



Real Estate Financial Modeling's

**Annual Report On Real Estate Joint Venture Equity Partnerships
Formed And Proposed In 2011**



Be in the know, gain insights and close more JVs.

Presentation by Bruce Kirsch
Founder, Real Estate Financial Modeling

Copyright © 2012 Real Estate Financial Modeling, LLC. All Rights Reserved.

www.GetREFM.com

About REFM

- Founded in 2009 by Bruce Kirsch
- Solutions provider for financial analysis, financial modeling training and data for commercial real estate transactions.

About Bruce Kirsch



Bruce Kirsch is the founder and principal of Real Estate Financial Modeling, LLC (REFM), a financial analysis and training solutions provider that specializes in the financial modeling of real estate joint venture partnership structures. REFM also consults to billion-dollar real estate organizations as well as small- and medium-size developers and investors.

Mr. Kirsch is an Editor of the Third Edition of Wharton Professor Peter Linneman's Real Estate Finance and Investments: Risks and Opportunities, the leading real estate finance textbook.

Mr. Kirsch instructs on real estate finance and financial modeling as Adjunct Faculty at Georgetown University. A highly-acclaimed financial modeling trainer, Mr. Kirsch previously worked in commercial brokerage and real estate investment in New York and Washington, DC. Mr. Kirsch holds an MBA in Real Estate from The Wharton School and a BA in Communication from Stanford University.

What REFM Offers

Consulting

Using our Excel model or your own, give your transactions the competitive edge they need with custom financial analyses and modeling insights from REFM's experienced and knowledgeable team.

- Private Tutoring
- Hourly Consulting
- Project-Based
- Retained

Excel Models

REFM's fully unlocked Excel-based real estate analysis templates save you time, money and mistakes, and present your transactions in a compelling, polished format that gives the right details the attention they deserve.

- Acquisition and Hold
- Development
- Distressed Assets
- ARGUS Converter

Training

REFM In-Person and Virtual Attendance training sets you up for success by enabling you to master basic and advanced techniques of Excel, real estate finance, and transaction financial modeling. Training is available for:

- Public Open Enrollment
- Businesses & Recruiters
- Law Firms
- Universities

Self-Study

REFM's acclaimed Bootcamps, Self-Study Video Tutorials and Replays allow you to learn at your own pace and review important concepts and skills an unlimited number of times at home or wherever you take your laptop.

- Bootcamp Videos
- Transaction Videos
- In-Person Class Replays
- Webinar Replays

Certification

REFM Certification measures proficiency in operating skillfully and efficiently in Microsoft Excel for the specific purpose of real estate transaction and partnership modeling analysis. REFM offers Certification for:

- Job Seekers
- Employers
- Students
- Professionals

Free Tools

REFM's valuable Free Tools get you up to speed on real estate basics, give you a preliminary analytical framework for deeper real estate deal analysis, and make you a faster, smarter and better Excel user. Free Tools include:

- Foundation Videos
- E-Book
- Back Of Envelope Models
- Excel Keyboard Shortcuts

Our Clients

- Small, Medium and Large Developers, Investors, Lenders, Brokers and other stakeholders
 - Vornado
 - WRIT
 - Abu Dhabi Investment Authority
 - Alvarez & Marsal
 - Clark Enterprises
 - Skanska USA Commercial Development

Our Newest Offering



**My consulting clients wanted to know:
What is “market” for JV structures?**

Our Newest Offering



**First and only of its kind.
Over \$400MM in Equity Investment represented.**

Our Newest Offering



Be in the know, gain insights and close more JVs.

Today's Agenda

- Rationale For Partnering, Risks and Optimal Structuring Theory
- Standardized Nomenclature
- 2011 Actual Structures and Surprises
- How Real Deals Can Benefit You

Why One Seeks A Joint Venture Partner

- As the Sponsor (Owner/Developer), you need:
 - Capital
 - Better access to lenders
 - Sellers to believe that you will close
 - Better third party provider pricing
 - Strategic and technical expertise
- As the Investor, you need an investment vehicle:
 - Developments
 - Existing income-producing properties
 - Mortgage Notes

Risks: Financial And Other

- Front-end acquisition/development funds (borne by Sponsor)
- Construction budget shortfalls (shared pro-rata?)
- Operating deficits (shared pro-rata?)
- Loan Guaranties (shared pro-rata?)
- Reputational

Joint Venture Partnership Cash Flow Splitting

The fundamental question:

Given how much and when cash investment goes in to the transaction from each party, and the unique roles that the parties play, when should the original capital invested, and the returns on that capital, come out of the transaction, and how should it be partitioned to each party?

Nomenclature For 2 Equity Players Only

Principal = Sponsor

Owner of the asset
Developer of the asset

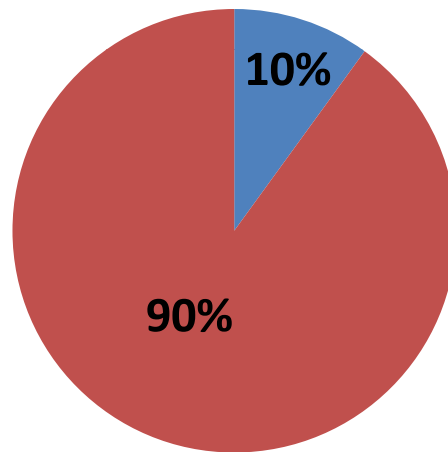
Third Party Investor

Invests in the transaction

Is Proportional (Pro-Rata) Financial Reward Desired?

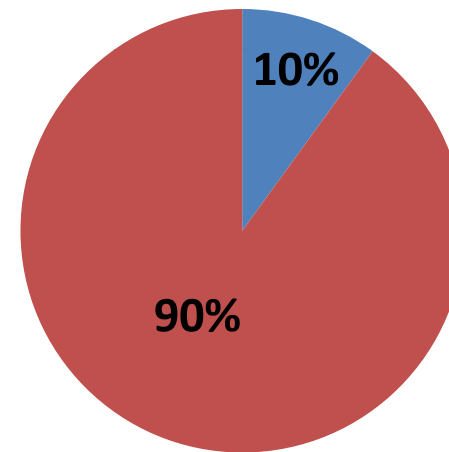
Financial Risk

■ Sponsor ■ Third Party Investor



Financial Reward

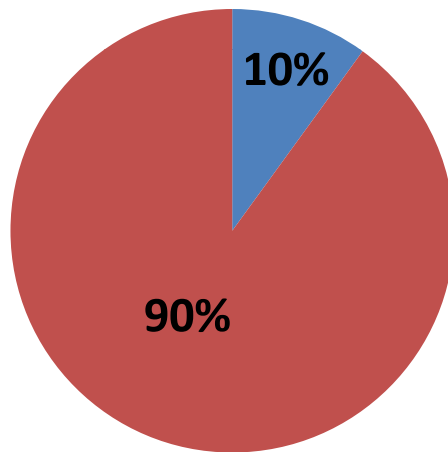
■ Sponsor ■ Third Party Investor



Disproportionate Reward To The Sponsor Is Market

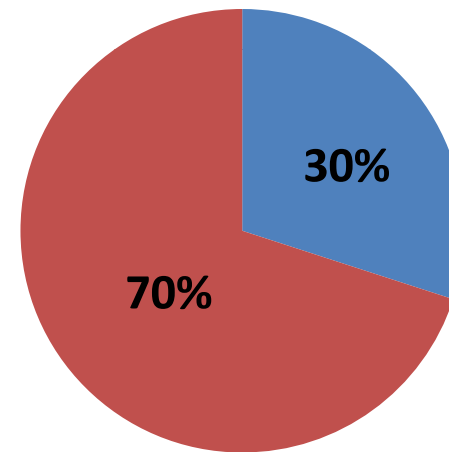
Financial Risk

■ Sponsor ■ Third Party Investor



Financial Reward

■ Sponsor ■ Third Party Investor

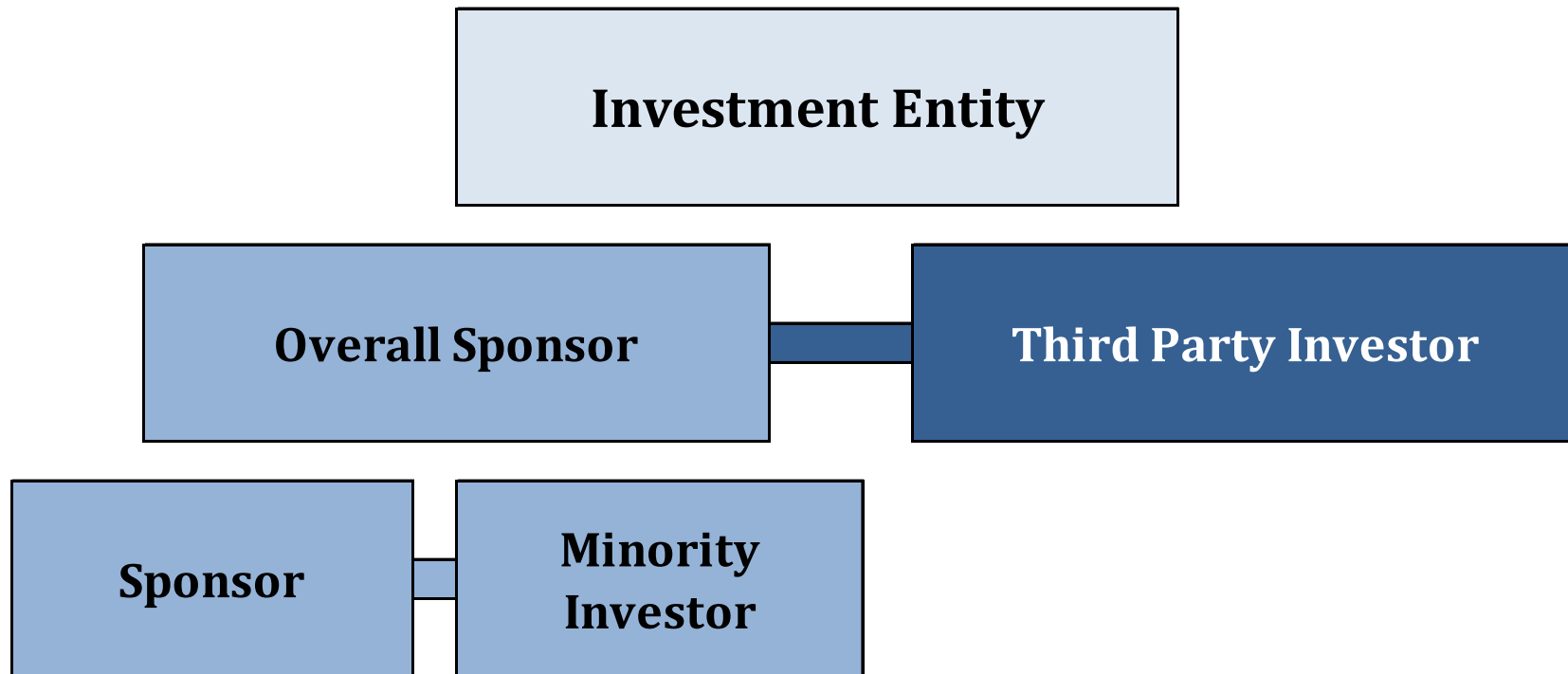


Total Net Cash Flow is weighted disproportionately in favor of the Sponsor...

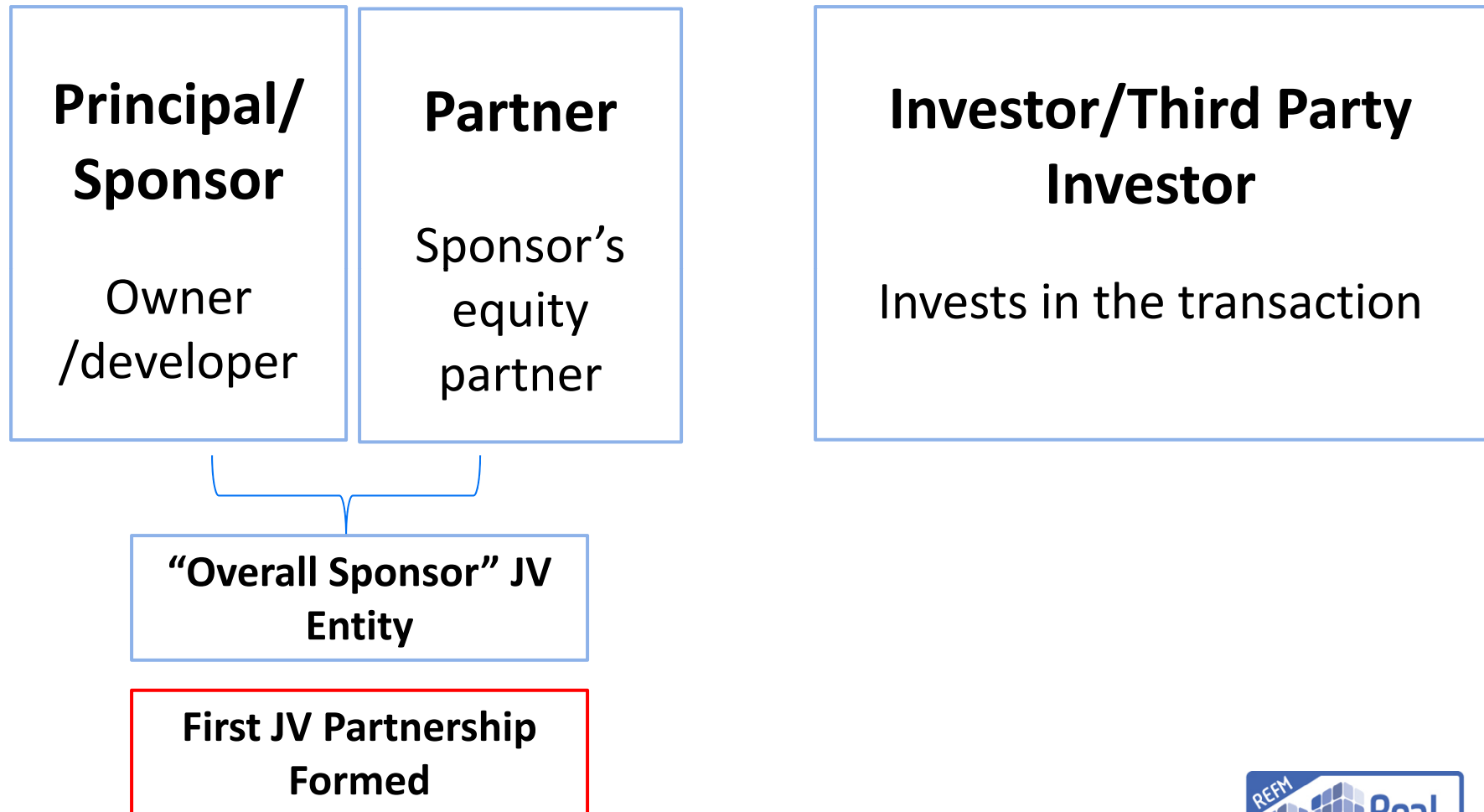
Sponsor Pilots And Lands The Plane With Intense Focus



What If There Are 3 Equity Players?



Teaming Up With Third Party Capital



Teaming Up With Third Party Capital

Overall Sponsor JV Entity

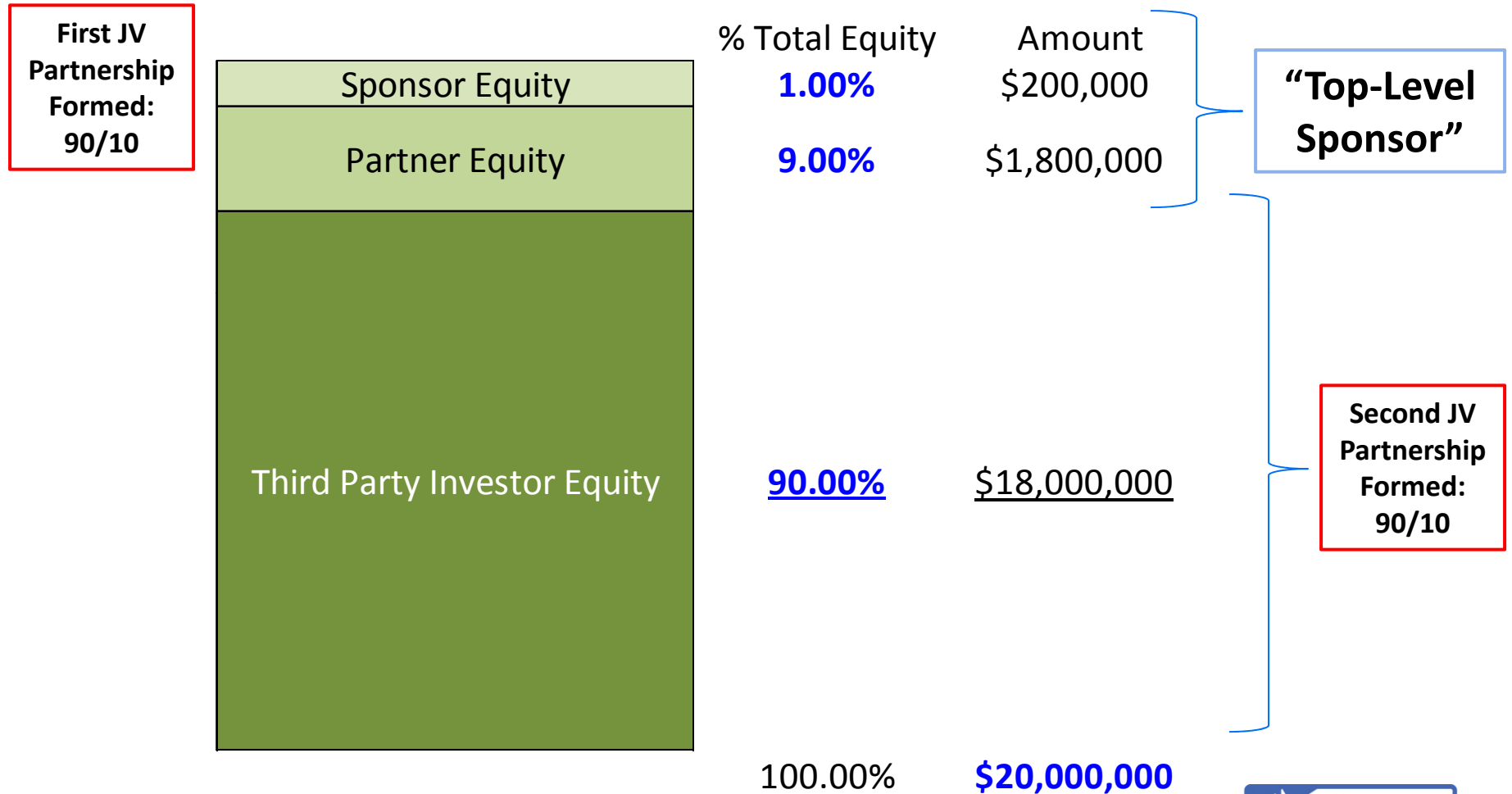
Comprised of both Sponsor
and Partner

Investor/Third Party Investor

Invests in the transaction

**Second JV Partnership
Formed**

How Equity Might Be Broken Out - \$20MM



Cash Flow Partitioning

- How can cash flow splits be commensurate with both risk taken and value added?
- How is it typically structured?

No “Formula”

- Unfortunately, there is no typical structure across property types, geographies, transaction types and the hundreds of thousands of partnerships investing in real estate
- Negotiation-specific
- All revolve around the end goal

The Real Deals Database Gives Us Insights



The Real Deals Database Gives Us Insights

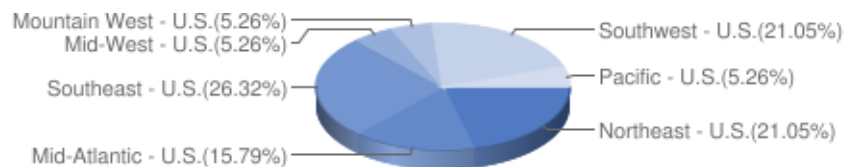
- The structuring details on a variety of actual transactions that are being put together in the market today
- Terminology is standardized
- Records are redacted to encourage submissions
- The Database becomes more valuable with every new record entered...

2011 Actual Transactions

- 19 Records comprising over \$150MM in Total Invested Equity

2011 Actual Transactions

A3. Geography in which investment is located:

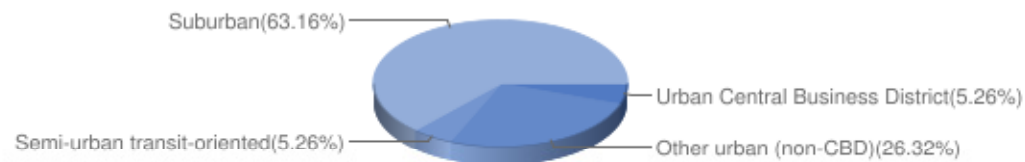


This graph is based on 19 survey responses.

Northeast - U.S.	4	21.05%
Mid-Atlantic - U.S.	3	15.79%
Southeast - U.S.	5	26.32%
Mid-West - U.S.	1	5.26%
Mountain West - U.S.	1	5.26%
Southwest - U.S.	4	21.05%
Pacific - U.S.	1	5.26%

2011 Actual Transactions

A4. Market type in which investment is located:

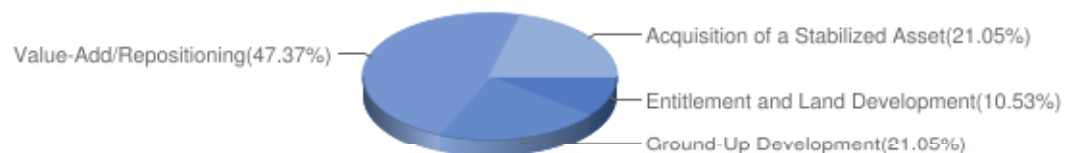


This graph is based on 19 survey responses.

Urban Central Business District	1	5.26%
Other urban (non-CBD)	5	26.32%
Semi-urban transit-oriented	1	5.26%
Suburban	12	63.16%

2011 Actual Transactions

A5. Investment type(s):

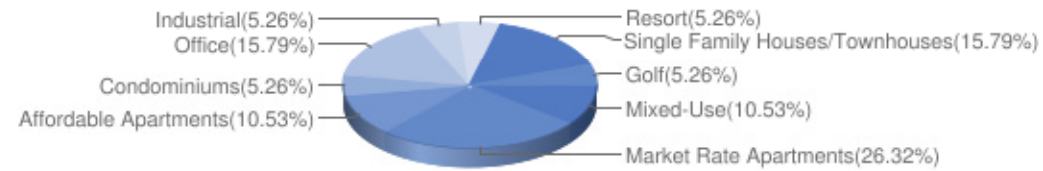


This graph is based on 19 survey responses.

Entitlement and Land Development	2	10.53%
Ground-Up Development	4	21.05%
Value-Add/Repositioning	9	47.37%
Acquisition of a Stabilized Asset	4	21.05%

2011 Actual Transactions

A6. Property type:

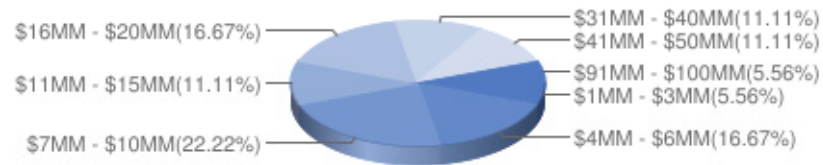


This graph is based on 19 survey responses.

Mixed-Use	2	10.53%
Market Rate Apartments	5	26.32%
Affordable Apartments	2	10.53%
Condominiums	1	5.26%
Office	3	15.79%
Industrial	1	5.26%
Resort	1	5.26%
Single Family Houses/Townhouses	3	15.79%
Golf	1	5.26%

2011 Actual Transactions

A8. Total Transaction Size (Total Development Cost, or Total Acquisition Cost):

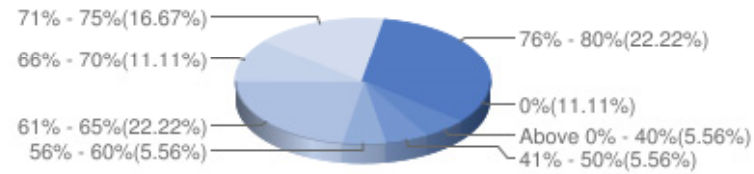


This graph is based on 18 survey responses.

\$1MM - \$3MM	1	5.56%
\$4MM - \$6MM	3	16.67%
\$7MM - \$10MM	4	22.22%
\$11MM - \$15MM	2	11.11%
\$16MM - \$20MM	3	16.67%
\$31MM - \$40MM	2	11.11%
\$41MM - \$50MM	2	11.11%
\$91MM - \$100MM	1	5.56%

2011 Actual Transactions

A9. Total Transaction Financing (sum of all loans) % Total Development Cost, or % Total Acquisition Cost:

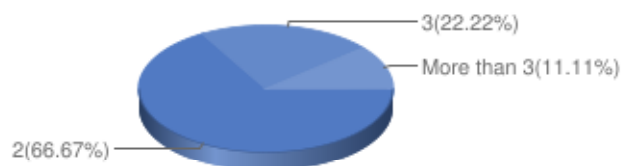


This graph is based on 18 survey responses.

0%	2	11.11%
Above 0% - 40%	1	5.56%
41% - 50%	1	5.56%
56% - 60%	1	5.56%
61% - 65%	4	22.22%
66% - 70%	2	11.11%
71% - 75%	3	16.67%
76% - 80%	4	22.22%

2011 Actual Transactions

**A10. Total Number of Equity Investor Entities, inclusive of the Sponsor:
If a Syndicate, count all of the Syndicate Limited Partners as 1 Entity.**

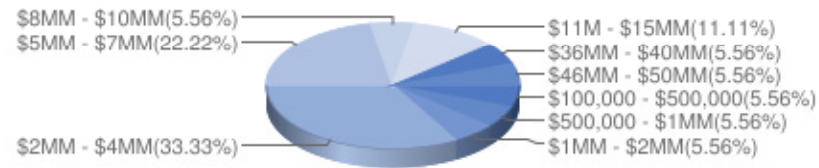


This graph is based on 18 survey responses.

2	12	66.67%
3	4	22.22%
More than 3	2	11.11%

2011 Actual Transactions

A11. Total Equity Investment Amount across all Equity Investor Entities:

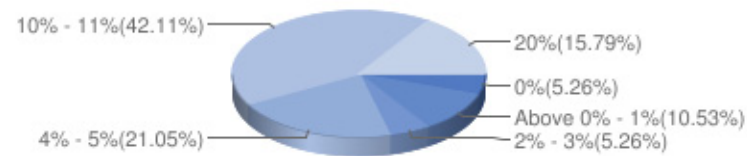


This graph is based on 18 survey responses.

\$100,000 - \$500,000	1	5.56%
\$500,000 - \$1MM	1	5.56%
\$1MM - \$2MM	1	5.56%
\$2MM - \$4MM	6	33.33%
\$5MM - \$7MM	4	22.22%
\$8MM - \$10MM	1	5.56%
\$11M - \$15MM	2	11.11%
\$36MM - \$40MM	1	5.56%
\$46MM - \$50MM	1	5.56%

2011 Actual Transactions

A12. Sponsor Capital Investment % Total Equity Investment:

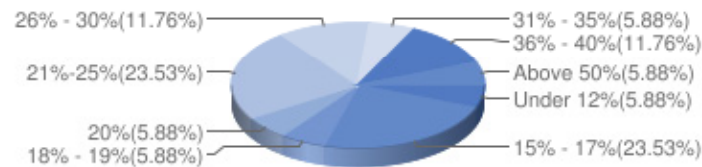


This graph is based on 19 survey responses.

0%	1	5.26%
Above 0% - 1%	2	10.53%
2% - 3%	1	5.26%
4% - 5%	4	21.05%
10% - 11%	8	42.11%
20%	3	15.79%

2011 Actual Transactions – Surprise #1

A17. Pro forma project-level Equity IRR:

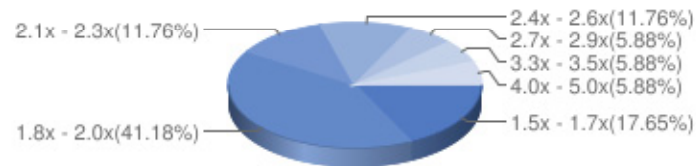


This graph is based on 17 survey responses.

Under 12%	1	5.88%
15% - 17%	4	23.53%
18% - 19%	1	5.88%
20%	1	5.88%
21%-25%	4	23.53%
26% - 30%	2	11.76%
31% - 35%	1	5.88%
36% - 40%	2	11.76%
Above 50%	1	5.88%

2011 Actual Transactions – Surprise #2

A18. Pro forma project-level Multiple on Equity: * Sample Multiple on Equity: \$100 invested and total of \$200 returned (net profit of \$100) is a 2.0x Multiple.



This graph is based on 17 survey responses.

1.5x - 1.7x

3 17.65%

1.8x - 2.0x

7 41.18%

2.1x - 2.3x

2 11.76%

2.4x - 2.6x

2 11.76%

2.7x - 2.9x

1 5.88%

3.3x - 3.5x

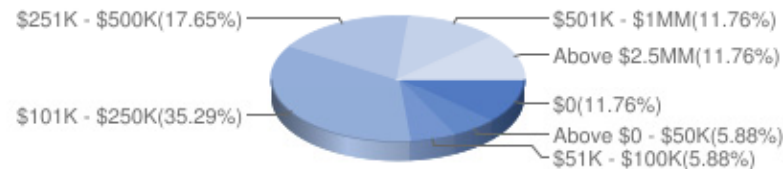
1 5.88%

4.0x - 5.0x

1 5.88%

2011 Actual Transactions – Surprise #3

A24. Total amount of Guaranteed (non-contingent) fees to the Sponsor over the life of the transaction:



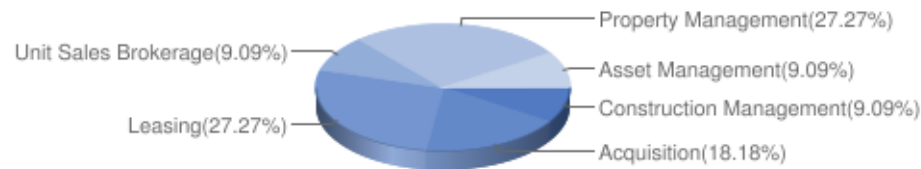
This graph is based on 17 survey responses.

\$0	2	11.76%
Above \$0 - \$50K	1	5.88%
\$51K - \$100K	1	5.88%
\$101K - \$250K	6	35.29%
\$251K - \$500K	3	17.65%
\$501K - \$1MM	2	11.76%
Above \$2.5MM	2	11.76%

Development, Construction Management, Acquisition, Leasing, Property Management, Asset Management and Disposition. Most prevalent were Acquisition and Property and Asset Management.

2011 Actual Transactions

**A26. Performance based (non-guaranteed) fee types, if any:
Select all that apply.**

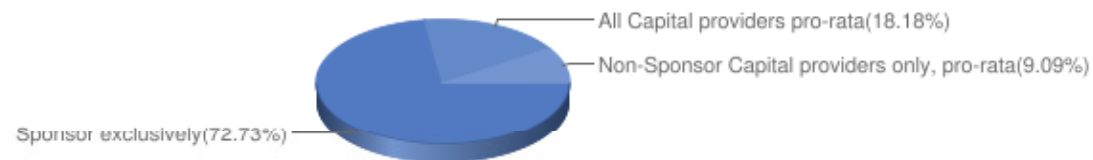


This graph is based on 11 survey responses.

Construction Management	1	9.09%
Acquisition	2	18.18%
Leasing	3	27.27%
Unit Sales Brokerage	1	9.09%
Property Management	3	27.27%
Asset Management	1	9.09%

2011 Actual Transactions – Surprise #4

A29. Loan Guaranties are signed for by:



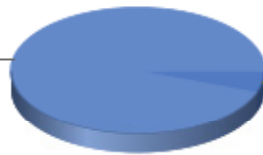
This graph is based on 11 survey responses.

Sponsor exclusively	8	72.73%
All Capital providers pro-rata	2	18.18%
Non-Sponsor Capital providers only, pro-rata	1	9.09%

2011 Actual Transactions – Surprise #5

C1. Return of Capital:

ty Investor and Overall Sponsor Capital are returned Pari Passu(94.44%)



Third Party Investor Capital is returned prior to Overall Sponsor Capital(5.56%)

This graph is based on 18 survey responses.

Third Party Investor Capital is returned prior to Overall Sponsor Capital

1 5.56%

Third Party Investor and Overall Sponsor Capital are returned Pari Passu

17 94.44%

2011 Actual Transactions

C2. Is there a Preferred Return?



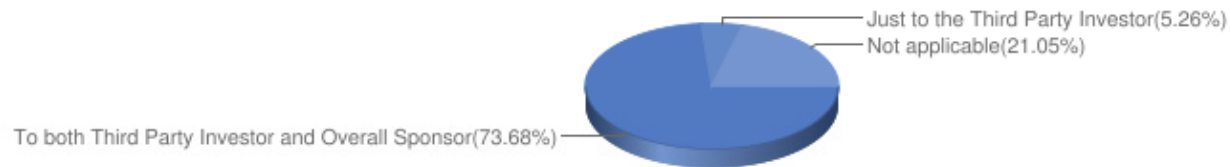
This graph is based on 19 survey responses.

Yes	15	78.95%
No	4	21.05%

2011 Actual Transactions

C3. To which party or parties is the Preferred Return paid?

If there is no Preferred return, select "Not Applicable" and proceed directly to C7 below.

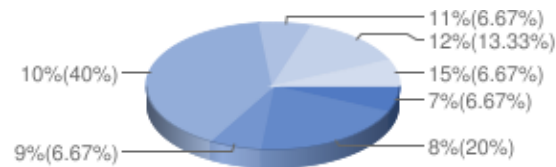


This graph is based on 19 survey responses.

To both Third Party Investor and Overall Sponsor	14	73.68%
Just to the Third Party Investor	1	5.26%
Not applicable	4	21.05%

2011 Actual Transactions

C4. Preferred Return %:

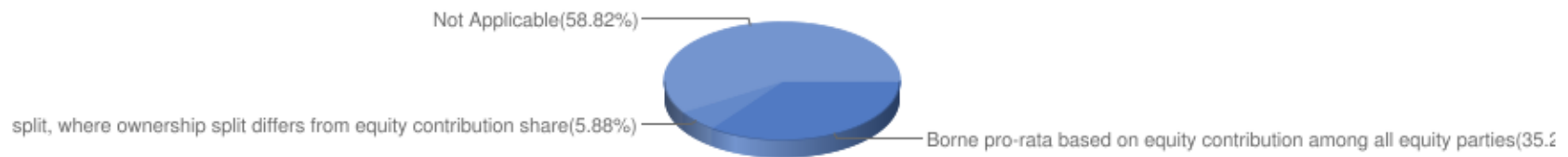


This graph is based on 15 survey responses.

7%	1	6.67%
8%	3	20%
9%	1	6.67%
10%	6	40%
11%	1	6.67%
12%	2	13.33%
15%	1	6.67%

2011 Actual Transactions

C33. Construction Shortfall Liability, if applicable:



This graph is based on 17 survey responses.

Borne pro-rata based on equity contribution among all equity parties	6	35.29%
Borne pro-rata based on ultimate ownership split, where ownership split differs from equity contribution share	1	5.88%
Not Applicable	10	58.82%

2011 Actual Transactions

C34. Operating Deficit Liability, if applicable:



This graph is based on 17 survey responses.

Borne pro-rata based on equity contribution among all equity parties	12	70.59%
Borne pro-rata based on ultimate ownership split, where ownership split differs from equity contribution share	1	5.88%
Not Applicable	4	23.53%

10% Coupon Code

REALDEALSWEB

Even Bigger Discount Available

- Submit a valid JV structure and get **50% Off** all Real Deals products
- Go to **www.GetREFM.com** and click on:

Real Deals Data

REFM's Satisfaction Guarantee

If you are not satisfied for any reason, simply notify us in writing within 30 days of the date of your purchase and we'll give you a 100% refund.



Be in the know, gain insights and close more JVs.

Go to:

www.GetREFM.com