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.

- **None**
  - Shared Funding (Deal Costs, Deposits, etc.)

- **Transactional**
  - Strategic Alliance
  - One-off investments

- **Medium Term**
  - Programmatic Joint Venture
  - Equity Investment (Minority)

- **Permanent**
  - Equity Investment (Majority)
  - Acquisition (possible merger integration)
  - De Novo Build Out

**Degree of Ownership**

- Wholly-Owned (Likely Equity Sharing with Principals)
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
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.

<table>
<thead>
<tr>
<th>Structure</th>
<th>Economics</th>
<th>Exclusivity and Exit Rights</th>
<th>Asset Management Decisions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>One-off Joint Venture</strong>&lt;br&gt;(single asset or portfolio investment)</td>
<td><strong>Programmatic Joint Venture</strong>&lt;br&gt;(Typically only one investor - although club deals are an option)</td>
<td><strong>Programmatic Joint Venture</strong>&lt;br&gt;(with Operating Entity Stake)</td>
<td><strong>Real Estate Fund Manager Business Model</strong></td>
</tr>
<tr>
<td>Varied size &amp; depth of company resources / track record</td>
<td>Repeat history of successful one-off ventures often lead to formation of programmatic JV</td>
<td>Smaller firms that are staked by significant capital to execute strategy</td>
<td>Have raised institutional capital from multiple LP sources, deal by deal</td>
</tr>
<tr>
<td>Stronger capacity for co-Invest capital from larger GP / Sponsor firms</td>
<td>Typically target specific investment strategy and preferred or exclusive operating partner status (can be restricted by geography, strategy, etc.)</td>
<td>May also arise in larger platforms with equity to monetize (co-invest) and promotes alignment, exit options</td>
<td>Firm seeking discretionary capital and business model shift to a fund manager model</td>
</tr>
<tr>
<td>No specific exclusivity with LP sources; typically shop the equity</td>
<td>Promise to bring qualifying transactions to one source of capital - usually exclusive</td>
<td>GP may have varying degrees of overhead coverage by equity investor, or LPs sharing in GP / promote economics</td>
<td>GP / Sponsor group must front costs for fund raising (e.g. placement agent, legal, etc.), invest time in securing capital</td>
</tr>
<tr>
<td>Typical GP co-invest of 5-10% of equity capital per transaction</td>
<td>Co-invest capital typically 10% of equity (greater amounts provide more GP autonomy/ better promote)</td>
<td>Size / impact of capital heavily influence shared stake or splits of GP economics</td>
<td>Co-invest in the fund (will vary depending on size of fund) to show “skin in the game”</td>
</tr>
<tr>
<td>None, review each deal at the time</td>
<td>Usually GP expected to absorb due diligence costs, deposits, but s/t negotiation</td>
<td>LP investment provides higher alignment with GP due to shared economics</td>
<td>Sufficient team / infrastructure (vertical integration is more heavily scrutinized)</td>
</tr>
<tr>
<td>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</td>
<td>Expectation (though usually short of commitment) investor will fund deals</td>
<td>However, asset level investment decisions stay with LP</td>
<td>Investors make capital commitments to fund, which may be drawn during Commitment Period by the Fund Manager</td>
</tr>
<tr>
<td>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, refinace, major decisions</td>
<td>Up-front time to clarify investment strategy and targeted deals / returns</td>
<td>Same as programmatic column</td>
<td>LPs lose deal by deal investment control and cede full discretion to the fund manager (i.e. the GP sponsor group running the fund)</td>
</tr>
<tr>
<td>MOU or LOI outlines anticipated economics</td>
<td>MOU or LOI outlines anticipated economics</td>
<td>Potential for more flexibility on deal economics as LP also participating in GP splits / promote</td>
<td>Fund Manager (GP) obtains full discretionary authority to commit capital and make exit decisions</td>
</tr>
<tr>
<td>However, final asset level investment decisions are retained by LP investor</td>
<td>However, final asset level investment decisions are retained by LP investor</td>
<td>Depending on stake, greater governance and / or shared decision making between the parties</td>
<td>Ultimately accountable at fund level performance and ability to use that track record for follow on funds</td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th>Structure</th>
<th>Economics</th>
<th>Exclusivity and Exit Rights</th>
<th>Asset Management Decisions</th>
</tr>
</thead>
<tbody>
<tr>
<td>One-off Joint Venture (single asset or portfolio investment)</td>
<td>Single entity, bankruptcy remote vehicles are typical</td>
<td>Sponsor receives disproportionate sharing in upside returns over return thresholds (waterfall), negotiated deal by deal</td>
<td>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.)</td>
</tr>
<tr>
<td>Programmatic Joint Venture (Typically only one investor - although club deals are an option)</td>
<td>Most are structured via a framework, with targeted sharing of economics</td>
<td>Key Question – is promote paid off stand alone economics, or pooled economics?</td>
<td>See increased asset management rights transferred to GP</td>
</tr>
<tr>
<td>Programmatic Joint Venture (with Operating Entity Stake)</td>
<td>Structuring for entity stakes vary depending on start-up vs. established platform (with existing equity value)</td>
<td>Partial coverage of GP overhead may be possible</td>
<td>Greater role of operating partner in individual asset level decisions</td>
</tr>
<tr>
<td>Real Estate Fund Manager Business Model</td>
<td>Complex fund structure to accommodate varying investor needs; may evolve to multiple funds</td>
<td>GP/Fund Manager earns management fee (1.5% - 2%) and disproportionate promote on overall fund performance</td>
<td>GP/Fund Manager obtains full asset management oversight, (typically they are vertically integrated), but could work with a variety of operating partners</td>
</tr>
</tbody>
</table>

- **Continuum of Equity Capital Structures – Economic Level**

- **One-off Joint Venture**: Single entity, bankruptcy remote vehicles are typical. No real efficiencies, as each deal negotiated apart from others. Co-invest capital is pari-passeu.

- **Programmatic Joint Venture**: 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.

- **Programmatic Joint Venture (with Operating Entity Stake)**: 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).

- **Real Estate Fund Manager Business Model**: Complex fund structure to accommodate varying investor needs; may evolve to multiple funds. Essentially fund is holding company with separate investments in assets / portfolios.

- **Sponsor receives disproportionate sharing in upside returns over return thresholds (waterfall), negotiated deal by deal**: 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 required of Sponsor, Investor may or may not be exclusive**: 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.

- **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.).

- **Performance measured at fund level, allowing pooling effect benefits**: Fund Manager (GP) obtains full asset management oversight, (typically they are vertically integrated), but could work with a variety of operating partners.

---

**One-off Joint Venture**

- Real Estate Fund Manager

**Programmatic Joint Venture**

- Structure
  - Single entity, bankruptcy remote vehicles are typical
  - No real efficiencies, as each deal negotiated apart from others
  - Co-invest capital is pari-passeu

- Economics
  - Sponsor receives disproportionate sharing in upside returns over return thresholds (waterfall), negotiated deal by deal
  - 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)

- 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

- 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.)

**Programmatic Joint Venture (with Operating Entity Stake)**

- Structure
  - 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)

- Economics
  - 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

- Exclusivity and Exit Rights
  - 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)

- Asset Management Decisions
  - 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.)