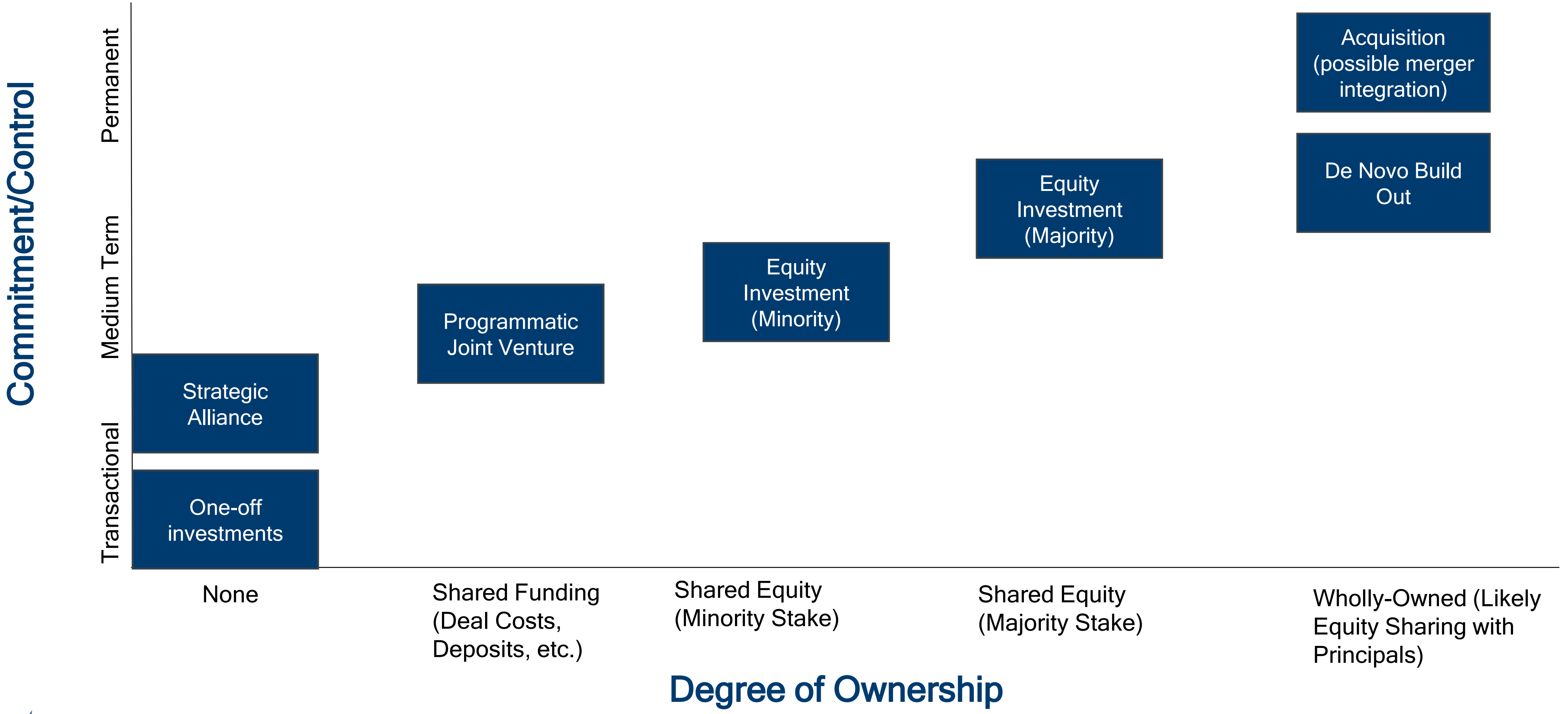
CohnReznick
Realty Capital Advisors

PROGRAMMATIC JOINT VENTURES STRUCTURAL TRADEOFFS

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

STRUCTURING THE RIGHT DEAL FOR CONTROL / OWNERSHIP

In evaluating structure options for more complex investments / relationships, investors essentially weigh tradeoffs along the control-ownership continuum, ranging from one-off transactions to more extensive equity investments and higher control



PROGRAMMATIC JOINT VENTURES – NOT JUST "A" DEAL, CLOSER TO A "MARRIAGE"

JOINT OBJECTIVES

Each party leverages its primary talent (i.e. acquiring / operating real estate vs. deploying capital)

Speed, credibility and efficiency

Replicable framework and baseline economic sharing agreement streamlines deal level documentation

VALUE TO GP (SPONSOR)

GP / Sponsor has primary or exclusive capital source to take advantage of opportunities as they arise

Reliable source of capital for their deal flow, no re-inventing the wheel each time for capital

Comfort / assurance that Investor will respond quickly

Greater certainty of execution ad improved credibility which improves bid acceptance rate

VALUE TO LP (INVESTOR)

Want to invest large amount of capital in chosen area or investment strategy with a proven operating partner

Sponsor or operating partner relationship can be more critical to value creation than just real estate

Still retain final decision-making authority on each real estate transaction

Exclusivity tends to be more one way in favor of LP

CONTINUUM OF EQUITY CAPITAL STRUCTURES - GP / LP LEVEL

We are going to focus on programmatic JV structures, which may or may not involve an operating entity stake, to examine some of the key trade-offs – first at the GP / LP level

	One-off Joint Venture (single asset or portfolio investment)	**Programmatic Joint Venture** (Typically only one investor – although club deals are an option)	**Programmatic Joint Venture** (with Operating Entity Stake)	**Real Estate Fund Manager Business Model**
Structure	Varied size & depth of company resources / track record Stronger capacity for co-Invest capital from larger GP / Sponsor firms	Repeat history of successful one-off ventures often lead to formation of programmatic JV Typically target specific investment strategy and preferred or exclusive operating partner status (can be restricted by geography, strategy, etc.)	Smaller firms that are staked by significant capital to execute strategy May also arise in larger platforms with equity to monetize (co-invest) and promotes alignment, exit options	Have raised institutional capital from multiple LP sources, deal by deal Firm seeking discretionary capital and business model shift to a fund manager model
Economics	No specific exclusivity with LP sources; typically shop the equity Typical GP co-invest of 5-10% of equity capital per transaction	Promise to bring qualifying transactions to one source of capital – usually exclusive Co-invest capital typically 10% of equity (greater amounts provide more GP autonomy/ better promote) Usually GP expected to absorb due diligence costs, deposits, but s/t negotiation	GP may have varying degrees of overhead coverage by equity investor, or LPs sharing in GP / promote economics Size / impact of capital heavily influence shared stake or splits of GP economics	GP / Sponsor group must front costs for fund raising (e.g. placement agent., legal, etc.), invest time in securing capital Co-invest in the fund (will vary depending on size of fund) to show “skin in the game” Sufficient team / infrastructure (vertical integration is more heavily scrutinized)
Exclusivity and Exit Rights	None, review each deal at the time Most likely GP is shopping same deal to multiple equity sources, critical issue for LP to respond on competitive deal timing lifecycle. Higher fallout risk to both GP / L:P	Expectation (though usually short of commitment) investor will fund deals Faster / responsive decision-making Risk of 3 strikes your out, or exit if deal flow insufficient or not a good match	LP investment provides higher alignment with GP due to shared economics However, asset level investment decisions stay with LP	Investors make capital commitments to fund, which may be drawn during Commitment Period by the Fund Manager LPs lose deal by deal investment control and cede full discretion to the fund manager (i.e. the GP sponsor group running the fund)
Asset Management Decisions	GP controls deal, but shops equity for best LP capital source(s), but LP typically has full discretionary control over capital commitment and usually key control rights on sale, refinance, major decisions	Up-front time to clarify investment strategy and targeted deals / returns MOU or LOI outlines anticipated economics However, final asset level investment decisions are retained by LP investor	Same as programmatic column Potential for more flexibility on deal economics as LP also participating in GP splits / promote Depending on stake, greater governance and / or shared decision making between the parties	Fund Manager (GP) obtains full discretionary authority to commit capital and make exit decisions Ultimately accountable at fund level performance and ability to use that track record for follow on funds

CONTINUUM OF EQUITY CAPITAL STRUCTURES – ECONOMIC LEVEL

We are going to focus on programmatic JV structures, which may or may not involve an operating entity stake, to examine some of the key trade-offs - secondarily from an economic level

	One-off Joint Venture (single asset or portfolio investment)	**Programmatic Joint Venture** (Typically only one investor - although club deals are an option)	**Programmatic Joint Venture** (with Operating Entity Stake)	**Real Estate Fund Manager Business Model**
Structure	Single entity, bankruptcy remote vehicles are typical No real efficiencies, as each deal negotiated apart from others	Most are structured via a framework, with targeted sharing of economics As relationship deepens, may see holding company structure to build up equity and streamline deal level documentation	Structuring for entity stakes vary depending on start-up vs. established platform (with existing equity value) Entity stake likely separated from JV economics (tend to be more pooled here)	Complex fund structure to accommodate varying investor needs; may evolve to multiple funds Essentially fund is holding company with separate investments in assets / portfolios
Economics	Sponsor receives disproportionate sharing in upside returns over return thresholds (waterfall), negotiated deal by deal Co-invest capital is pari-passeu	Key Question – is promote paid off stand alone economics, or pooled economics? Sponsors – prefer stand alone, Investors prefer pooled or crossed over all deals (or at least subject to claw-back)	Partial coverage of GP overhead may be possible Pooled economics more typical, along with entity stake and splits from entity on top of deal flow economics	GP/Fund Manager earns management fee (1.5% - 2%) and disproportionate promote on overall fund performance Promotes can run as high as 50-80% over return threshold for type of fund
Exclusivity and Exit Rights	No exclusivity obligations, in fact equity may be actively shopped to many LPs Exit rights driven solely by LP capital control rights, upon recommendation of GP	Exclusivity required of Sponsor, Investor may or may not be exclusive Time, size, asset class, geography and $ Exit rights (buy-sell / forced sale) defined at project vs. portfolio (programmatic) level	Tighter two-way exclusivity to avoid conflicts and potential for relationship issues More joint decision making and governance usually at entity level; note some involve Board seats / governance (for significant equity position)	GP/Fund Managers avoid overlapping funds / competing side car or co-investment programs – area of heavy investor scrutiny Fund manager drives asset sales, constrained by end of life windows, market conditions
Asset Management Decisions	GP typically serves as asset manager, but will have pre-defined conditions for major LP consent (could include major leases in CRE, capital expenditures, etc.)	See increased asset management rights transferred to GP However, critical questions to be addressed for major decisions between asset level / portfolio level	Greater role of operating partner in individual asset level decisions Corporate / portfolio view of results Shared decision-making on major asset decisions (e.g. sale, refinance, etc.)	Fund Manager (GP) obtains full asset management oversight, (typically they are vertically integrated), but could work with a variety of operating partners Performance measured at fund level, allowing pooling effect benefits