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CAPITAL

Transcript

How are incentives and fees structured? - A-Long

So there's a lot of financial incentives built in. And that's one thing that we really want to understand. Are we properly aligned with the sponsor. And if you're not sure what I mean when I say sponsors, who's sponsoring the investment.

Right. A lot of times it's the developer, the real estate company that has a deal. And they come to us for equity to be their equity partner. Right. So when I say sponsor, that's what I mean. But we want to make sure that the incentives align. Are the incentives aligned between the sponsor and the investor. In other words, is the sponsor going to benefit by creating a better return versus a less return?

I know that sounds basic, but that's not always the case. Is time a factor? Are they under the gun to get this thing turned around quicker because they can make more money? Well, that may or may not be in alignment with our investors. Right. And so there's different things that happen. How are they going to get paid. Are they only going to get paid up front.

And there's not really any future upside for them. Then what's in it for them to see the project through? I'll give you an example. I had an investor bragged me about being in a project where 90% of the upside went to investors, and only 10% went to the sponsor. Like, this is great. I'm gonna get 90% of the upside.

I said, is it, though? What is the incentive? Have you done the math to see if the 10% opportunity for the sponsor even equates to the money they're going to make along the way? Well, in reality, what happened was there were so many fees in that particular deal up front, and along the way it was four times greater than that 10% in the back.

So did they really have an incentive to create a good return, or did they already make their money? And so there's different ways that you've really got to look at the incentives. And a lot of that is the fees

Everybody needs to get paid in order to have a successful project. If you don't pay people's salary, they're going to walk off the job, right.

And so it's not about the fees. There's a cost to any good investment. It's about the alignment. I want skin in the game. I want a huge financial carrot for the people that are running the job. The people that are incentivized, hopefully, to give us a good return. And so there's a balance there,

We want our sponsors to make money. Because when they make money, we make money. It's got to be an alignment.