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CAPITAL

Transcript

How are incentives and fees structured? - B-Short

The fees and incentives are incredibly important when evaluating a deal, especially in private equity real estate. We want to make sure that that sponsor has every incentive possible to give us the highest return possible. And there's various levers involved in the waterfall to make sure that happens. So if you remember how a waterfall works. Generally you get a preferred return of some level.

You get a return of capital, and then you'll have splits that you share with the sponsor. And we really want to make sure that that sponsor is incentivized to get the highest return possible because it benefits them. And if it benefits them, it benefits us.

So alignment is incredibly important. We look at co-investment.

That's another item. Is the sponsor invested in the project with their own money and how much so. And we also got to follow up to make sure that they are. So a lot of times we'll have the sponsor invest in our account and then turn around and send the money at closing to title, because we want to make sure that they didn't just say it, they actually did it.

But their co-investment is super, super important because they have skin in the game.

I want to look at all the fees that they're making and I want them to make money. This is very important.

I want my development partners to be profitable. If they're profitable, we're profitable as investors. So you don't want to skinny it down to where it's not even worth it for them to do the job. It's got everyone's got to win. This is truly got to be a win win. But there's different levers that are involved. And we'll educate you on this on a per deal basis.

Once we get into an actual project to understand why we like the structure, or maybe if we're looking at something and pass on it, why we didn't like the structure, because alignment is incredibly important. I want the incentive to be the better the return, the better money the sponsor makes, because that means the better money our investors will make.