



ENTITY LEVEL CAPITAL

**ENTITY LEVEL CAPITAL – MARKET GAPS / BENEFITS TO OWNERS
APPLIED EXAMPLE OF CAPITAL PROVIDER FIT ASSESSMENT
FOR MID-SIZED AFFORDABLE HOUSING OPERATOR**

CONTACT

James D. Vincent
Managing Director, CohnReznick Realty Capital Advisors, LLC
(972) 649-4620
Jim.Vincent@CohnReznickRCA.com



OPPORTUNITY FOR ENTITY / PROGRAMMATIC JV CAPITAL TO FUEL GROWTH AND OPTIMIZE CAPITAL SOLUTIONS

There is a substantial gap in the market for institutional investors to deploy capital in affordable / workforce housing via both entity level investments (s/t LP and Lender Consents in affordable) and programmatic JV capital.

Owner's Use of Proceeds	Benefits to Owners
<p><u>Entity Level Capital:</u></p> <ul style="list-style-type: none"> ➤ GP commitment (s) for significant GP co-invest needs ➤ Purchase of third party (LP) partnership interests ➤ Funding working capital; Advance against deferred developer fees ➤ Management - led succession planning ➤ Entity / portfolio purchase (s) to fuel growth / consolidation and management succession planning and / or monetization needs ➤ Some potential for fund creation / management by larger more well-established owner / operators with demonstrated track record and institutional investor management discipline <p><u>Property or Portfolio Level Capital:</u></p> <ul style="list-style-type: none"> ➤ Acquisitions and developments - including bridge equity for syndication / rehab ➤ Payment or refinancing of senior / subordinated indebtedness ➤ Capital expenditures ➤ Occasionally, work-out / restructuring and repositioning of assets (and related capital structures) 	<ul style="list-style-type: none"> ➤ Significant infusion of capital ➤ Programmatic capital partner (s) eliminates need / hassle to find individual equity deal by deal ➤ Provide optionality to fund entity level capital needs which are difficult to find in the market ➤ Meaningful co-investment capabilities to drive better economics to improve certainty of execution ➤ Matching of capital duration (either short through long term) with appropriate capital partners - depending on strategy ➤ In most cases, investment structure aligns the operator with capital source ➤ Some cases would provide extended relationships to other deal flow / creative structures etc. that operator may be unable to source / structure on their own



TOP TEN EQUITY SOURCES FOR ENTITY / GROWTH CAPITAL IN AFFORDABLE HOUSING (MID TIER OPERATOR)

A number of options exist for mid-tier-affordable owners to access the growth capital they need to execute their growth / expansion plans. We have profiled a range of capital sources below.

	Capital Provider	What Attracts Us	What Concerns Us
Investment Management	Mid-tier (\$5B-\$25B) Fund Manager	Sufficient size, expertise to see value in entity play, capacity to complete multiple strategies	Affordable housing sector / GP obligations may be a challenge; willingness to complete full strategy
	Small (<\$5B) Fund Manager	Capital raised and needing deployment, trying to establish track record; more flexibility in terms; emphasis on groups with op co deals	Less experienced with programmatic investing and recaps; possible limits on asset type and investment size
	Large (\$25B+) Fund Manager	Sufficient capital, breadth of funds likely to encompass alternative product types and re-hab / renovation / re-syndication risk	Difficult to access, and typical deal size could be a deterrent at this level of fund manager / investment dollars
	Life Insurance Co.	Right focus on long term real estate value creation, used to programmatic investing / partner deals, understand GP / LP business	Less interest in recaps, more asset players; affordable housing sector could be challenge
	Specialty Fin./Inv. Co.	Stronger player for debt, mezzanine, bridge or DPO solutions, than equity. Flexible deal structures, heavy return and fee driven.	More limitations with equity; will push for mezzanine, preferred equity positions; stronger bridge /debt provider
Direct Equity Sources	Pension Funds	Provides long term investment in real estate, larger systemic play on GP / LP rights and value creation from sector	Gatekeepers and advisors may limit access to this sector; size of typical affordable deal may be limitation
	REITs	Can acquire / own equity interests in JV format	More likely a combination with private REIT market looking for dividend yield if REIT "bad" income issues are cleared.
	Syndicated Equity / Retail Investors	Pools of syndicated investors (e.g. private REIT money, private funds of retail investors) minimize aggregation risk	Sponsor conflicts / double promote; appropriate administration of investors; lot of FINRA and SEC scrutiny
	HNW FO Groups (of size)	In right situations, can be an ideal candidate if possess the funding capacity; Flexibility; more deal driven, less bureaucracy	Maintaining focus / consistency for programmatic investing; other capital demands; risk of capital diversion
	Accredited Retail Investors	Provides ongoing flow of smaller retail dollars for investment purposes	Very fragmented, difficult to get critical mass on dollars on your own, liability?



EQUITY CAPITAL PROVIDER FIT ASSESSMENT FOR ENTITY / GROWTH CAPITAL

For mid-sized affordable owner / operator (e.g. 50-75 assets)

We ranked the top ten providers and have listed the top six assessments here, tie for number 4 slot.

	① Mid Tier Fund Manager	④ Small Fund Manager	② Large Fund Manager	③ Insurance Company	⑥ Specialist Investment Company	④ HNW FO Groups (of size)
Capital Availability	●	○	●	●	○	○
Accessibility of DM and Team	●	●	○	○	●	●
Experience with Partners/JVs	●	○	●	●	○	●
Entity Recap Investing Exp.	●	○	●	●	○	○
Execution Reliability	●	○	●	○	○	○
Comfort with Product Sector	●	○	●	○	○	○
Flexibility in Terms and Capital	○	●	○	○	○	●
Future National Expansion	○	○	●	○	○	○

Strong Fit



Good Fit



Potential Fit

