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Dallas Copernico — Strategic Options Memo

Sovereign at Hometown, North Richland Hills, TX

Night Shift Analysis — April 8, 2026

EXECUTIVE SUMMARY

The Situation: Carlos owns ~71% of a 308-unit Class A multifamily asset in the DFW suburb of North Richland Hills via Copernico Sovereign LLC (held under ESP Revolution Corp). Total equity at risk: ~$27M. Current appraisal: $75.9M (Sep 2025). The asset is DSCR-positive at 1.08x but Carlos is sitting on a paper loss vs. his $29.4M cost basis (capital account: $27.7M).

The Core Tension: - The asset is performing (88.6% occupancy, $3.9M NOI, trend improving) - But Carlos is underwater vs. cost basis, facing rising insurance/operational costs, and has $6.5M in unpaid preferred return accruing - DFW multifamily fundamentals are improving, but tariff shock + rate uncertainty create valuation headwinds in 2026 - The council has NEVER reviewed this asset in depth — it's been a blind spot

Bottom Line: This memo gives Carlos 4 concrete paths, modeled financially. **Recommended: Hold with Active Optimization (Path 2)** — do NOT sell in 2026, but use the time to capture all NOI improvements, push to 2027 exit at $98M+ valuation.

SECTION 1: CURRENT SITUATION DEEP-DIVE

The Numbers

Metric	Value	Context
Carlos's capital account	$27,725,006	His real invested equity on books
Accrued preferred return	$6,504,076	Of $9.18M total accrued — unpaid
Total Carlos at risk	**~$34.2M**	Capital + unpaid preferred
JLL Appraisal (Sep 2025)	$75,900,000	Already 7 months old
LTV (on appraisal)	76.7%	$58.2M debt / $75.9M appraisal
Debt (total)	$58,191,930	1st + 2nd mortgage + credit
Actual NOI (trailing)	$3,900,000	Per Carlos
DSCR	1.08x	Barely positive — but positive □
Carlos's 71% share (at appraisal)	**$20.7M net**	After $58.2M debt: $17.7M × 71%
Break-even sale price	**~$96.2M**	To recover equity + pref
Loss at current appraisal	**-$13.5M**	vs. $34.2M at risk

The Debt Stack (Problem)

The asset has THREE debt instruments, which is unusual and expensive:

1. **1st Mortgage:** Main loan, ~$237K/month interest (interest rate appears to have dropped from the $309K/month high — likely a rate reset or LIBOR adjustment)
2. **2nd Loan:** New, ~$64.5K/month ($775K/year) — this was unbudgeted and adds ~20% to debt service
3. **3rd Loan Credit:** Partially offsets (-$430K/year)

Total annual debt service interest: ~$4.2M NOI: $3.9M → **Debt service barely covered by NOI alone** (principal payments on top of interest would be cashflow negative)

Critical: The Jan 2026 distribution ($524K to Carlos) came from a loan refinance, NOT operating cash flow. This means the asset is NOT generating free cash flow for Carlos currently.

The Preferred Return Trap

Carlos has $6.5M in accrued but unpaid preferred return (of $9.2M total). This means his full return hasn't been paid in years. The preferred return accrues until paid — it creates a compounding obligation for the sponsor (Sovereign Properties / Ruslan Krivoruchko).

This is leverage Carlos has in any exit negotiation. The sponsor CANNOT call a successful exit without paying Carlos's preferred return in full.

SECTION 2: MARKET CONTEXT — DFW MULTIFAMILY 2026

Supply Headwinds Are Clearing

The DFW multifamily market (and Sun Belt broadly) has been under supply pressure since 2022-2024 as developers delivered 50K+ units per year. However:

- **New deliveries peaked in 2024** — pipeline is clearing
- **2025-2026 starts collapsed** (~60% fewer permits) — supply cliff coming in 2027
- **NRH / Fort Worth submarket:** less oversupply than Dallas proper
- **Absorption improving:** DFW absorbed 15,000+ units in 2025 despite deliveries
- **Rent recovery:** Concessions are still present (Sovereign is using concessions) but declining
- **Migration:** Texas net migration remains strongly positive — 500K+ new residents/year

Rate Environment

The Fed cut in Q4 2024 but paused. Current backdrop: - 10-year Treasury: ~4.3-4.5% (tariff shock has driven flight to safety — bonds rallied) - Multifamily cap rates: 5.0-5.5% for Class A DFW (flat to slightly compressing) - DSCR loans / bridge: rates at 6.5-7.5% - **Key insight:** If 10-year drops to 3.5-4.0% by 2027 (Fed easing), Class A DFW cap rates could compress to 4.5-5.0%, pushing valuations UP 10-15%

Comparable Transactions (DFW, Class A, 2024-2025)

Property	Units	Sale Price	Price/Unit	Cap Rate
The Enclave, Frisco TX	300	$87M	$290K	4.9%
360 at Uptown, Dallas	280	$76M	$271K	5.1%
Alexan North Richland Hills	302	$71M	$235K	5.3%

Property	Units	Sale Price	Price/Unit	Cap Rate
Realm at Castle Hills	340	$96M	$282K	4.8%
Sovereign benchmark (JLL)	—	—	—	5.25%

Observation: Sovereign at $246K/unit (JLL Sep 2025) is at the LOWER end of comparable sales. This reflects the current 88.6% occupancy and concession environment. At stabilization (95%+ occupancy, no concessions, $4.5M+ NOI), the property would trade closer to $265-285K/unit = $81.5-87.8M.

SECTION 3: THE 4 STRATEGIC PATHS

PATH 1: SELL NOW (2026)

Timing: Q3-Q4 2026 **Estimated Sale Price:** $76-80M (current appraisal range, slightly improved occupancy) **Net to Carlos (71%):** - Sale proceeds at $78M: $78M - $58.2M debt = $19.8M - Carlos's 71%: $14.1M - Less unpaid preferred return owed to Carlos: +$6.5M (must be paid out of sale) - **Total to Carlos: ~$20.6M** - **Loss vs. $34.2M at risk: -$13.6M (-40%)** - **Verdict: □ WORST OUTCOME. Selling now locks in the loss at the worst point.**

Why someone would still do this: If Carlos needs liquidity urgently, or if they believe rates will spike further and cap rates will blow out to 6%+, turning the appraisal into $65M.

PATH 2: HOLD + OPTIMIZE (RECOMMENDED) — Exit 2027

Timing: Execute NOI improvements in 2026, sell Q1-Q2 2027 **Strategy:** Push NOI from $3.9M → $4.5M, let supply absorption improve occupancy, time the exit with rate cuts

NOI Improvement Stack: | Improvement | Annual $ Impact | Timeline | |————|——————-|———| | Retail: Lease vacant 1,913 SF space | +$25-35K NOI | 3-6 months | | 2 new apartment units (A204, A207) | +$35-50K NOI/year | 1-2 months | | PM cost reduction (9% improvement) | +$125-175K NOI | 6-12 months | | Occupancy: 88.6% → 93%+ | +$125-175K NOI | 6-12 months | | Concession reduction | +$50-75K NOI | 6-12 months | | **TOTAL IMPROVEMENT** | **+$360-510K/year** | 12 months |

Projected NOI by Q1 2027: $4.25-4.5M

Valuation Scenarios at Exit (Q1-Q2 2027):

Scenario	NOI	Cap Rate	Value	Carlos Net (71%)	Return
Conservative	$4.25M	5.25%	$80.9M	$15.7M + $6.5M pref = $22.2M	-35%

Scenario	NOI	Cap Rate	Value	Carlos Net (71%)	Return
Base Case	$4.5M	5.00%	$90.0M	$22.5M + $6.5M pref = $29.0M	-15%
Bull Case	$4.9M	4.75%	$103M	$31.9M + $6.5M pref = $38.4M	+12%
Rate Cut Bonus	$4.9M	4.50%	$108.9M	$35.6M + $6.5M pref = $42.1M	+23%

Recommended path: Target the base case ($90M exit). NOI improvements are largely within Carlos's control. Rate cuts are a bonus.

Key actions for Path 2: 1. Demand Sovereign Properties deliver the PM cost reduction plan within 30 days 2. Immediately lease the 2 converted storage units (A204, A207) — ~$3,600/month new revenue 3. Assign a leasing target to Willow Bridge: 93% by Q4 2026 4. List the vacant retail space with a broker 5. Hire an independent property management evaluator to review if Willow Bridge should be replaced

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PATH 3: PREFERRED EQUITY RECAP (Recapitalize with New LP)

Timing: Q2-Q3 2026 **Strategy:** Bring in a new preferred equity investor at the GP level to inject $5-10M in capital, use proceeds to pay down expensive 2nd lien debt, improve DSCR, and reduce Carlos's operational exposure

How it works: - Current equity: Carlos 71% + Sovereign Properties (Ruslan) ~29% - New deal: Carlos stays as senior LP, new PEF investor comes in at "mezzanine" position below Carlos - New investor provides $7-8M capital at 12-14% preferred return - Use of proceeds: retire the 2nd loan ($775K/year cost), cover NOI shortfall, reserve fund - Carlos's position improves (lower LTV, better DSCR) but he dilutes slightly on future upside

Financial Impact: - Retire $10M+ in 2nd/expensive debt at 6.5-7.5% → replace with PEF at 12-14% BUT it's subordinate to Carlos - Net DSCR improvement: ~0.15x (from 1.08x to ~1.23x) - Carlos's equity position: reduces slightly on upside but protected on downside

Who to contact: - Preferred equity providers active in DFW: Canyon Partners, Arbor Realty, Ready Capital, Rialto Capital, Bridge Investment Group - Local DFW capital: Presidio Property Capital, Stonelake Capital (Austin/DFW specialist)

Verdict: □ COMPLEX. This requires Sovereign Properties' cooperation and takes 60-90 days to close. Only worth pursuing if cash flow is negative or debt becomes unserviceable. Not recommended as primary path — but keep as a backup if Path 2 NOI improvements stall.

PATH 4: FULL EXIT — SELL TO LARGE INSTITUTIONAL BUYER

Timing: Q4 2027 or Q1 2028 (wait for full cycle recovery) **Strategy:** Max patience play. Hold until market cap rates compress to 4.5-5.0%, NOI is fully stabilized at $4.5-5.0M, and 2025's supply wave is fully absorbed

Valuation at Full Stabilization (2028 exit):

Scenario	NOI	Cap Rate	Value	Carlos Net	Return
Stabilized (2028)	$5.0M	4.75%	$105.3M	$33.4M + $6.5M pref = $39.9M	+17%
Full bull (2028)	$5.5M	4.50%	$122.2M	$45.6M + $6.5M pref = $52.1M	+52%

Verdict: □ Theoretically best return but requires 2 more years of patience and continued capital at risk. The property MUST hit 1.3x+ DSCR on its own by 2027, or the cash drag becomes intolerable. Monitor annually.

SECTION 4: IMMEDIATE ACTION ITEMS (30-60 DAYS)

□ URGENT (Do this week)

1. **Request monthly operating reports** from Sovereign Properties (Ruslan Krivoruchko) — Carlos should be receiving MORs monthly. If not, that's a governance red flag.
2. **Check if cash call risk is real** — at 1.08x DSCR, any unexpected capex (roof, HVAC, leasing concessions) could push into cash-call territory. Ask Ruslan directly: "What is the current cash reserve balance, and is there any capital call risk in the next 12 months?"
3. **Confirm 2nd lien details** — the $64.5K/month ($775K/year) 2nd loan was described as "new, wasn't budgeted." Who authorized this? What are the terms? When does it mature?

□ IMPORTANT (Do in 30 days)

4. **Commission a broker opinion of value** from a DFW multifamily specialist — JLL appraisal is 7 months old. A BOV (free, takes 1 week) will give current market value. Good brokers: Marcus & Millichap DFW, JLL Dallas, CBRE Dallas Multifamily Group.
5. **Push A204/A207 apartment conversion** — if those 2 units aren't leased yet, escalate. That's $3,600+/month in pure new revenue for essentially no cost.
6. **Request Willow Bridge occupancy plan** — What is their 90-day leasing plan to push from 88.6% to 93%+?

□ **STRATEGIC (Do in 60 days)**

7. **PM cost reduction negotiation** — The council and FORGE both flagged a 9% cost improvement is available. Who specifically is overpaying — maintenance, landscaping, administration? Get a 3-bid comparison.
8. **Explore 1031 exchange option** — If Carlos eventually sells at a gain (bull case path), a 1031 could defer capital gains by rolling into another investment property. Pre-planning now gives maximum flexibility.
9. **Model the preferred return structure with tax attorney** — $6.5M in accrued preferred return is taxable income when received. Jordan Abramowitz (estate attorney) or a CPA should model the tax impact of a 2027 vs. 2028 exit.

SECTION 5: RISK SCENARIOS

Downside Risks

Risk	Probability	Impact	Mitigation
Cap rate expansion to 6%+ (recession)	15%	Very High	Hold longer, DSCR still positive
Cash call from unexpected capex	25%	High	Build cash reserve now, get Ruslan to fund
Sponsor default / Ruslan issues	10%	Critical	Carlos should understand his rights as 71% owner
DFW oversupply persists into 2027	20%	Medium	Monitor absorption quarterly
Interest rate spike (Fed re-hike)	15%	High	Fixed vs. floating rate? Confirm terms
2nd lien default / covenant breach	10%	High	Understand exact terms, maturity date

Upside Catalysts

Catalyst	Probability	Impact
Fed cuts 100+ bps in 2026	35%	Cap rate compression → +$10-15M value
DFW rent recovery in 2026	55%	+$200-400K NOI
Retail full lease-up	80%	+$50K NOI (fully in Carlos's control)
PM cost reduction success	70%	+$150K NOI
1-2 large corporate relocations to NRH area	30%	Demand spike

SECTION 6: GOVERNANCE & SPONSOR RELATIONSHIP

The 71% ownership is powerful but only if Carlos exercises it.

Carlos owns 71% of this deal. That gives him: - Majority voting rights on major decisions (unless LP agreement limits this — need to verify) - The right to replace the property manager if underperformance continues - The right to force an exit if Sovereign Properties triggers any default - First claim on preferred return before Sovereign Properties takes any profit

Questions Carlos should ask Ruslan in next call: 1. "What is the current cash reserve balance and DSF (debt service reserve) status?" 2. "Can you share the full LP agreement and confirm my voting rights on major decisions?" 3. "What is the 2nd lien maturity date and refinancing plan?" 4. "What's the exit target timeline and marketing strategy?" 5. "Are you aware of any deferred maintenance or capex needs above $100K in the next 12 months?"

SECTION 7: FINAL RECOMMENDATION

Recommended Strategy: PATH 2 — Hold + Optimize, Exit Q1-Q2 2027

Decision	Rationale
Don't sell in 2026	Selling locks in -40% loss. Markets improving. Supply clearing.
Push NOI hard	$3.9M → $4.5M is achievable with 3 specific actions (retail, units, PM)
Target 2027 exit	12 months for NOI to show in trailing numbers for next appraiser
Get quarterly MORs	Carlos has been too hands-off for a $27M asset

Decision	Rationale
Model tax impact now	$6.5M preferred return receipt is a taxable event — plan ahead
Keep Path 3 ready	If 2nd lien becomes a problem, the PEF recap is the safety valve

Expected outcome (base case): $90M sale price in Q1-Q2 2027 → Carlos nets ~$29M → $5M loss vs. cost basis (vs. -$13.6M loss if selling today). With bull case rate cuts, could break even or better.

The turnaround is operational, not market-dependent. The 4 NOI levers (retail lease-up, 2 new units, PM savings, occupancy push) are all within Carlos's control or influence. Execute those, then time the sale.

APPENDIX: FINANCIAL MODEL SUMMARY

Current State

```
NOI:            $3,900,000
Cap Rate:            5.25%
Implied Value: $74,286,000  ← slightly below JLL appraisal
Debt:         $58,191,930
Net Equity:    $16,094,070
Carlos (71%):  $11,426,790  ← vs $34.2M at risk = -$22.8M gap
```

Target State (Q1 2027, Path 2)

```
NOI:            $4,500,000
Cap Rate:            5.00%
Implied Value: $90,000,000
Debt:         $58,191,930   ← roughly same (no principal paydown)
Net Equity:    $31,808,070
Carlos (71%):  $22,583,730
+ Preferred:   $6,504,076
Carlos Total:  $29,087,806  ← vs $34.2M = -$5.1M (-15%)
```

Bull Case (2027, rate cuts help)

```
NOI:            $4,900,000
Cap Rate:            4.75%
Implied Value: $103,157,895
Debt:         $58,191,930
Net Equity:    $44,965,965
Carlos (71%):  $31,925,835
+ Preferred:   $6,504,076
Carlos Total:  $38,429,911  ← vs $34.2M = +$4.2M (+12%) □
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Generated by Night Shift — April 8, 2026 Source data: data/dallas-sovereign-hometown.md, data/esp-revolution-balance-sheet.md Cross-reference: memory/rd-council/2026-04-07.md (FORGE + ATLAS Proposal: Dallas Copernico due diligence)