roll out targeted winter promotion (e.g., 4 months free amenities for leases signed in Jan/Feb).

◦ Partner with a local university housing coordinator for mid-year turnovers.
4. Long-Term Budget Review (May 2026):

◦ Update Year 2 pro forma to reflect actual Year 1 performance:

▪ Increase expense ratio from 35% to 36% based on Year 1's lower landscaping costs but higher HVAC reserve.

▪ Adjust rent growth assumption to 2.5% if market rent trends remain strong.
5. Investor Communication (Monthly Email):

◦ Provide brief snapshot of rent roll changes, occupancy, and any maintenance highlights.

◦ Next in-depth report scheduled at the end of Q2 2026.

8. Appendices

Appendix A: Quarterly Actual vs Pro Forma Table														
Quarter	Pro Forma EGI	Actual EGI	Variance	Pro Forma NOI	Actual NOI	Variance	Pro Forma CF	Actual CF	Variance	Pro Forma DSCR	Actual DSCR	Variance	Pro Forma Occ.	Actual Occ.
Q1	\$41,040	\$38,000	-\$3,040 (-7.4%)	\$26,676	\$24,700	-\$1,976 (-7.4%)	\$10,812	\$8,836	-\$1,976 (-18.3%)	1.68×	1.56×	-0.12×	95%	90%
Q2	\$41,040	\$41,500	+\$460 (+1.1%)	\$26,676	\$26,975	+\$299 (+1.1%)	\$10,812	\$11,111	+\$299 (+2.8%)	1.68×	1.70×	+0.02×	95%	92%
Q3	\$41,040	\$42,500	+\$1,460 (+3.6%)	\$26,676	\$27,625	+\$949 (+3.6%)	\$10,812	\$11,761	+\$949 (+8.8%)	1.68×	1.74×	+0.06×	95%	94%
Q4	\$41,040	\$41,040	\$0 (0%)	\$26,676	\$26,676	\$0 (0%)	\$10,812	\$10,812	\$0 (0%)	1.68×	1.68×	\$0	95%	95%

Appendix B: Key Definitions & Assumptions

• **EGI (Effective Gross Income):** Gross Potential Rent – Vacancy Loss.

• **NOI (Net Operating Income):** EGI – Operating Expenses.

• **Cash Flow (CF):** NOI – Debt Service.

• **DSCR (Debt Service Coverage Ratio):** NOI ÷ Debt Service.

• **Occupancy Rate:** Leased units ÷ Total units each quarter.

End of Q4 2025 Investor Update