Understanding General Partner Earnings

in Real Estate Development Funds

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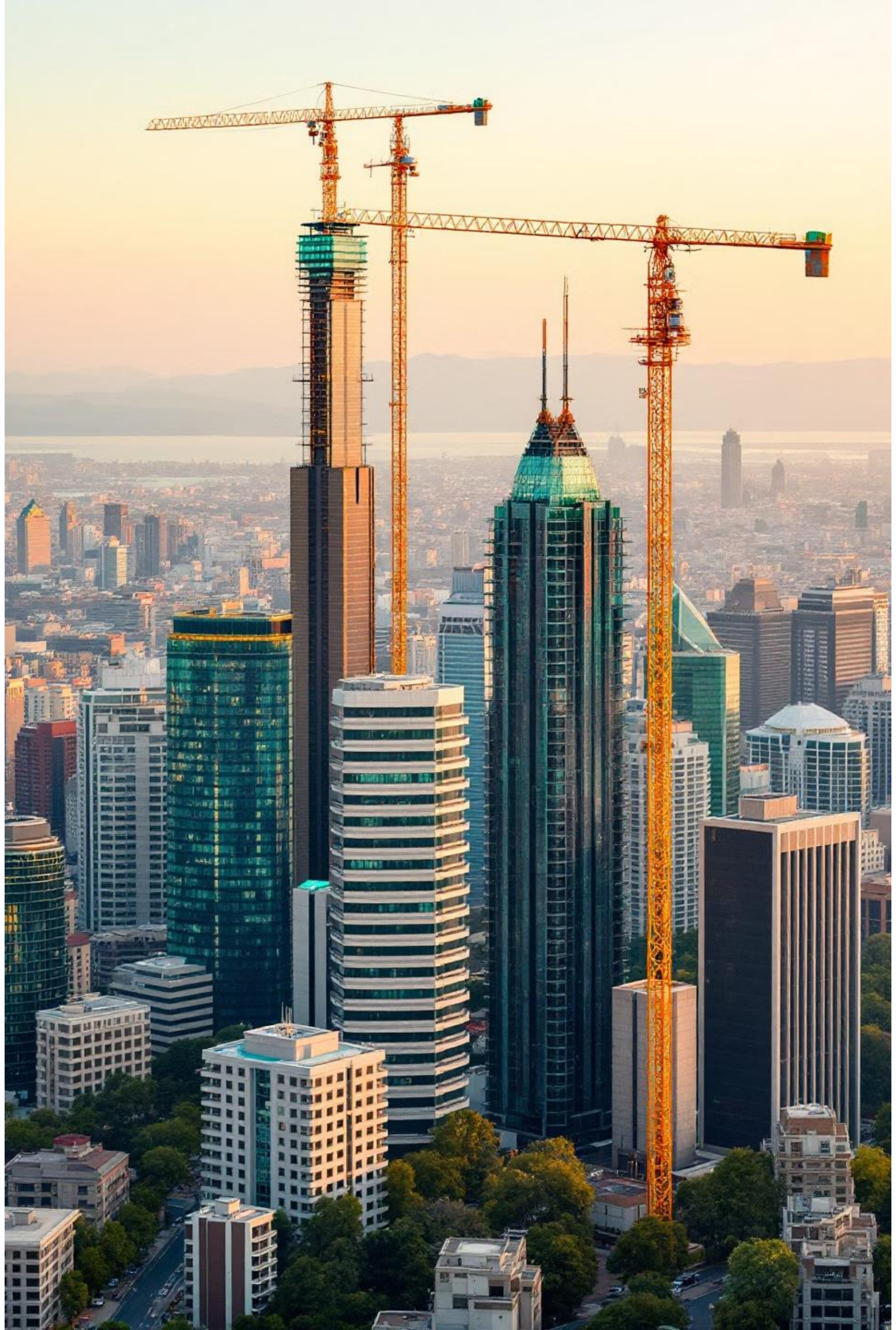
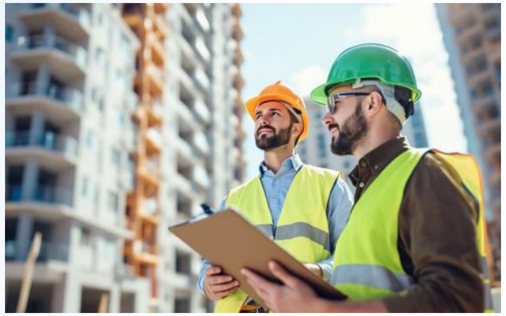
Real Estate Development Funds offer a unique investment opportunity. They combine passive investor capital with general partner (GP) expertise. This presentation explores GP earnings and implications for investors.



What General Partners Do to Earn Fees

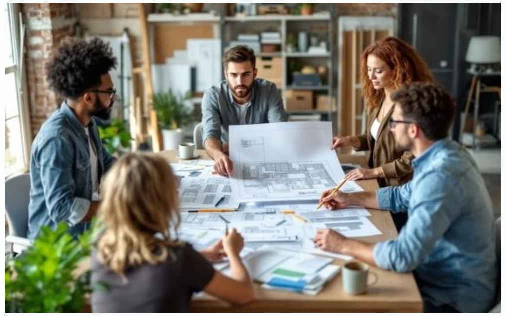


Deal Sourcing

Identifying and securing potential real estate development projects.

Underwriting & Due Diligence

Conducting thorough financial analysis and investigations to assess project feasibility.



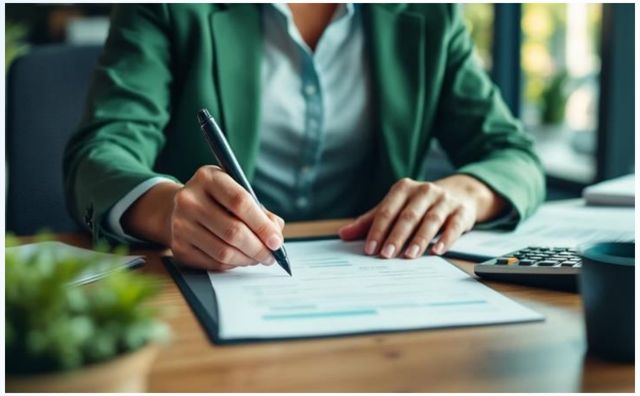
Project Management

Overseeing all aspects of project execution, including construction, property management, and asset management.

Take On Substantially More Risk

Responsible for any personal guarantees, if required, by lenders when financing the deal. In contrast, Limited Partner (LP) investors only have their equity investment at stake.

How General Partners Make Money



Fees

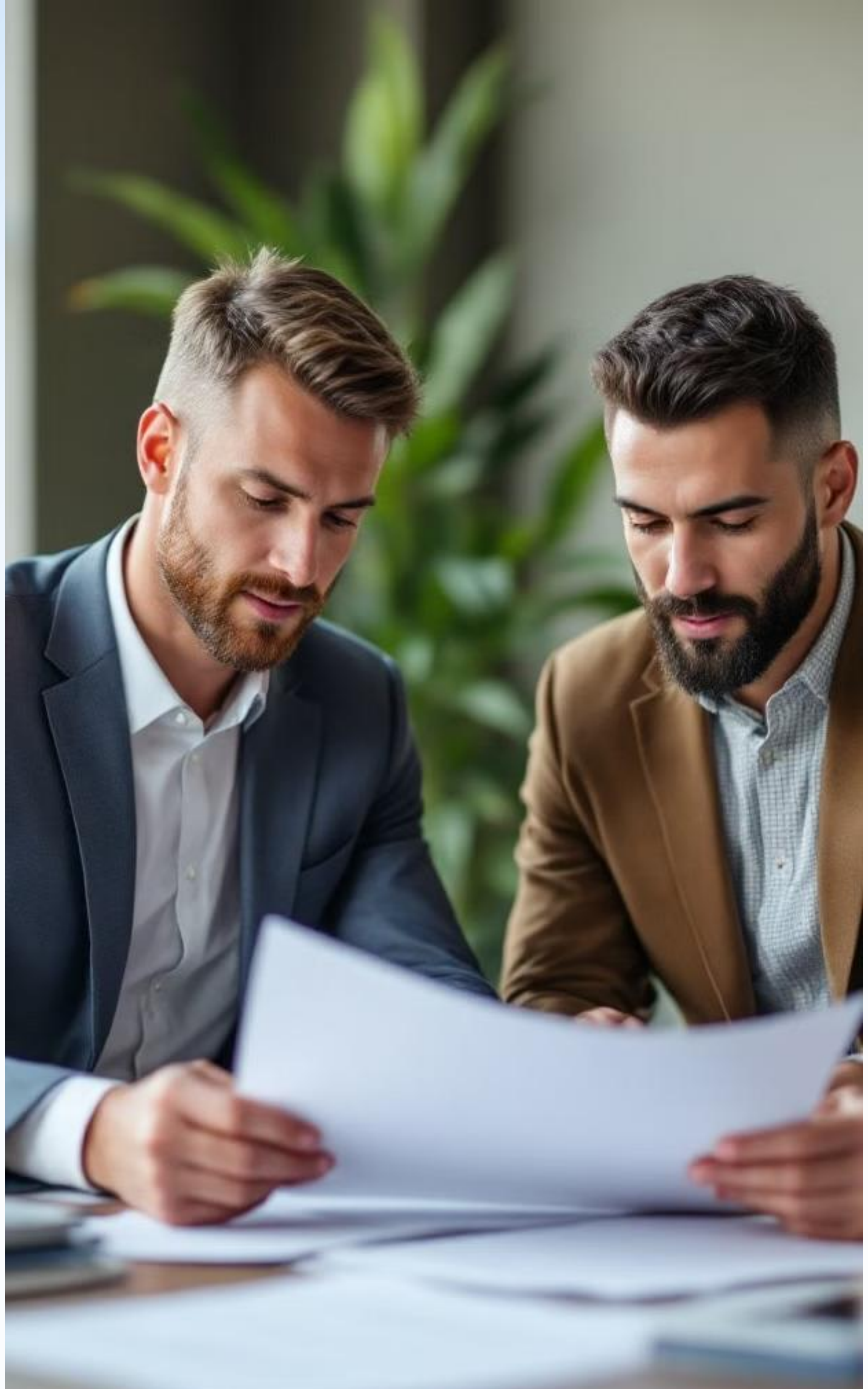
GPs charge LPs for specific services or milestones. These fees are independent of investment performance. Examples of services - arranging loans, acquisition fees.

Investment Level Returns

GPs invest in the fund and for that investment receive their pro-rata cash flow and capital gains

Promote Fees

These are payments that become due if the return to the LPs exceeds the preferred return. These are outlined in the terms of the partnership agreement.



Typical GP Fees & Profit Splits

Example of Fees for GP Services

- Acquisition fee: 1–3% of purchase price.
- Asset management fee: 1–2% of total equity or total assets.
- Debt arrangement fee: 0.5–1% of refinancing amount.
- Project management fee: 3–5% of construction costs.
- Disposition fee: 1–2% of sale price.

Example of Promote Profit Split

Performance-based fee for investment manager.

- Hurdle rate (Minimum return required before GP shares profits): 8%
- Profit split (Any remaining profit after your initial investment + hurdle rate): 80% to you 20% to GP

Example of Investment Profit Split

Ranges from 90/10 to 50/50 (investors/GPs).

Sources: National Real Estate Investor, "Understanding GP/LP Structures" (2023); Blackstone Real Estate, "Real Estate Partnership Structures Guide" (2022); PERE Magazine, "Waterfall Structures in Real Estate Funds" (2023)

How General Partners & Limited Partners Earn Money

Limited Partners (LPs)

LPs receive a predetermined share of cash flow and sales proceeds based on the partnership agreement. The agreement specifies a preferred return that LPs receive before GPs earn any distributions. This preferred return typically ranges from 6–8% annually.

For example, if the agreement stipulates a 7% preferred return, LPs will receive a distribution equal to 7% per annum on the amount of their capital, and usually a return of their capital before the GP receives any promote distributions. Any remaining cash flow is split between the GP and LP investors according to the profit split outlined in their agreement.

Limited Partners also may benefit from:

- Regular quarterly or annual distributions
- Potential tax benefits through depreciation
- Limited liability: risk is capped at their initial investment

Most LP investors look for expected returns between 12–20% IRR depending on the project type, risk level, and market conditions. Their returns come from two main sources: preferred returns and profit sharing on the appreciation of the underlying asset.

General Partners (GPs)

General Partners (GPs) GPs typically earn fees for managing and overseeing the real estate development project. These fees can include:

- Acquisition fee: 1–3% of purchase price
- Asset management fee: 1–2% of total equity or total assets
- Debt Management fee: 0.5–1% of refinancing amount
- Project management fee: 3–5% of construction costs
- Disposition fee: 1–2% of sale price

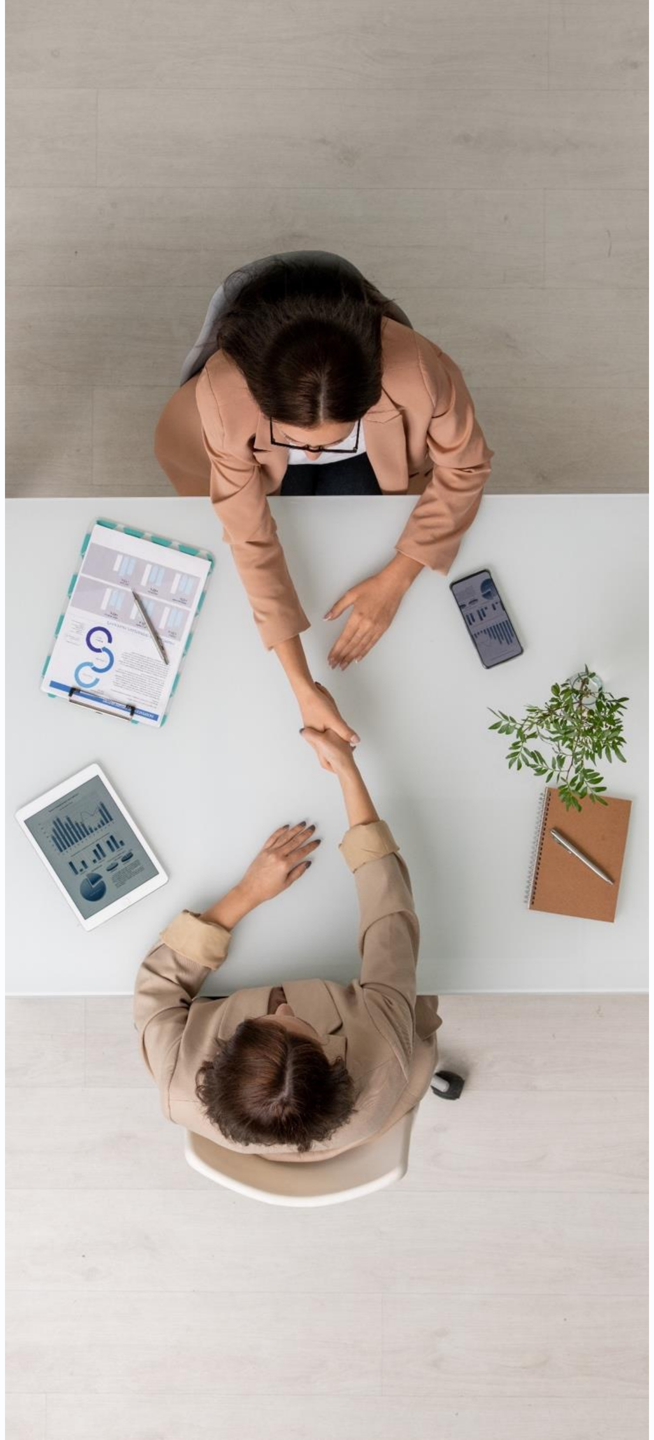
GPs may also receive a promote, which is a disproportional share of the profits above the preferred return. Promotes incentivize GPs to control costs, manage projects efficiently, and ensure alignment of interests throughout the deal's lifecycle.

The promote structure typically follows a waterfall distribution. An example of a multi-tiered promote is below:

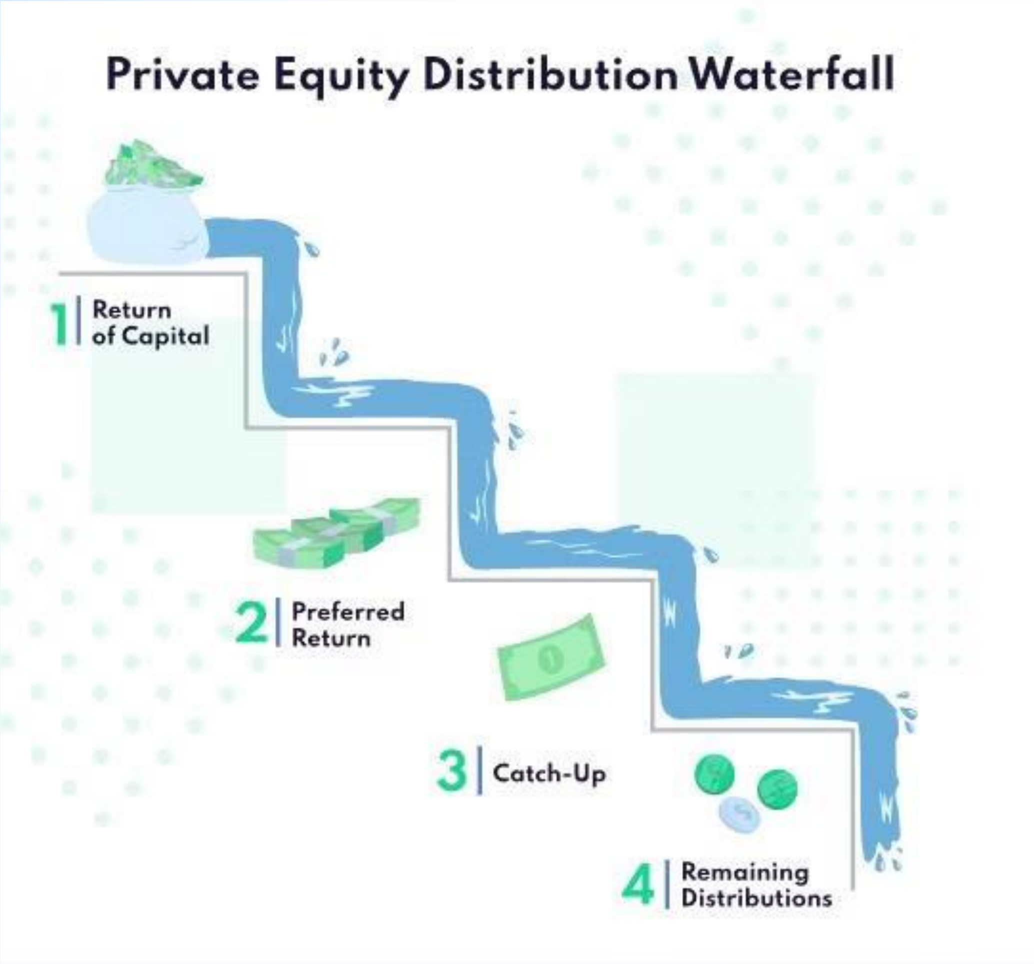
- First tier: After LP preferred return (typically 6-8%)
- Second Tier: Manager Catch Up: Split of Profits 70/30 until reaching 12–15% IRR for LPs.
- Third tier(Promote): Split of profits 50/50 after reaching 18–20% IRR for LPs.

Each tier increases the GP's profit share, and increases the preferred return to the LPs.

Sources: National Real Estate Investor, "Understanding GP/LP Structures" (2023); Blackstone Real Estate, "Real Estate Partnership Structures Guide" (2022); PERE Magazine, "Waterfall Structures in Real Estate Funds" (2023). Wharton, “Understanding the Return Profiles of Real Estate Investment Vehicles.



How the Waterfall Works



Source: Letsledger Blog – Private Equity Investments

Return of Capital

LPs receive their initial investment back first.

Preferred Return

LPs receive a pre-determined annual return on unreturned capital.

Manager Catchup

After investors achieve their preferred return, the GP may receive a predetermined amount of the subsequent profits.

Split of Remaining Profits

GPs and LPs share remaining profits according to the agreement.

Key Takeaways for Investors

Due Diligence on GPs

Understand fee structures to evaluate GP incentives and alignment of interest with the LPs. Does the preferred return to the LP increase with increased returns to the GP? Does the GP get paid before you do?

Risk Assessment

Have the GPs invested any money alongside LPs? Are the GP's friends and family invested in this deal? GPs have guaranteed earnings through fees, reducing their exposure to investment performance risks.

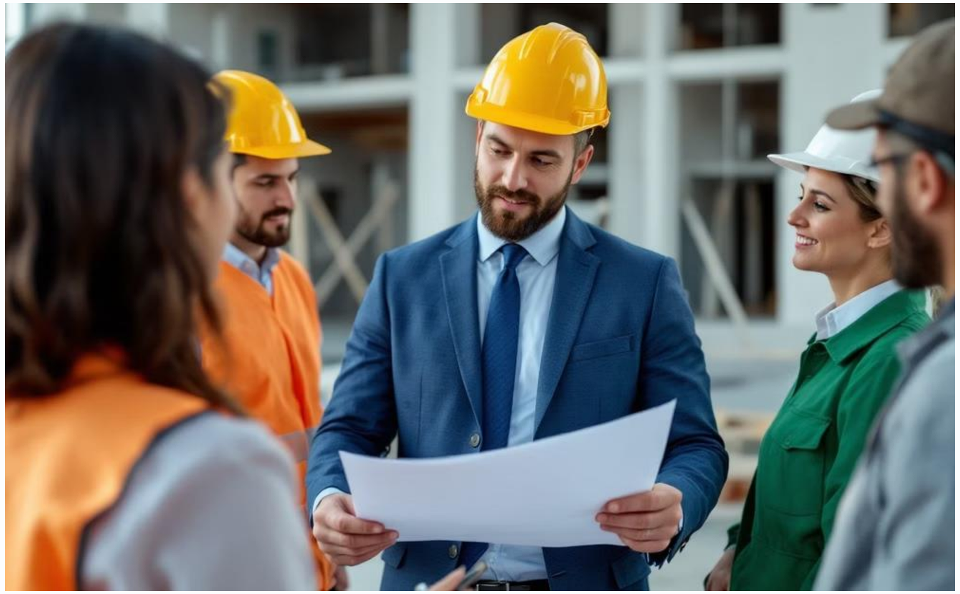
Potential Returns

Successful deals can be highly lucrative for GPs, offering potential for larger gains. However, they may take on more personal risk for this opportunity. Some GPs are LLCs and have a GP/LP structure which changes risk to some of the GP investors.

Investing as GP vs LP — Which Is Right for You?

Limited Partner (LP)

Passive investment with less risk and liability. Suited for investors seeking greater diversification with smaller investments, with no direct real estate experience required.



General Partner (GP)

Active management role requiring significant real estate expertise. Offers greater control and potential returns, but comes with higher risk and responsibility for project success. The GP can be structured as a fund, with GPs and LPs which further separates risk for the LPs and provides potentially greater returns than an LP investment in the full fund.

IMPORTANT INFORMATION

Investments in private placements are highly speculative, involve a high degree of risk, are suitable only for sophisticated investors and involve significant risks, including the possible loss of your entire investment. In addition, an investment in private placements are illiquid, as there is no secondary market for their interests and none is expected to develop; and there will be substantial restrictions on transferring such interests. Accordingly, an investor may be required to maintain its interest in the private placements for an indefinite period of time. Prospective investors should make their own investigations and evaluations of the information contained in this material and the other operative documents. Please review all risk factors listed in the offering documents before investing.

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