Enterprise

Equitable Path Forward

Real Estate Investing: Understanding the Basics of Joint Venture Equity

Welcome, We Will Begin Shortly!

October 15, 2021

Table of Contents

PRESENTER BIOS

Presenter Bios

Monica Warren-Jones

DIRECTOR
STRATEGIC PROJECTS

ENTERPRISE

Monica joined Enterprise in 2005 and currently oversees strategic projects for Enterprise's Community Development Financial Institution (CDFI), which works with mission-aligned organizations to support low- and moderate-income families by delivering innovative financial products and providing technical assistance.

Chris Herrmann

SENIOR VICE PRESIDENT
REAL ESTATE EQUITY

ENTERPRISE

Chris joined Enterprise in 2006 and currently leads its real estate equity business where he is responsible for raising, structuring and managing equity funds that provide joint venture equity capital to developers who preserve and improve affordable and workforce housing.

ABOUT ENTERPRISE

Our Vision

A country where home and community are steppingstones to more.

Our Mission

To make home and community places of pride, power and belonging, and platforms for resilience and upward mobility for all.

Enterprise Community Partners is a national nonprofit that exists to make **a good home possible** for the millions of families without one.

Unmatched breadth, scale and expertise across the entire spectrum of affordable housing...

...creating a positive feedback loop that does it all under one Enterprise roof.

OUR GOALS

Together with our partners, we focus on the greatest need – the massive shortage of affordable rental homes – to achieve three critical goals:

Increase the Supply of Affordable Housing

to meet the urgent need.

Advance Racial Equity

after decades of systematic racism in housing.

Build Resilience & Upward Mobility

to support residents, strengthen communities to be resilient to the unpredictable and make upward mobility possible.

Equitable Path Forward

$350M

GROWTH FUND

Provide debt, equity, grants and innovative credit enhancements to attract an additional $3.1 Billion of capital

$15M

DEVELOPER ADVISORY SERVICES

Strengthen and support local development organizations and small business

$10M

LEADERSHIP PROGRAM

2-year leadership – modeled after the proven rotational programs at major industrial and financial firms

NETFLIX

$25M

COMMITMENT TO SEED THIS INITIATIVE

OUR IMPACT

OUR IMPACT

Leading national nonprofit with a proven record of success

Enterprise has exceptional breadth, scale and expertise across the country, with 40 years of experience and thousands of local partners.

TO DATE

781K
HOMES CREATED ACROSS THE U.S.

$44B
INVESTED IN COMMUNITIES

50
STATES + DC, PR, VI

2020 RESULTS

$8.5B
CLOSED INVESTMENTS

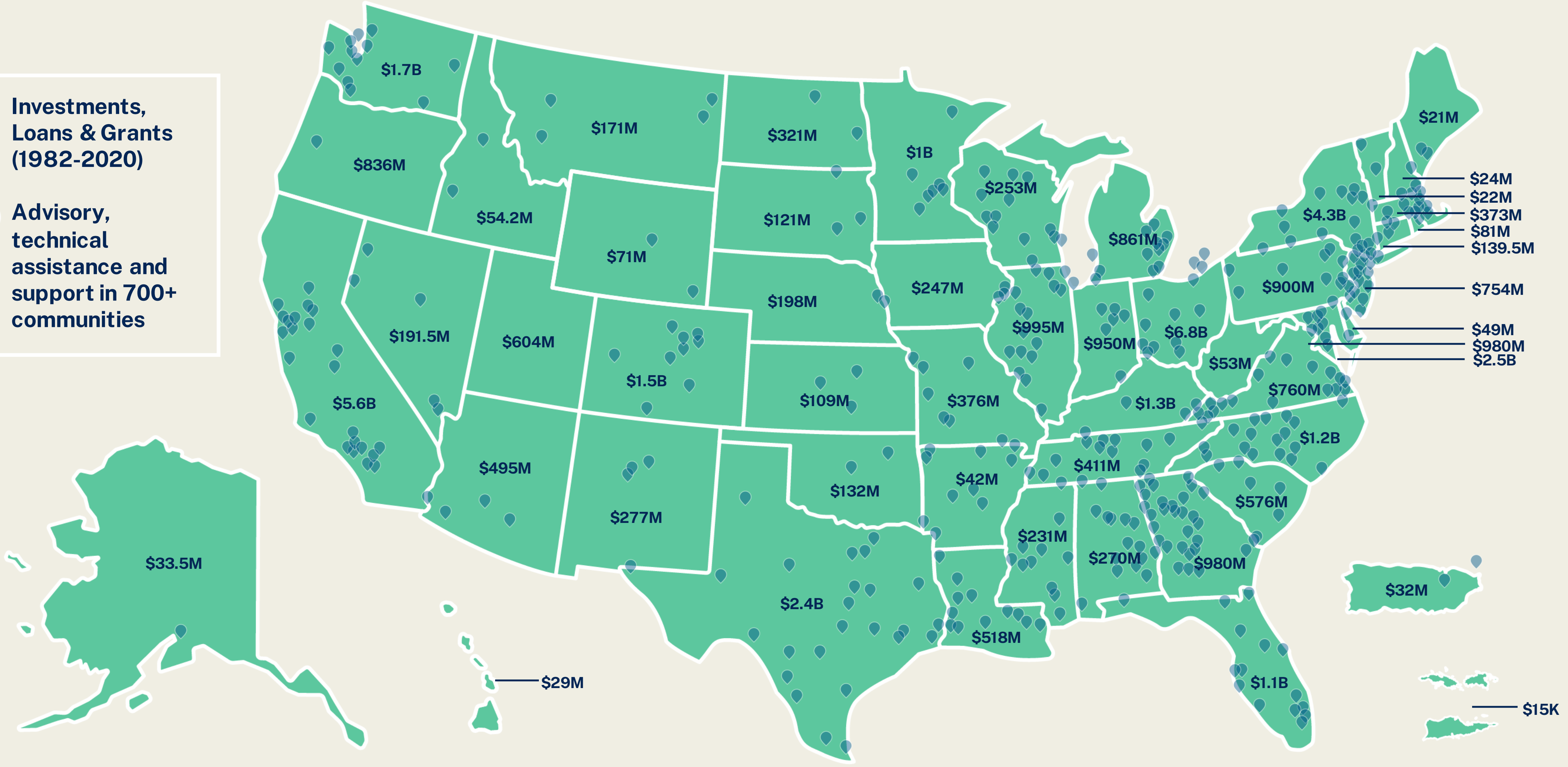
86K+
AFFORDABLE AND WORKFORCE HOMES CREATED OR PRESERVED

OUR IMPACT

We've invested deeply in communities since 1982

$ Investments, Loans & Grants (1982-2020)

Advisory, technical assistance and support in 700+ communities



PRESENTATION OVERVIEW

Presentation Overview

1. Financing real estate using a joint venture structure can be complex, with many developers and investors lacking a basic understanding of some of the considerations that go into such a partnership.

2. In real estate, an equity joint venture is a legal partnership between two or more individuals or entities (each a “partner”) to jointly acquire and/or develop a property.

3. Each partner typically brings a unique skill set or ability to the partnership. Often one partner brings access to the investment and day-to-day oversight responsibility, while the other might bring the majority of the capital and be more passively involved in the investment.

4. As most large real estate projects require financing that involves real estate operators working with real estate capital providers, understanding the mechanics behind a JV arrangement is important for all involved.

5. These joint ventures are a critical part of the process, as they can allow commercial real estate projects to be feasible and get off the ground. This webcast will discuss JV practices for successful transactions including role of capital and operating partner, equity positions, limited partner and sponsor roles, cash flow priorities, and internal rate of return requirements.

JOINT VENTURE EQUITY

Typical Joint Venture Structure

Typical Joint Venture Structure – Sponsor Economics

Sponsors of real estate joint ventures typically invest a small percentage of the capital (i.e. 5 - 20%) but receive a higher percentage of the overall economics of the transaction given their critical role in the transaction.

1. Acquisition or Development Fee: Sponsors typically receive a 1% acquisition fee or a 3 – 5% development fee depending on the type of transaction (i.e. acquisition or new construction).

2. Construction Management Fee: Sponsors typically receive a 5% construction management fee to supervise any rehabilitation. In new construction deals, this fee is typically included in the development fee.

3. Asset Management Fee: Sponsors typically receive a 1% fee on annual revenue to be the general partner and asset manager of the transaction, which includes reporting to the investor member.

4. Cash Flow Split / Carried Interest: There is significant variety in how cash waterfalls can be structured, but generally there is pro-rata sharing of cash flow until a minimum return is earned (i.e. 8 – 10%). Thereafter, the Sponsor typically receives a larger share of the cash flow via carried interest (aka "promote"), which can range from 20 – 50% after the minimum return is earned.

Typical Joint Venture Structure – Investor Economics

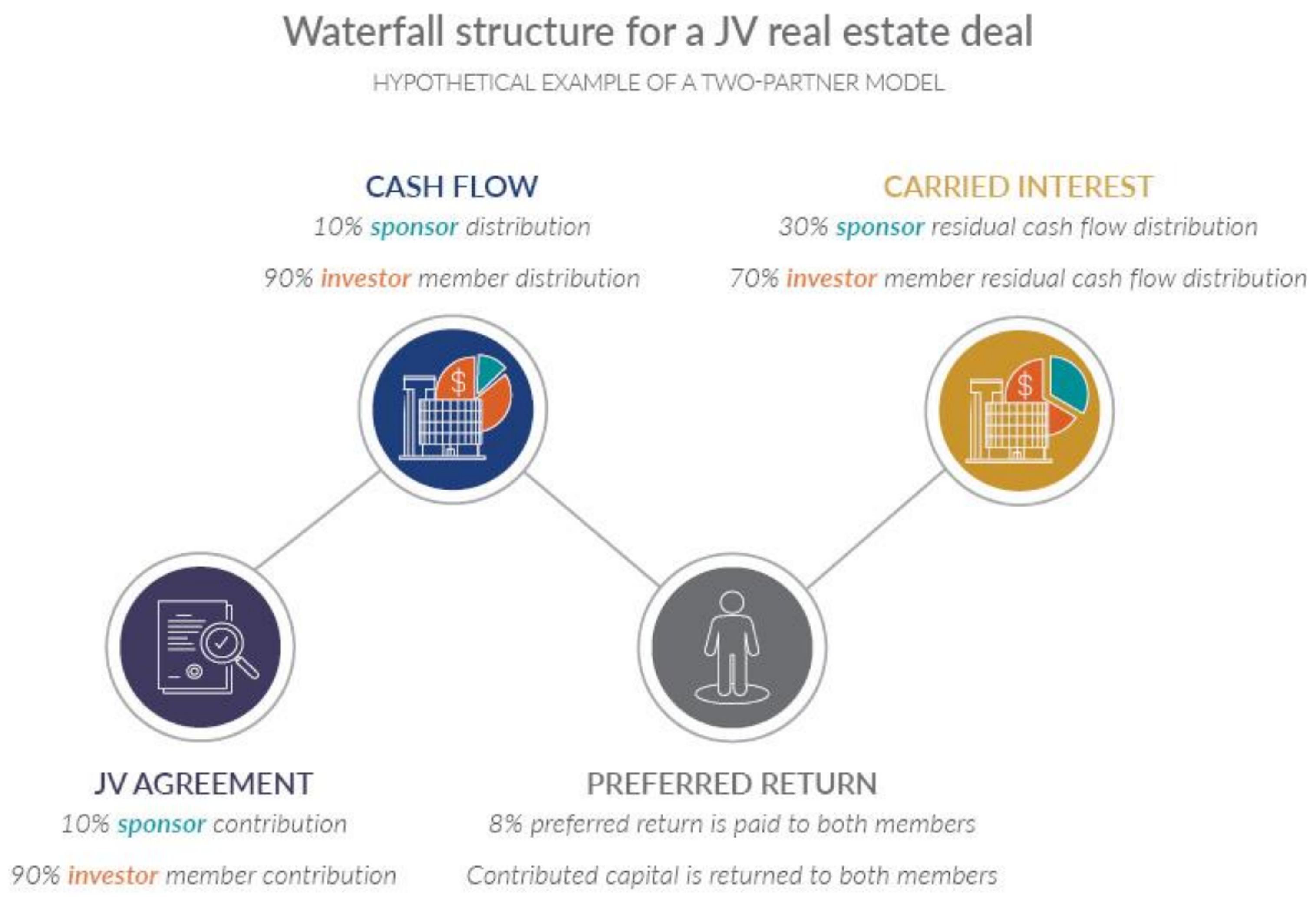
Investors in real estate joint ventures typically invest a large percentage of the capital (i.e. 80 - 95%) but receive a smaller percentage of the overall economics of the transaction given their more passive role in the transaction.

1. Investors will expect the joint venture to reimburse it for transactions costs of making the investment, such as third-party reports and legal fees.

2. Investors will have varying return expectations, ranging from 5% for highly impact oriented investors (which can be hard to find) to 15%+ for traditional capital providers.

3. Investors receive the balance of cash flow that Sponsors do not, which typically includes their pro-rata share of cash flow (including disposition) until a minimum return is earned (i.e. 8 – 10%). Thereafter, the Investor typically receives a smaller share of the cash flow, which can range from 50 – 75% after the minimum return is earned.

Typical Joint Venture Structure



Joint Ventures Within the Sponsor

Beyond a real estate joint venture between a Sponsor and an Investor, it is also common for two Sponsors to joint venture together on a single transaction, and in some cases bring in an Investor as well.

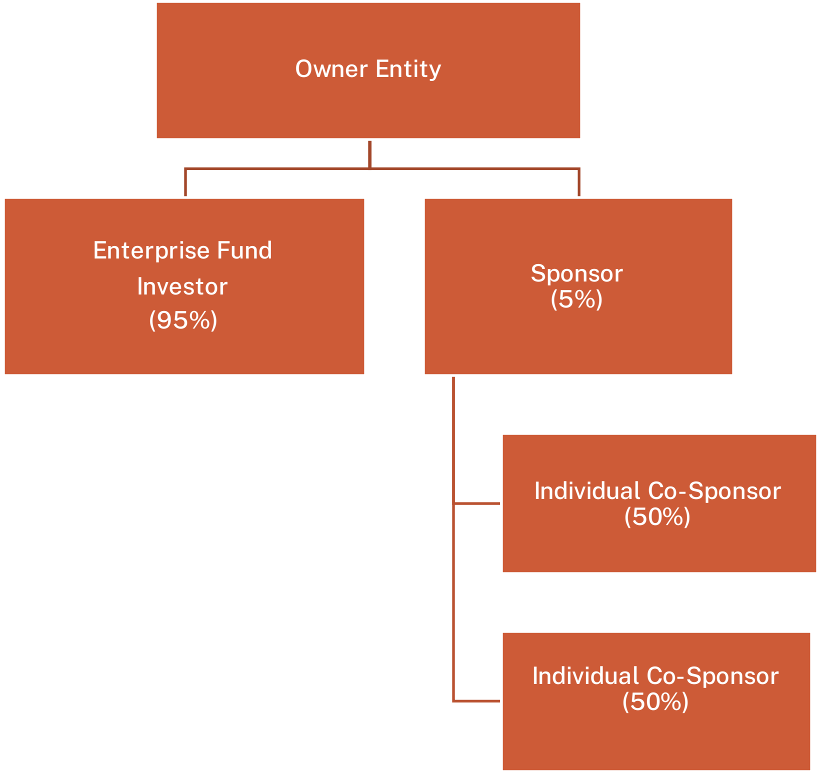
1. In sponsor joint ventures, one partner may be the "finder" of the transaction and the other may have more experience or financial wherewithal to offer.
2. One partner may invest more of the capital than the other.
3. The two partners divide the economics of the sponsor, and the terms can vary widely.
4. Compatibility between partners is critical. Some relationships end poorly while others are wildly successful.
5. Enterprise's Joint Venture Guidebook is a helpful resource.

INVESTMENT CASE STUDY

Investment Case Study

- Acquisition of a 58-Unit Apartment Community in northern CA
- $17.5 Million Project
  - $7.9 Million Fannie Mae Debt (45%)
  - $9.6 Joint Venture Equity (55%)
    - $9.2 Million – Enterprise (95%)
    - $400k – Sponsor (5%)
- Rents affordable below 80% AMI for all units ($1,675)
- Sponsor entity was a joint venture between two BIPOC-led real estate developers.
  - They shared the co-investment obligation and economics of the sponsor.
- The Sponsor joint ventured with a fund Enterprise manages to preserve affordable and workforce housing.
- Together, the Sponsor and Enterprise are keeping rents affordable, making physical improvements to the building, and providing better management to residents of the community.

Investment Case Study



- Sponsor Economics
  - 5% Equity Co-Investment
  - 4% Acquisition / Development Fee
  - 1.50% Per Year Asset Management Fee
  - 5% of Cash Flow Until a 6.5% Return
  - 25% of Cash Flow Thereafter
- Investor Economics
  - 95% Equity Investment
  - 95% of Cash Flow Until a 6.5% Return
  - 75% of Cash Flow Thereafter

We are here for impact. We are here for change. Join us.

Chris Herrmann
Senior Vice President
Real Estate Equity
cherrmann@enterprisecommunity.com

Enterprise