



SENIOR PARTICIPATING PREFERRED

Superior Returns in Commercial Real Estate with Substantially Mitigated Risks

Table of Contents

Executive Summary	Page
Executive Summary	6-7
Introduction	
Introduction	8
Joint Venture Partnership Structure	9
Market Trends and Platform Overview	
Direct Investments: A Growing Trend for High Net Worth and Family Office Partners	10
How Investors Use the NetLeaseX Platform to Access Direct Investments	11-12
Preferred Equity Investments	
Why Preferred Equity?	13
Overview of Gap Financing	14
Different Types of Gap Financing	15
Capital Stack Illustration of Different Types of Gap Financing	16
What Can Preferred Equity be Used For?	17
NetLeaseX's Approach and Projected Returns	
Joint Venture Platform for Sophisticated Real Estate Investors	18
Projected Returns on NetLeaseX's Preferred Equity Investments	19
Class A Preferred with Equity Kicker	20
Waterfall Distribution at Sale of Project	21
Strategies for Enhancing Returns and Mitigating Risk	
Locking-in a Minimum Rate of Return on NetLeaseX's Preferred Equity Investment	22
Strategies for Obtaining Minimum Profit Participation	23
Changes in the IRR Based on the Timing of the Investment Return	24

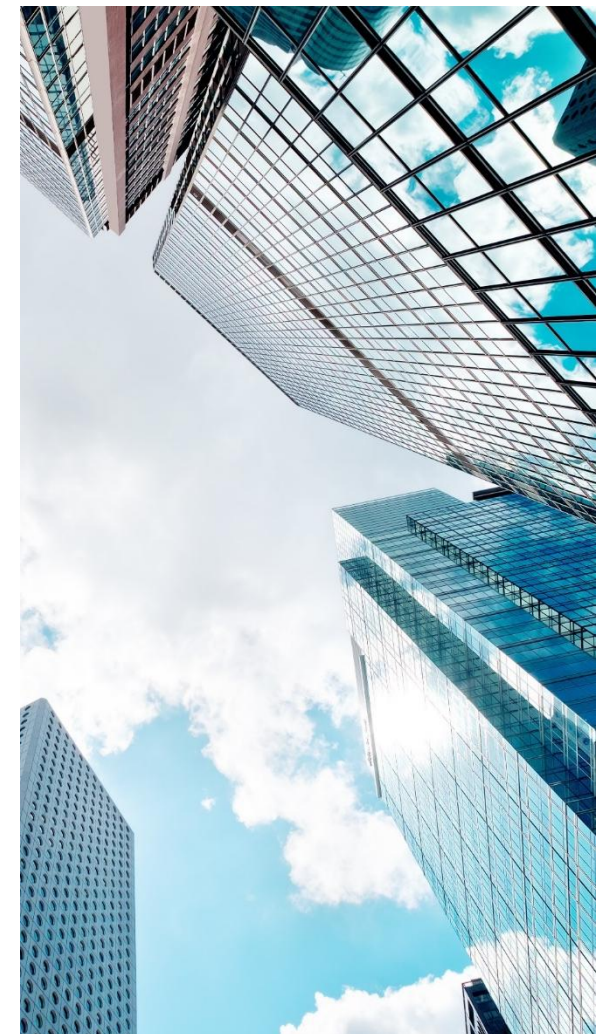


Table of Contents

Restructuring Investments as Subordinated Loans	Page
Restructure Preferred Equity Investment as a Subordinated or Mezzanine Loan	25
Mitigating Risk and Enhancing Returns with Subordinated Loans	26
Collateral and Controlled Draws for Subordinated Loans	27
Protecting Family Office Partners' Position with an Intercreditor Agreement	28
Investing in Stabilized Properties	
Making Preferred Equity and Loans to Seasoned Owners on Cash Flowing, Stabilized Properties	29
Restructuring and Taking Over Projects	
"Downgrading" Sponsor to Co-Sponsor and taking Over the Project	30
Mutual Benefits of "Downgrading" Sponsor to Co-Sponsor and Taking Over the Project	31
Rescue Financing	
Providing Rescue Financing to Facilitate Loan Workouts	32-33
Identifying Distressed Properties in CoStar's Database	34
Obtaining CoStar's Data about Properties Identified by Family Office Partners	35
Infusing New Capital into Distressed Properties Overleveraged by Existing Financing	36
Restructuring Existing Investor Positions	37
Implementing "Last Money In, First Money Out" Structure	38
Negotiating Senior Lender Subordination to Rescue Financing	39
Pari Passu Financing with Senior Debt	40
Bifurcate the Senior Loan into A and B Notes	41
Negotiating Reduced Senior Loan Pay Rates to Facilitate Rescue Financing	42



Table of Contents

Rescue Financing (Continued)	Page
Benefits of the Senior Lender Reducing Pay Rate to Rescue Financing	43-44
Commercial Real Estate Mortgages Hitting a Maturity Wall between 2025 and 2028	45
The Coming Wave of Distressed Opportunities	46
Strategic Positioning for Premium Returns	47
Rescue Capital as Value Creation	48
Why Family Offices Win in Today's Distressed Market	49
Case Study: Westwood Estates Distressed Debt Arbitrage	50
Westwood Estates: The Arbitrage Strategy	51
Westwood Estates: The Financial Engineering	52
Alternative to Foreclosure #1: Partnership Structure	53
Alternative to Foreclosure #2: Inverted Wrap	54
Alternative to Foreclosure #3: Debt-for-Equity Arbitrage	55
Westwood Estates: Lessons in Distressed Debt Arbitrage	56
The Last Money In, First Money Out Advantage	57
The Cost of Capital Arbitrage	58
Negotiating Senior Lender Recognition of Family Office Partners' Class A Preferred	59
Stretch Loans	
Making Stretch Loans to Earn Equity Returns While Mitigating Downside Risk	60
When to Consider a Stretch Loan	61



Table of Contents

Stretch Loans (Continued)	Page
Investor Profile for Stretch Loans	62
Family Office Partners Benefit from Granting Stretch Loans	63-64
Sponsor Benefits in Obtaining a Stretch Loan	65
Stretch Loans as a Rescue Financing Solution	66
Comparing the Capital Stack Structures: Conventional Preferred Equity and Senior Debt vs. Stretch Loan	67
Structuring Family Office Partners' Return	68
Debt-Free Preferred Equity Investments	
Making Debt-Free Preferred Equity Investments to Sponsors' Self-Directed Retirement Plans	69
Working with NetLeaseX	
Why Work with NetLeaseX?	70
Benefits to Sponsors of Raising Investment Capital from Family Office Partners	71
NetLeaseX's Project Types of Interest	72
Design Features of NetLeaseX's Proposed Structured Financings	73-75
NetLeaseX's Interest in Partnering with Experienced and Sophisticated Real Estate Investors	76
Family Office Partner Portal	77
Conclusion and Additional Information	
Key Takeaways	78
Joint Venture Partnership Framework	79
Joint Venture Economics and Origination Fees	80-81
About Us	82
Let's Talk	83
Confidentiality and Copyright Notice	84



Executive Summary

Partnering with family offices through joint ventures for customized preferred equity and structured investments in commercial real estate.

The Structured Investment Advantage: Superior Returns with Downside Protection

NetLeaseX Capital delivers **15-30%+ annual returns** with debt-like protections through structured real estate investments across three investment strategies:

1

Development & Value-Add Financing

- Bridge 50-65% loan to cost (LTC) gaps from banks
- 15-25% preferred returns + equity kickers
- Priority over sponsor equity
- Sponsor subordination & guarantees

2

The \$4.5 Trillion Refinancing Wave¹

- **\$998B** maturing in 2025
- 200+ bps higher rates at maturity
- "Last money in, first money out"
- 15-30%+ returns justified by providing critical rescue capital

3

Creative Financing Solutions

- Stretch loans: 14-25% up to 93% LTC
- UBIT-free self-directed IRA (SDIRA) structures
- Co-GP positions with major decision rights
- Debt-for-equity swaps

The NetLeaseX Platform Advantage for Family Offices



Direct deals, no blind pools



Seat at the table to negotiate every term



Free platform access



We co-invest alongside

¹Source: S&P Global Market Intelligence, 2024

Executive Summary (continued)

Direct deals. Custom terms. Aligned interests.

Risk Mitigation Through Structure

- ✓ **Sponsor equity subordinated** to absorb first losses
- ✓ **Control of funds** through escrow and draw procedures
- ✓ **Personal guarantees** and additional collateral when appropriate
- ✓ **Conversion rights** and control provisions upon default

Our Alignment & Experience

- ✓ **39 years** structuring complex real estate transactions
- ✓ **Co-investment** alongside every family office investor
- ✓ **Published author** on structured real estate financing strategies
- ✓ **No upfront fees** - we succeed only when you succeed

Platform Benefits For Family Offices

- ✓ Direct deal investment
- ✓ Customize all terms
- ✓ Pre-vetted opportunities
- ✓ No fund fees or lock-ups
- ✓ Full transparency

For Sponsors

- ✓ Maintains operating control
- ✓ Flexible payment terms
- ✓ Speed and certainty of execution
- ✓ Flexible structures

Why Act Now

The convergence of tightening bank credit, \$4.5 trillion in maturing debt, and sponsor demand for flexible capital creates exceptional opportunities across development, rescue, and creative financing strategies. Premium returns through sophisticated structures and downside protection.

Next Steps

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Introduction



Investing in preferred equity and other structured financings offers attractive real estate returns while mitigating downside risk.

But even higher returns are available to preferred equity investors if they are able to couple their preferred return with an equity kicker in the underlying property in which they invest. Ron Zimmerman, president of NetLeaseX Capital LLC (“NetLeaseX”) knows the ins and outs of this technique and has written about in his featured article for the Scotsman Guide.

In this white paper, we discuss how NetLeaseX works with high-net-worth investors and family offices (collectively, “Family Office Partners”) through joint venture relationships to structure joint venture investments with real estate investors and developers (collectively, “Sponsors”) that achieve superior returns with substantially lower risks than are generally available in the market.

For a quick overview, listen to our 53-minute podcast discussion of these strategies at netleasex.com/investor-podcast. This AI-generated conversation brings these concepts to life through engaging dialogue.



“Strategize with Preferred Equity”

Scotsman Guide Commercial Edition

December 2018

Download at NetLeaseX.com/articles

The *Scotsman Guide* is a leading industry publication for commercial real estate lenders and loan brokers.

Joint Venture Partnership Structure

Joint venture structure delivering control, alignment, and flexibility

NetLeaseX partners with family offices through a joint venture structure that provides direct control, full visibility, and aligned interests without the complexity of securities offerings.

Two-Layer Investment Framework:

- 1 Layer 1: Family Office + NetLeaseX = JV LLC**
 - Joint Venture Agreement governs partnership
 - Direct business relationship
- 2 Layer 2: JV LLC Co-Invests with Sponsors**
 - Direct real estate transactions
 - JV LLC invests in entity with Sponsor
 - Market-standard origination fees (2-5%)
- 3 Key Benefits:**
 - Direct control over investment decisions
 - Clear, market-based fee structure
 - Aligned interests through co-investment with Sponsor
 - No blind pool - invest in specific opportunities



This structure allows family offices to participate actively in real estate opportunities while maintaining full visibility and control over their investments.

Direct Investments: A Growing Trend for High Net Worth and Family Office Investors



NetLeaseX sources direct investments for family offices to enable them to make preferred equity and co-GP investments, as well as bridge, mezzanine and stretch loans.

Many family offices are seeking direct investments over investing in real estate equity and loan funds because:

- ✓ Family offices bypass traditional fund structures and their multiple fee layers, partnering directly with aligned sponsor
- ✓ Family offices can conduct due diligence on Sponsors and properties based on their own criteria rather than relying on fund sponsors whose interests and concerns may be different than those of the family offices
- ✓ Family offices can target property types and locations rather than “hoping” that fund managers have made appropriate selections
- ✓ Family offices have more flexibility in making decisions about exit strategies, as they can sell their investments or loans at any time, whereas funds may impose lock-up periods or other restrictions
- ✓ Family offices have more control through direct investment because they can:
 - Talk directly to the Sponsor and take the lead on behalf of NetLeaseX in structuring the transaction, including pricing and negotiating levels and types of covenants
 - Require the right to approve certain actions as a manager of the property-owning LLC
 - Control and authorize release of investment or loan proceeds based on their conditions, which may include Sponsor affidavits

How to Access NetLeaseX Direct Investments

NetLeaseX operates an exclusive platform

- ✓ Only pre-approved family offices can view NetLeaseX's pre-screened, structured financings
- ✓ Before approval, family offices provide NetLeaseX with their investment criteria: deal types, investment range, target IRR, preferred terms, and property types
- ✓ Once approved, NetLeaseX emails family offices when new deals match their stated investment criteria
- ✓ Family offices can update their investment criteria at any time by logging into NetLeaseX's platform and accessing the platform's "My Dashboard" section
- ✓ After reviewing deal materials on the platform, family offices can submit a non-binding indication of interest for opportunities they wish to pursue
- ✓ NetLeaseX facilitates direct negotiations between interested investors and sponsors to finalize terms

Platform access limited to accredited investors only



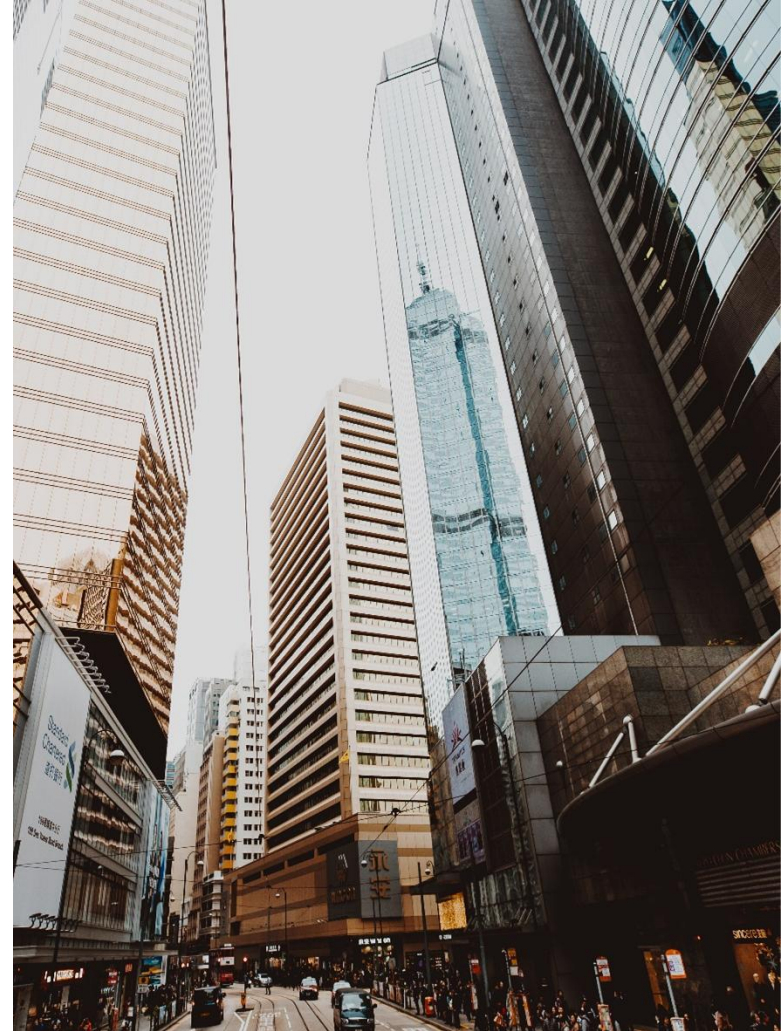
**No obligation. No fees.
Full transparency.
Review pre-vetted direct
investment opportunities
on your terms.**

Due Diligence and Deal Customization

After indicating interest, family offices have full flexibility to customize terms:

- ✓ Upon receiving an Indication of Interest, NetLeaseX facilitates due diligence by providing additional documents, arranging Sponsor meetings, and supporting the Family Office Partners' underwriting process.

- ✓ Family offices can withdraw their Indication of Interest without cost or penalty at any time, or negotiate modified terms to:
 - Increase preferred return or ownership percentage
 - Require additional Sponsor investment
 - Add downside protection through Minimum Target Price, Look-Back IRR, or fixed return multiples (see page 17)
 - Restructure terms to match Family Office Partners' preferences
 - Replace Sponsor as lead and take control of the project (see pages 30-31)



Why Preferred Equity?



Preferred equity is raised through a newly-formed entity (like an LLC) which takes title to real estate. Family Office Partners receive equity-like returns with debt-like downside protection.

How do we do it?

- ✓ All Sponsors must have an investment in the LLC that is subordinate to and is in a first loss position. If the project underperforms, the Sponsor's capital investment bears all of the losses before Family Office Partners' capital and preferred returns are at risk.
- ✓ Typically, Family Office Partners receive higher preferred returns than common equity holders.
- ✓ All investments are structured through joint venture partnerships with clear documentation, ensuring aligned interests and direct control while maintaining flexibility for sophisticated real estate investors.

No Standard Forms or Terms and Conditions for Preferred Equity Investments

NetLeaseX's counsel will draft documents to benefit NetLeaseX's investors. See pages 73 to 75 for a summary of sample provisions that can be included in the LLC operating agreement.

Hedge Against Inflation and Increasing Interest Rates

This is due to priority payment of a cumulative preferred return and as structured by NetLeaseX, ownership of common interests purchased for nominal consideration as an equity kicker.

Joint Venture Partnership Structure

Family offices enter joint ventures with direct control rights, active participation in investment decisions, and aligned interests through co-investment. Structure designed for sophisticated family office investors seeking direct real estate opportunities.

Overview of Gap Financing



Mezzanine loans, preferred equity and co-GP capital all “fill the gap” between the senior debt and Sponsor’s equity.

Family Office Partners’ funds act as subordinate financing to “fill the gap” between the Sponsor’s senior debt and equity, thereby increasing project leverage.

- ✓ The capital stack illustration on page 16 shows the relative risk and return of each investment level. Senior debt has the highest repayment priority with the lowest return, followed by mezzanine, then preferred equity, with common equity bearing the most risk
- ✓ All distributable cash flow is paid first to the preferred equity investor, then to the Sponsor. If a Sponsor raises co-GP capital to further reduce their investment, the co-GP investor is paid after the preferred equity investor but typically before the Sponsor.
- ✓ This structure aligns interests while providing Family Office Partners with payment priority over the Sponsor's returns.

Different Types of Gap Financing

Gap financing includes several time-tested financing techniques that increase financial leverage and enhance returns.

1

Mezzanine Loan

Instead of a traditional mortgage, mezzanine loans are secured by the Sponsor's membership interest in the borrowing entity. Upon default, the mezzanine lender can seize the Sponsor's ownership through a UCC-1 foreclosure sale.

Mezzanine: UCC-1 → Membership Interest

2

Preferred Equity

When senior lenders prohibit subordinate debt like mezzanine financing, Sponsors raise preferred equity instead. Using an A/B waterfall structure, the entity issues senior Class A preferred to Family Office Partners and subordinate Class B preferred to the Sponsor.

Preferred: Class A → Class B hierarchy

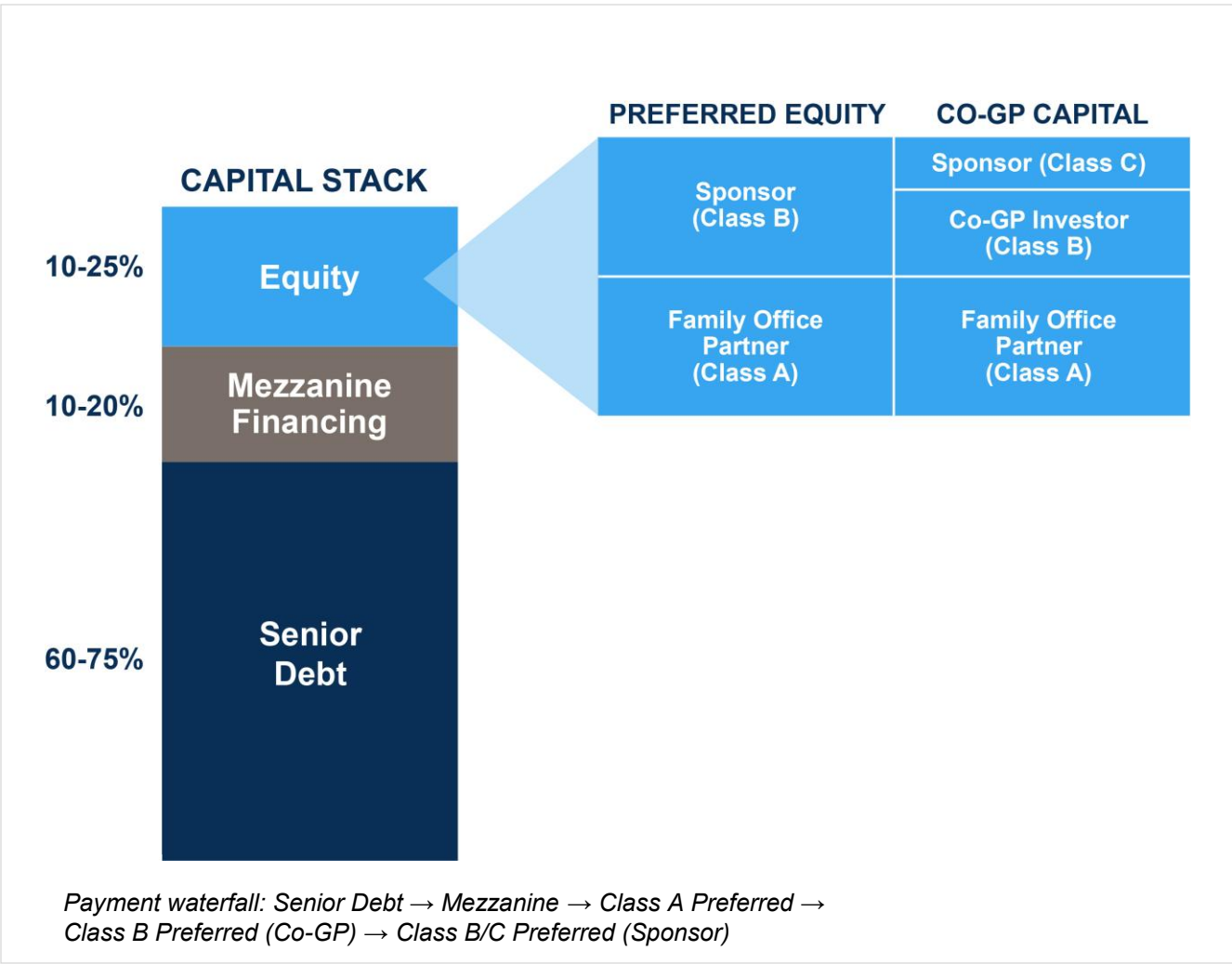
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Co-GP Capital

To maximize project leverage, Sponsors can raise co-GP capital through additional preferred classes. Family Office Partners receive Class A preferred, the co-GP investor receive Class B preferred, and the Sponsor holds first-loss Class C preferred.

Co-GP: Class A → Class B → Class C waterfall

Capital Stack Illustration of Different Types of Gap Financing



When a Sponsor has less than 20% of the required equity contribution, NetLeaseX may facilitate co-GP capital raising in certain situations. The co-GP investor receives:

- ✓ A proportional share of the Sponsor's promote
- ✓ A portion of Sponsor fees and payments

What Can Preferred Equity Be Used For?

Sponsors can use preferred equity in a myriad of ways, including coupling it with senior debt financing.

For example, preferred equity may be used to:

- Fund the ground-up development of real estate projects
- Acquire profitable real estate investments
- Acquire land, pay for entitlements and other pre-development expenses
- Fund an interest reserve with the Sponsor's senior lender
- Cover the shortfall on a senior loan due to failure of a rebalancing test¹
- Renew any expiring interest rate cap agreements
- Fund any shortfall in loan proceeds when refinancing a senior loan
- Pay for required capital improvements or needed renovations
- Fund a reserve to pay for any future tenant buildouts and/or leasing commissions
- Acquire nonperforming and sub-performing senior and mezzanine debt at a discount
- Cover unfunded capital calls from limited partners
- Monetize a Sponsor's equity without giving up control of the property
- Buy out existing limited partners
- Raise capital without paying prepayment penalties or defeasance costs

**Higher Yielding
Returns in
Opportunistic
Investments**

**Lower Yielding
Returns in
Stabilized Properties**

1. A rebalancing test reviews the extent to which the property's net operating income (NOI) covers the debt service. If it does not cover the debt service by an amount that is satisfactory to the lender (i.e., the debt service coverage ratio is too low), then the borrower may be required to pay down principal on the senior loan.

Joint Venture Platform for Sophisticated Real Estate Investors

NetLeaseX's joint venture partnership approach delivers higher returns with lower risk through aligned co-investment and active participation.

Unlike crowdfunding platforms and blind pool funds, NetLeaseX partners with sophisticated real estate investors through joint ventures, enabling them to:

- ✓ Evaluating and co-investing in structured real estate investment opportunities alongside NetLeaseX
- ✓ Analyzing, underwriting and conducting due diligence on commercial real estate projects (which may include site visits)
- ✓ Participating in transaction structuring and documentation
- ✓ Negotiating and modifying proposed deal terms
- ✓ Exercising direct control rights through the JV LLC structure



Alternatively, Family Office Partners may:

- Acquire the Sponsor's predevelopment work and take over the project
- Retain the Sponsor as co-developer or consultant after taking control
- Through our joint venture model, Family Office Partners maintain active involvement while benefiting from NetLeaseX's deal flow and expertise

Projected Returns on NetLeaseX's Preferred Equity Investments

NetLeaseX provides capital to emerging and mid-market sponsors underserved by institutional lenders, enabling Family Office Partners to achieve premium returns with enhanced terms.

Depending on transaction type (see page 17), projected IRRs range from 15% to 30%+ annually, with terms typically 2-5 years.

Projected returns depend on:

- ✓ Property fundamentals and projected cash flow
- ✓ Negotiated deal terms, which vary based on:
 - Sponsor's equity contribution percentage
 - Track record and experience
 - Sponsor's financial net worth
 - Sponsor's cash liquidity
 - Availability of alternative financing sources



NetLeaseX also arranges preferred equity for institutional sponsors with stabilized, cash-flowing properties. While these returns may be lower (12-18%), they offer enhanced security and predictable income (see page 29).

Class A Preferred with Equity Kicker

At closing, both the Sponsor and Family Office Partner receive common membership interests (for nominal consideration) and preferred membership interests (for their capital contributions) in the property-owning LLC.

Investment Structure: Joint Venture Formation

1. Family Office Partner and Sponsor each acquire 50% of common interests in a newly-formed LLC
2. Family Office Partner contributes 80% of required equity, receiving senior Class A preferred
3. Sponsor contributes 20% of equity, receiving subordinated Class B preferred
4. The Sponsor will receive credit for any funds previously invested in the project and any additional cash that, taken together, equates to 20% of the project's total equity
5. Sponsor provides personal financial statements, obtains senior debt, and signs all required guarantees (recourse, bad boy carveouts, completion)
6. With a 50/50 profit split, the Sponsor effectively receives a 30% promote. Alternatively, parties may structure a multi-tiered waterfall with increasing Sponsor participation at higher IRR hurdles



Family Office Partners can hold multiple preferred classes, including senior and co-GP positions.

Waterfall Distribution at Sale of Project



Net proceeds from the operation and sale of the project will be distributed as follows:



Pay a 10% cumulative annual return to Family Office Partners



Return Family Office Partners' Class A preferred capital



Pay a 10% cumulative annual return to the Sponsor



Return Sponsor's Class B preferred capital



Balance split 50/50 between Family Office Partners and Sponsor based on common interest ownership

Locking-in a Minimum Rate of Return on NetLeaseX's Preferred Equity Investment

Sponsors provide proformas to NetLeaseX showing projected project returns.

-
- ✓ NetLeaseX uses Sponsors' own IRR projections to negotiate downside protection. Sponsors must guarantee Family Office Partners a minimum return based on their projected IRRs through predetermined profit participation thresholds.
 - ✓ For example, if a Sponsor projects a 28% IRR, NetLeaseX may negotiate a 22% minimum IRR threshold, providing the Sponsor with a reasonable cushion while protecting Family Office Partners returns.
 - ✓ If a Sponsor won't guarantee minimum returns based on their own projections, this signals either insufficient confidence in the project or need for deal restructuring.



Many investors may view locking-in a minimum IRR as important (if not more important) as maximizing an investment's IRR.

Strategies for Obtaining Minimum Profit Participation

Regardless of the agreed minimum IRR to which NetLeaseX and the Sponsor agree, NetLeaseX Investors may use one of the following strategies to secure minimum profit participation:

1

Minimum Target Price

The Sponsor agrees to provide Family Office Partners with a minimum target price (“**MTP**”) at which the Sponsor would sell the underlying property.

- If the property sells at or above the MTP, all distributions to members will be based on the actual sales price.
- If the Sponsor sells the property for an amount less than the MTP, all distributions will be based on the higher MTP.

2

Look-Back IRR

At the time of the sale of the property, if Family Office Partners earns less than, say, an 18% internal rate of return (the “**Look-Back IRR**”), then the Sponsor will transfer some of its Class B preferred shares to increase Family Office Partners’ IRR to the 18% per annum Look-Back IRR.

3

Fixed Redemption Fee

Instead of purchasing common interests in the LLC for nominal consideration, Family Office Partners may require the Sponsor to issue straight preferred the Family Office Partners.

In lieu of receiving an equity kicker, the Sponsor will agree to pay Family Office Partners a fixed redemption fee (in addition to the preferred investment amount) when the LLC redeems Family Office Partners’ Class A preferred.

The redemption fee is paid to Family Office Partners in full before the Sponsor receives any distributions.

4

Fixed Return Multiple

Similar to a fixed redemption fee, a fixed return multiple requires the Sponsor to pay Family Office Partners a fixed return multiple (1.6X for example) based on a three-year investment (or 20% per annum). This structure is advantageous if Family Office Partners expects that the Sponsor will sell the property prior to the redemption date.

Changes in the IRR Based on the Timing of the Investment Return



Using MTP, Look-Back IRR, fixed redemption fee, or fixed return multiple structures, Family Office Partners can calculate their minimum IRR upfront based on the agreed redemption date.

1

Preferred Redeemed Prior to Redemption Date

If the Sponsor agreed to a minimum target price (MTP), fixed redemption fee, or return multiple for the pre-agreed redemption date, then, Family Office Partners' IRR will increase if the property is sold before the pre-agreed redemption date.

2

Preferred Redeemed After Redemption Date

- If the Sponsor sells after the redemption date and Family Office Partners own common interests, the LLC will pay Family Office Partners a “guaranteed payment” (as defined in Internal Revenue Code Section 707(c)).
- If the Sponsor sells the property after the redemption date, and if Family Office Partners own straight preferred in the LLC, the LLC will increase the payment of the redemption fee at the same 8% per quarter as with the MTP.
- If the Sponsor fails to sell within one year after the redemption date, the Sponsor must list the property with a nationally-recognized real estate brokerage firm.
- If the Sponsor fails to enter into a purchase and sales agreement on or before 45 days after the Sponsor lists the property as described above, then the listing price will be reduced by at least 5% every 45 days until the Sponsor enters into a purchase and sales agreement.
- Upon the listing price reaching a level where the Sponsor would receive no distributions, the Sponsor agrees to: (a) transfer all LLC interests to Family Office Partners; (b) cause its appointed managers to resign; and (c) deliver complete control of the LLC and property to Family Office Partners.

Restructure Preferred Equity Investment as a Second Lien or Mezzanine Loan



Many Family Office Partners prefer lending to Sponsors rather than making preferred equity investments.

During initial negotiations, NetLeaseX can restructure preferred equity investments as second lien or mezzanine loans (collectively, “Subordinated Loans”).

Subordinated Loans are debt instruments that rank below senior debt but above equity in the capital stack, offering lenders enhanced security while maintaining attractive returns.

- A second lien loan secured by a junior mortgage on the Sponsor’s property, or
- A mezzanine loan secured by UCC-1 financing statement on the Sponsors’ membership interests in the ownership LLC

Benefits to Family Office Partners:

- If successful, Sponsors convert NetLeaseX’s projected IRR into a fixed return on the Subordinated Loan
- If the senior lender precludes subordinate financing, the investment can be structured as a mezzanine loan rather than a second lien loan
- If the property underperforms expectations, Family Office Partners would still earn the same return on the preferred equity investment as a fixed return on the Subordinated Loan
- Sponsor would bear the cost if the project’s profitability falls short of underwritten expectations

This structure allows Family Office Partners to maintain high return potential while mitigating downside risk by shifting underperformance risk to the Sponsor.

Mitigating Risk and Enhancing Returns with Subordinated Loans



The Subordinated Loan structure introduced earlier provides Family Office Partners both downside protection and yields comparable to preferred equity investments, achieved through the following key mechanisms:

1 Mitigated Risk

- In some cases, Sponsors may pledge their net worth as additional security
- The loan guarantee supplements the collateral package securing repayment of the Subordinated Loan

2 Increased Profits

- Require a minimum lock-out period before the Sponsor can prepay the Subordinated Loan
- Ensures Family Office Partners earn a baseline profit even if the Sponsor refinances or sells earlier than anticipated

The combination of the Sponsor's guarantee and the subordinated loan collateral creates a robust risk mitigation structure to protect Family Office Partners' position.

Collateral and Controlled Draws for Subordinated Loans



If Family Office Partners make a Subordinated Loan, the Sponsor will provide a comprehensive collateral package, including:

Comprehensive Collateral Package

- ✓ A second mortgage on the Sponsor's project (for second lien loans) or pledge of Sponsor's membership interests in the ownership LLC (for mezzanine loans)
- ✓ Pledge of the escrow account holding the undisbursed Subordinated Loan proceeds
- ✓ Pledge of development rights, predevelopment work, and all other intangible rights

Controlled Draw Process

- ✓ To mitigate funding and completion risk, Family Office Partners will implement a controlled draw process for Subordinated Loan proceeds
- ✓ Funds released only upon verified completion milestones and lien waivers
- ✓ Independent inspections required before each draw release

Protecting Family Office Partners' Position with an Intercreditor Agreement



NetLeaseX and Family Office Partners will negotiate an intercreditor agreement with the senior lender, seeking the following provisions:

1

Cure rights allowing Family Office Partners to remedy defaults under the senior loan

2

Option for Family Office Partners to purchase the senior loan at par upon Sponsor default

3

Consent rights for Family Office Partners on material changes to the senior loan

4

Limitations on senior lender's actions that could impair Family Office Partners' position

5

Affirmation of Uniform Commercial Code (UCC) foreclosure rights, enabling Family Office Partners to take control of the Sponsor's project while remaining subject to the senior loan

6

UCC foreclosure provisions that balance the senior lender's priority with Family Office Partners' ability to protect their position and recover their investment

Making Preferred Equity and Loans to Seasoned Owners of Cash-Flowing, Stabilized Properties



NetLeaseX helps Family Office Partners compete with equity funds and other institutional investors by providing funds to seasoned sponsors on institutional-grade properties.

NetLeaseX has found that many Sponsors prefer partnering with Family Office Partners over equity funds for standard preferred equity and loans, which are priced more efficiently in competitive markets.

Some reasons for this are as follows:

- ✓ Sponsors can develop more personal relationships with family offices, which facilitates better communication.
- ✓ Sponsors believe that family offices using their own capital make decisions more quickly than equity funds make decisions.
- ✓ Many Sponsors value strategic guidance and connections that family offices can offer, improving the prospects for success.
- ✓ Many Sponsors are seeking to develop programmatic investment relationships with private investment capital.
- ✓ Many family offices have longer term investment horizons than equity funds.
- ✓ Compared to crowdfunding websites, many Sponsors prefer having one capital partner rather than managing groups of unsophisticated retail investors whose funds are aggregated through crowdfunding.
- ✓ Family offices can offer more flexible terms, including, for example, reducing the pay rate on the preferred return distribution until the Sponsor increases the property's NOI to a pre-determined amount.

“Downgrading” the Sponsor to Co-Sponsor and Taking Over the Project

After conducting due diligence, if Family Office Partners do not want to invest passively, or if the Sponsor cannot procure senior debt financing or lacks the financial resources for the required minimum investment, Family Office Partners may propose that the Sponsor transfer its interest to them. In return, Family Office Partners would:

-
- ☑ Pay the Sponsor a fee to walk away from the project. In consideration thereof, the Sponsor will assign its rights to all pre-development work, including:
 - The Sponsor’s financial projections, analysis and other work
 - All entitlements and/or approvals received from governmental authorities
 - The work product performed by others, including, but not limited to architects, engineers, general contractors and land-use counsel
 - All third-party reports

 - ☑ Alternatively, Family Office Partners may allow the Sponsor to stay involved in a limited role, receiving (a) a promoted interest and/or (b) fees for services as developer or co-sponsor.



Mutual Benefits of “Downgrading” the Sponsor to Co-Sponsor and Taking Over the Project



Sponsor

- ✓ Sponsor receives payment for work already performed and/or ongoing fees in a supporting role to Family Office Partners
- ✓ If Sponsor stays involved in the project, the Sponsor would be able to develop a track-record for a successful and profitable exit
- ✓ Develops a business relationship with Family Office Partners

Family Office Partners

- ✓ Source profitable opportunities in projects where a Sponsor has performed most or all of the initial work
- ✓ Further mitigate risks by taking over a project rather than passively investing with an untested Sponsor who is unable to procure senior debt financing and/or is unable to make a minimally required financial investment in the project

Providing Rescue Financing to Facilitate Loan Workouts



As detailed in my articles on rescue financing, preferred equity can be used to facilitate loan workouts.

Rescue financing works like bridge equity, a temporary infusion of cash up to three years. This is typically enough time for properties that haven't become permanently impaired to return (or close to) their historically higher values.

Generally, rescue financing can be used to fill an “equity gap” in a property’s capital structure due to the current market conditions where:

- Refinancing is not possible
- A loan is approaching maturity
- Current market value of the property makes a sale unattractive
- Rescue capital that creates value: Funding renovations, deferred maintenance, and capital improvements that enhance property value and justify premium returns
- NetLeaseX may negotiate with senior lenders to release or reduce sponsors' personal guarantees and recourse obligations



“Throw Out a Lifeline”

Scotsman Guide Commercial Edition
July 2020



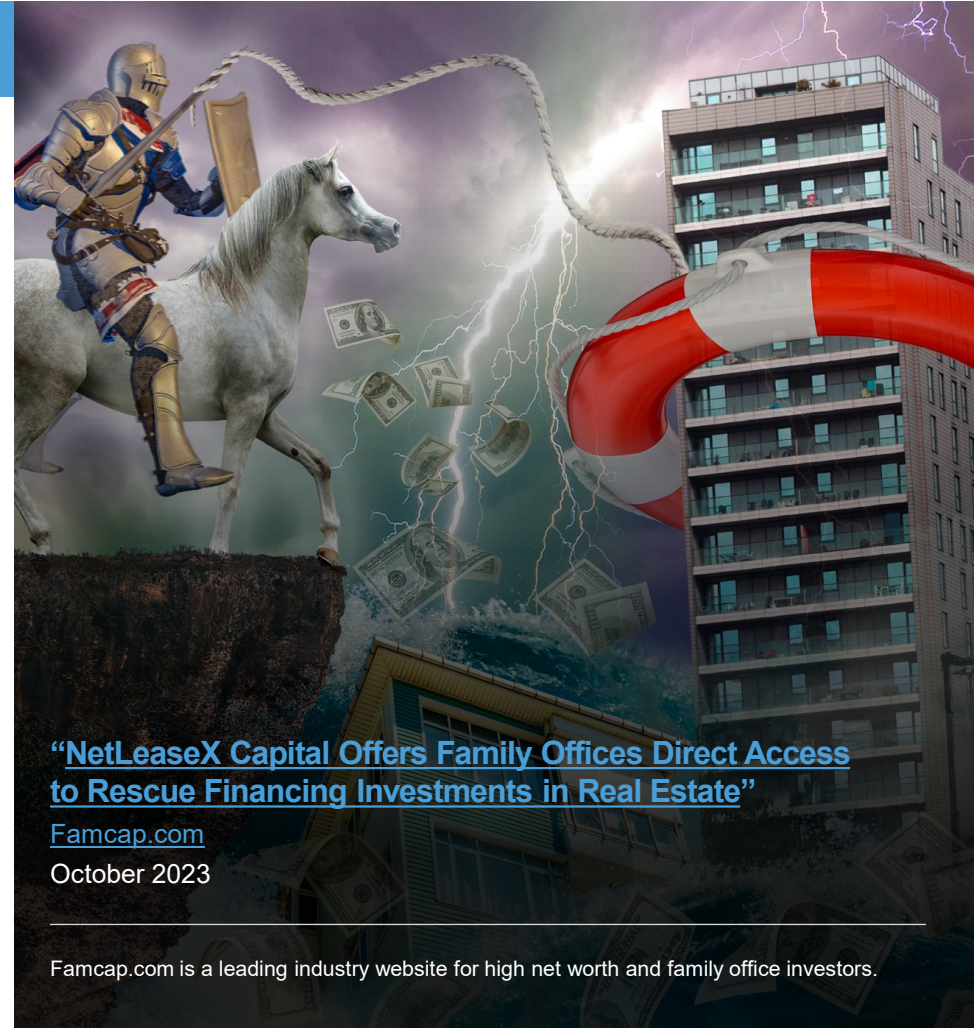
“Ride to the Rescue”

Scotsman Guide Commercial Edition
August 2020

Providing Rescue Financing to Facilitate Loan Workouts (continued)

Proceeds from rescue financing can be used to:

- ✓ Cover additional interest expense to the senior and/or mezzanine lender due to increase in interest rates
- ✓ Cover any operating deficits
- ✓ Gain leverage to facilitate favorable loan workouts with CMBS and other types of lenders to reduce interest rates, extend maturity dates, and/or release or otherwise reduce personal loan guaranties
- ✓ Fund an interest reserve for the senior loan
- ✓ Pay down a portion of the senior loan
- ✓ Fund major capital expenditures (CapEx) and/or renovations
- ✓ Fund tenant buildouts, and/or pay leasing commissions



Identifying Distressed Properties in CoStar's Database

NetLeaseX uses data collected by CoStar Group, Inc. to identify properties in distress for any reason, including, for example, an upcoming maturity on senior loans secured by the properties.



NetLeaseX does this by searching for properties with high vacancy rates and/or secured by CMBS loans that:



Have been placed on watchlist



Are currently delinquent



Have been transferred to special servicing for, among other reasons, the following:

- The property has experienced a precipitous drop in annual net operating income for any reason
- Imminent or actual maturity default
- Requirement for a large unfunded capital expenditure
- Loss of one or more major tenants
- Borrower bankruptcy
- Death of a loan guarantor

Obtaining CoStar's Data about Properties Identified by Family Office Partners

Family Office Partners interested in specific properties or rescue financing opportunities can access our proprietary deal flow by:

- Clicking on the Investor Portal button at the top of NetLeaseX's website
- Filling in a detailed intake form which will ask you to input your investment criteria



NetLeaseX provides potential Family Office Partners with CoStar information regarding particular properties.

Call 513-621-1031 or email ronz@NetLeaseX.com with your property addresses. NetLeaseX will email you CoStar's Full Underwriting Report and/or other CoStar-generated reports.

CoStar's Full Underwriting Reports typically run between 100 to 140 pages and include, among other details, the following information:

- ✓ Details about the property
- ✓ Rent comps
- ✓ Construction summary in the property's submarket
- ✓ Sale comps
- ✓ Demographics
- ✓ Market report
- ✓ Submarket report
- ✓ Title data, including borrower entity, sponsor's name and address

If a property has a CMBS loan, the following additional information is available:

Detailed loan information

Special servicer commentary

Historical financial information on the property

Infusing New Capital into Distressed Properties Overleveraged by Existing Financing



By providing rescue financing, Family Office Partners can make profitable investments and provide owners with an alternative to selling at today's depressed prices.

Family Office Partners capitalize on distressed situations through multiple strategies:

- ✓ Dilute existing investor positions through squeeze-down provisions
- ✓ Convert preferred equity to common equity
- ✓ Acquire equity at temporarily depressed valuations
- ✓ Secure exit and control provisions including put/call options, drag-along and tag-along rights, plus right of first refusal on future transactions
- ✓ Obtain majority voting control and veto rights over major decisions regardless of ownership percentage
- ✓ Control all tax elections including depreciation methods, cost segregation studies, tax credit allocations, and phantom income treatment



Restructuring Existing Investor Positions

Positioning rescue capital senior to existing stakeholders

When providing rescue capital, Family Office Partners can:

- **Subordinate existing investors** in the payment waterfall, pushing them below the new rescue capital
- **Create "hope certificates"** where existing investors only receive returns after specified triggers
- **Establish clear payment priorities** that protect rescue capital investment

Payment Triggers: Existing investors participate only after:

- Family Office Partners receive their fixed redemption fee or return multiple
- The property sells above a predetermined minimum price
- All rescue capital achieves its negotiated IRR threshold

This “last money in, first money out” structure ensures rescue capital is protected while giving existing investors potential upside.



Implementing “Last Money In, First Money Out” Structure

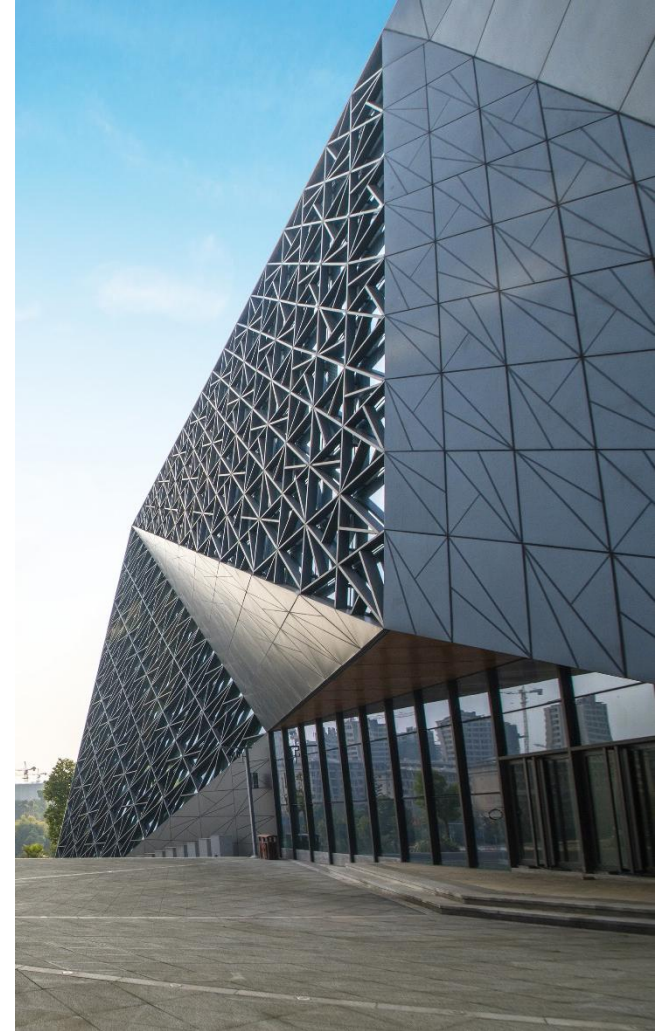
CMBS lenders become more flexible when third-party capital is available for loan workouts. However, many properties remain overleveraged relative to current performance metrics.

By providing 80-90% of rescue capital, Family Office Partners secure minimum returns while maintaining upside potential when property values recover.

“Last Money In, First Money Out”

Under the “last money in, first money out” principle, rescue capital receives priority repayment over sponsors and existing investors, plus negotiated profit participation. NetLeaseX extends this principle to negotiations with senior lenders.

To mitigate downside risk, Sponsors must consent to direct negotiations between Family Office Partners and existing lenders regarding terms necessary to provide rescue capital.



Negotiating Senior Lender Subordination to Rescue Financing

By infusing additional capital into a Sponsor's property, Family Office Partners can often negotiate concessions from senior lenders:

- ✓ Family Office Partners provide flexible loan terms (example: 3% interest, three-year balloon)
- ✓ The senior lender agrees to subordinate its loan to Family Office Partners' loan, which becomes secured by a first mortgage or deed of trust on the Sponsor's property.
- ✓ The LLC makes a guaranteed payment (as defined in Internal Revenue Code Section 707(c)) as a priority distribution to compensate for the below-market rate on Family Office Partners' loan.

Family Office Partners receive the same rights to purchase common interests in the LLC for a nominal amount as if they had made a preferred equity investment.



This strategy is analogous to a lender providing debtor in possession financing to a company in bankruptcy where the DIP lender steps ahead and receives a first priority lien on the bankrupt borrower's assets.

Senior lenders may agree to subordination when rescue capital will fund improvements that increase property value beyond their loan exposure.

Pari Passu Financing with Senior Debt

By infusing additional capital into a Sponsor's property, Family Office Partners can often negotiate concessions from senior lenders:

- ✓ Family Office Partners secure pari passu position with senior debt through intercreditor agreements that include protective provisions, ensuring equal treatment in enforcement actions, pro-rata sharing of recoveries, and mutual consent for loan modifications.
- ✓ In the event of nonpayment and subsequent foreclosure, Family Office Partners and senior lenders would bear losses proportionate to their respective contributions under the shared first mortgage.

Family Office Partners receive common interest purchase rights for nominal consideration, identical to preferred equity structures.



This structure enables senior lenders to benefit from rescue capital without advancing new funds, accepting pari passu treatment when the increased property value exceeds what foreclosure alone would yield.



Bifurcate the Senior Loan into A and B Notes

- ✓ The senior lender agrees to allocate a portion of the principal balance under the senior loan to an A note.
- ✓ The A note would continue to be secured by a first mortgage or deed of trust on the property.
- ✓ The senior lender and Family Office Partners agree to modify the A note terms—for example, reducing the interest rate, extending the maturity date, or releasing personal guarantees.
- ✓ A portion of the senior loan balance is allocated to a B note, often referred to as a 'hope note' or 'hope certificate.' The B note is subordinated to a lower-priority position below the rescue financing. Repayment terms are especially soft—for example, the senior lender may receive 50% of net sale proceeds over X dollars after the A note is paid, with the balance written off.



Family Office Partners receive the same right to purchase common interests in the LLC for a nominal amount as if they were making a preferred equity investment. This structure allows the rescue capital to achieve priority while giving the senior lender some recovery potential through the B note.

Negotiating Reduced Senior Loan Pay Rates to Facilitate Rescue Financing



When bifurcation isn't an option, negotiate reduced senior loan pay rates (0-5% annually) or payments based on property NOI percentage.

- ✓ Unpaid interest accrues as a subordinated B note below rescue financing in the capital stack.

- ✓ B note interest is paid only after Family Office Partners receive full capital return plus agreed profits.

- ✓ Senior lenders accept reduced rates to avoid foreclosure when rescue capital funds critical improvements.

Benefits of the Senior Lender Reducing Pay Rate to Rescue Financing

Below is a sampling of the benefits:

Family Office Partners

- ✓ Earn 14-18% per annum return (or higher) on a fixed income investment.
- ✓ Hedge downside risk by “pushing down” existing investors in the property’s capital stack.
- ✓ Invest in the underlying property which would be subject to the senior loan with no recourse nor financial disclosure. The existing loan guarantors would stay in place.
- ✓ If a senior lender reduces the pay rate to 5%, Family Office Partners’ effective cost of capital equals 5%, since excess interest is subordinated to the rescue financing.
- ✓ Alternatively, the senior lender could set monthly payments based on an agreed percentage of the property’s NOI.

Senior Lender

- ✓ Proceeds from rescue capital would be used to increase the property's current NOI, thereby increasing property value without the senior lender advancing additional funds.
- ✓ Senior lender achieves a favorable outcome without foreclosure, short-sale, loan sale at discount, or subordination to rescue financing.



Benefits of the Senior Lender Reducing Pay Rate to Rescue Financing (continued)

Below is a sampling of the benefits (continued):

Property Owners/Sponsors

- ✓ Since rescue financing typically represents less than 10% of the senior loan balance, the property owner's overall weighted cost of capital should not significantly increase.
- ✓ If the senior lender agrees to reduce its interest rate, the property owner's weighted average cost of capital would increase even less, or not at all, relative to the current senior loan rate.
- ✓ Sponsors and their limited partner (LP) investors can recover some or all of their original investment plus returns, instead of being wiped out in a foreclosure or short sale.
- ✓ NetLeaseX may be able to negotiate terms important to the Sponsor(s), including, for example, release or reduction of any loan and/or non-recourse carve-out guaranties and/or delay or elimination of senior lender rebalancing tests.
- ✓ This structure creates a true win-win-win scenario for all stakeholders.



Commercial Real Estate Mortgages Hitting a Maturity Wall between 2025 and 2028



S&P Global, Inc. projects that approximately \$4.5 trillion in mortgages will mature between 2025 and 2028.

Roughly \$1 trillion of US commercial real estate mortgages are estimated to mature in 2025

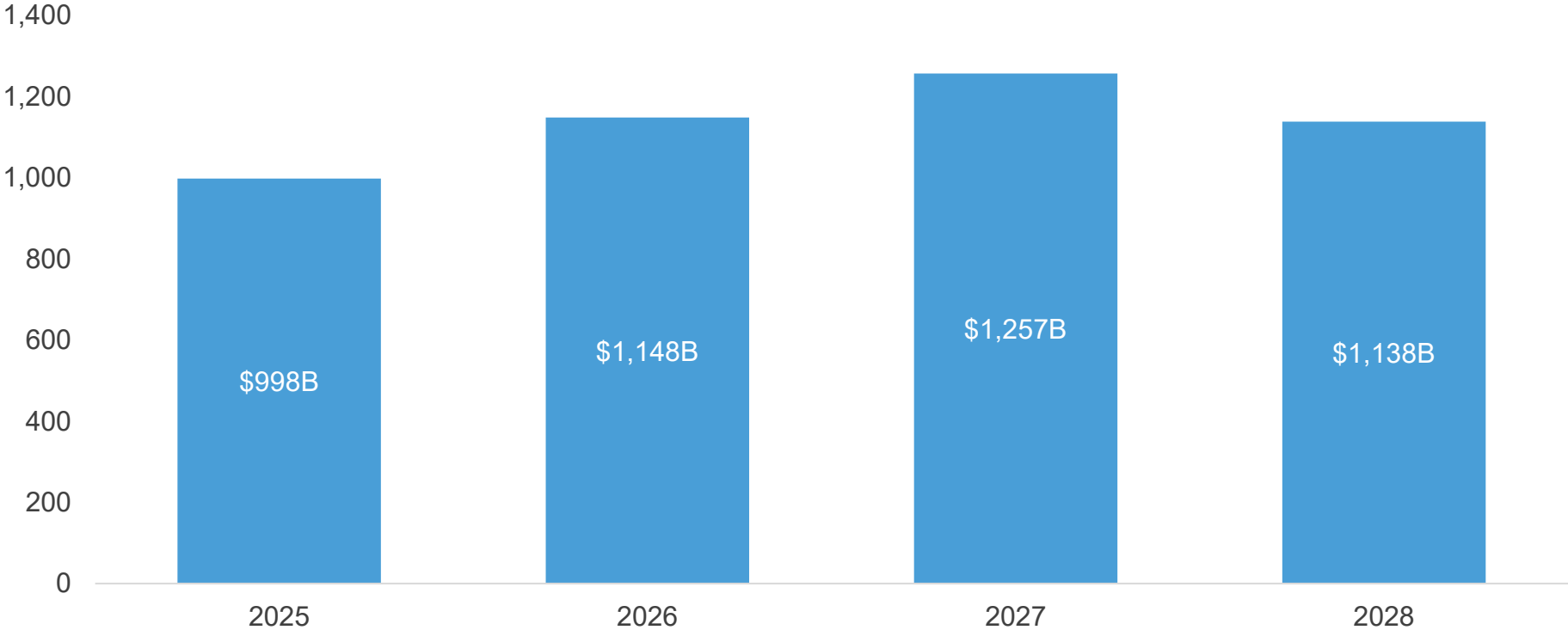


Chart adapted from an article, Commercial real estate maturity wall \$950B in 2024, peaks in 2027 by Thomas Mason, 2024, <https://bit.ly/SP-Global-Article>, Copyright 2024 S&P Global, Inc.

The Coming Wave of Distressed Opportunities

Family offices positioned to capitalize on the largest refinancing crisis in commercial real estate (CRE) history

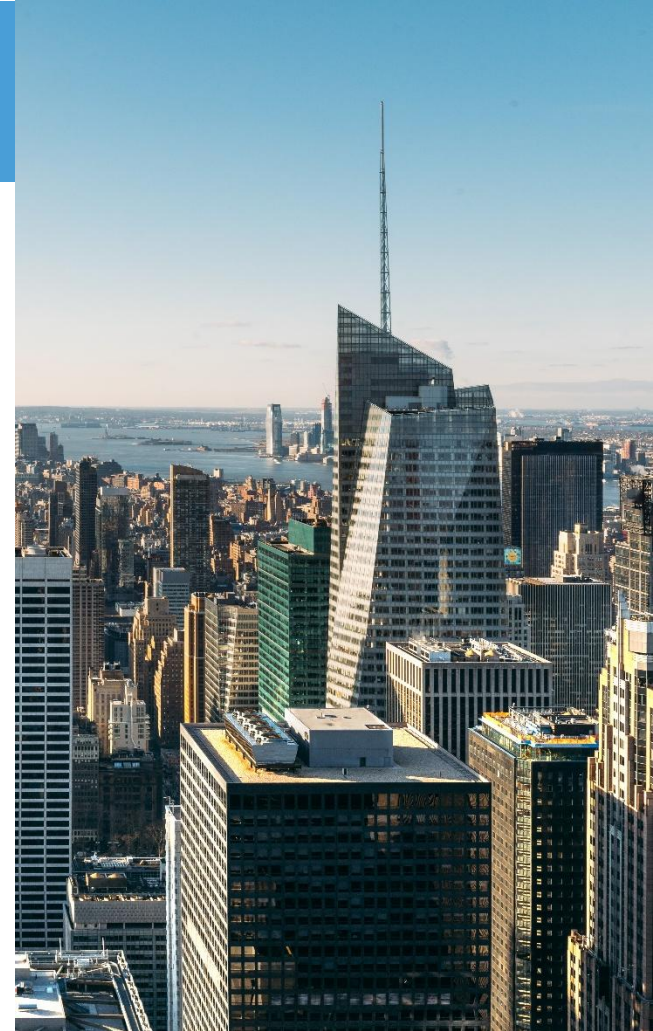
\$998 Billion Maturing in 2025 as Multi-Year Crisis Accelerates

S&P Global Market Intelligence's analysis reveals nearly \$1 trillion in CRE mortgages maturing in 2025 and peaking at \$1.26 trillion in 2027. This represents the most significant refinancing challenge in commercial real estate history.

The Perfect Storm Creating Unprecedented Investment and Loan Opportunities

Family offices can capitalize on this multi-year distress cycle as borrowers face impossible refinancing math.

- ✓ Current CRE loan rates are nearly 200 basis points higher than rates on loans maturing in 2025
- ✓ Post-pandemic behavioral changes have permanently altered property valuations
- ✓ Many borrowers lack capital for required equity infusions at refinancing
- ✓ Traditional lenders retreating from transitional situations



Strategic Positioning for Premium Returns



Transform market distress into premium returns by making rescue capital investments

Market Dynamics Creating the Opportunity

With \$4.5 trillion in mortgages maturing through 2028, family offices have a unique window to deploy capital at premium returns:

- Properties financed at peak valuations now face refinancing gaps
- Today's higher rates and lower valuations create distressed situations
- Rescue capital creates tangible value through renovations, deferred maintenance, and critical improvements
- All stakeholders face binary outcomes: accept immediate losses or invest in recovery

Creating Real Value, Not Just Providing Capital

Our rescue financing doesn't just solve problems—it enhances property value:

- Fund stalled renovations and critical CapEx that boost NOI and enable refinancing or sale
- Deploy capital with senior positioning through “last money in, first money out” structure with value-add upside
- Strategic deal structuring that aligns stakeholder interests and enables favorable negotiations with senior lenders, including potential release of personal guarantees
- Premium returns justified by genuine value creation, not just distress



Key Point:

While rescue financing costs 18-24% annually, funded improvements often increase property values by 25-40%, creating net positive value even after these premium returns.

Rescue Capital as Value Creation

Beyond bailouts: How rescue financing enhances property value and justifies premium returns

Value Creation Opportunities

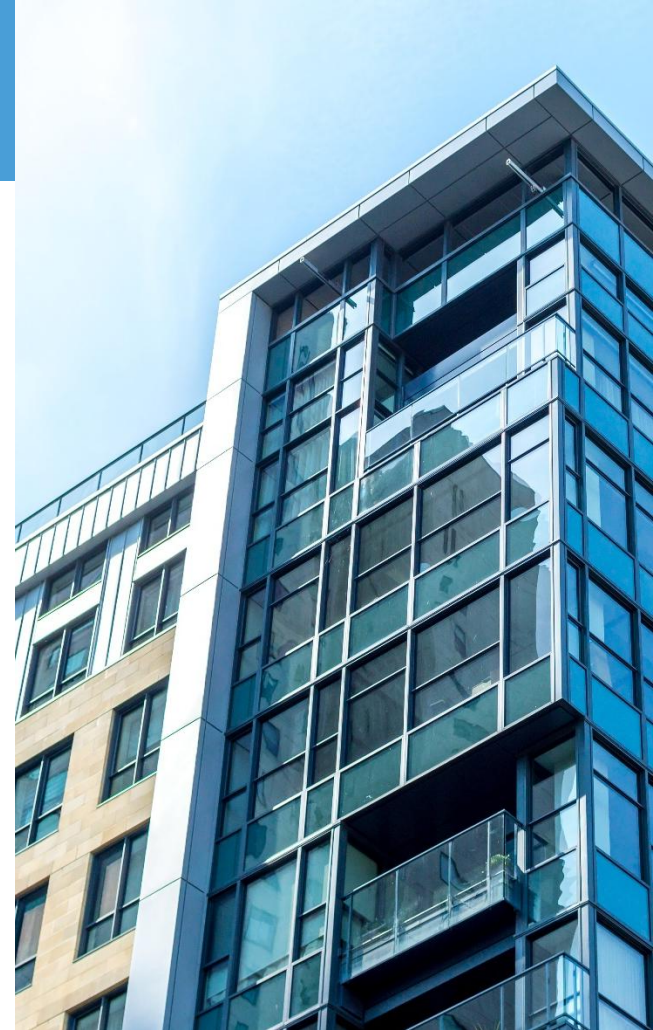
- Fund critical repairs, deferred maintenance, and capital improvements that boost NOI and prevent further deterioration
- Finance tenant improvements to achieve stabilization
- Provide working capital to cover operating shortfalls during turnaround

Why This Matters for Returns

- 15-30% returns justified by measurable value creation
- Not profiting from distress but enabling recovery
- Creates sustainable, defensible investment thesis

Case Example: Value Creation in Action

\$3M rescue loan provides working capital and funds critical improvements, stabilizing operations and increasing NOI by 25%, creating \$5M in property value and delivering 24% IRR to all stakeholders



Why Family Offices Win in Today's Distressed Market

Family offices' competitive advantage when banks retreat and funds can't act

Unique positioning to profit from the refinancing crisis

- Properties financed at peak valuations now face severe refinancing gaps
- Sponsors cannot achieve pricing to cover existing debt obligations
- Family offices generate 15-30%+ returns while helping sponsors navigate these challenging situations

Why Family Offices (Not Banks, Not Funds) Win

Advantage	Description
No regulatory constraints	Can hold distressed assets without mark-to-market pressure
Relationship-driven	Many sponsors prefer working directly with families over institutional committees
Generational perspective	Can wait for recovery without LP redemption pressures
Privacy	No public reporting requirements on distressed investments
Patient capital advantage	No monthly distribution pressure, flexible payment terms during workouts, and ability to hold through full recovery cycles
Speed to close	Decisions in days, not weeks of committee approvals



Case Study: Westwood Estates Distressed Debt Arbitrage

Creating value through strategic note acquisition and foreclosure

In this case study, we identified an opportunity to acquire a senior note at a discount, foreclose to eliminate junior debt, and provide acquisition financing to a new sponsor—capturing significant value through the arbitrage.

The Distressed Asset:

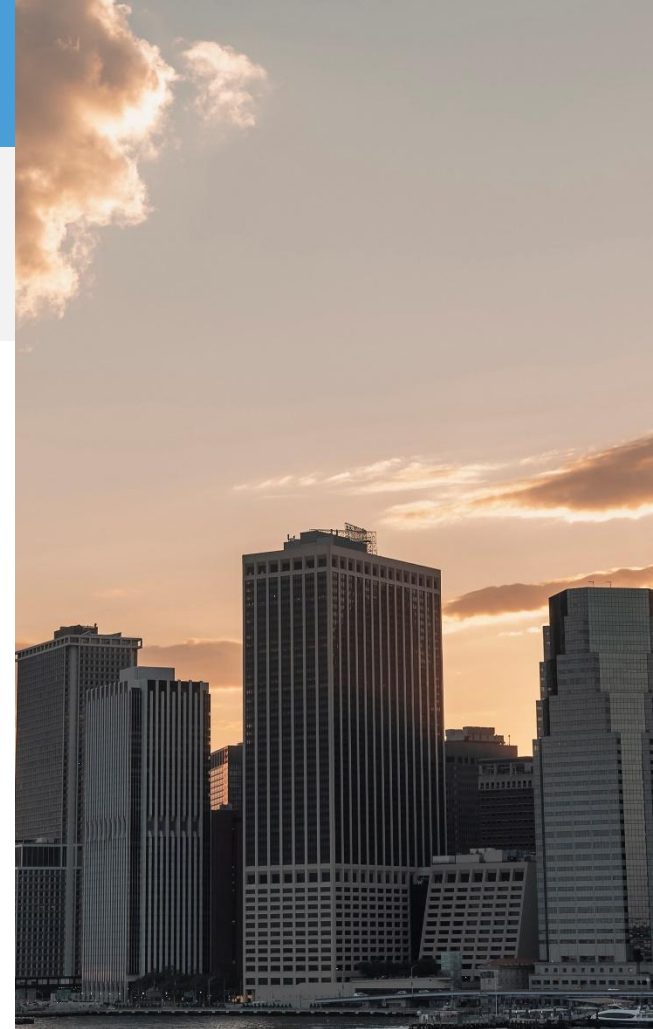
- 419-unit multifamily property in South Carolina
- Market value: \$30-33 million
- Arbor's senior loan: \$27.25 million balance
- Debt fund's mezzanine loan: \$4 million (underwater)
- Original owner: Unable to perform

The New Sponsor's Position:

- Under contract to purchase: \$33.1 million
- Bank financing secured: \$23.2 million
- GP capital committed: \$2.9 million
- Additional capital needed: \$6.8 million LP equity

The Arbitrage Opportunity:

Purchase Arbor's distressed note at a discount, foreclose to wipe out junior debt, then provide high-yield financing to the new sponsor—creating value through financial engineering rather than traditional rescue loans or preferred equity investments with equity participation.



Westwood Estates: The Arbitrage Strategy

Converting distressed debt into high-yield financing

Our Transaction Structure:

- Purchase Arbor's note at \$24.24 million (11% discount from \$27.25 million)
- Execute forward purchase contract with sponsor at \$33.1 million
- Sponsor deposits \$2.9 million GP capital into escrow to guarantee performance
- Credit bid at foreclosure to take title
- Wipe out debt fund's \$4 million mezzanine loan
- Provide \$10.73 million acquisition financing at 18%

Value Creation Sources:

\$3.01 million

Arbor discount captured

\$4.00 million

Debt fund position eliminated

\$7.01 million

Total arbitrage value



Challenge:

When we become the seller through foreclosure, the sponsor loses their expected \$2 million seller credit from the original owner, increasing their required financing from \$8.73 million to \$10.73 million and reducing their projected returns by 31%.



The Result:

Created a \$10.73 million high-yield financing position with only \$5.52 million net investment—a 48.6% discount achieved through distressed debt arbitrage. The sponsor's \$2.9 million escrow deposit demonstrated serious intent and the forward contract locked in our exit, but ultimately the sponsor couldn't raise the required LP capital to close.

Westwood Estates: The Financial Engineering

How distressed debt arbitrage created a 48.6% discount

Calculating Our Investment Basis:

\$10.73 million

Acquisition
financing created

(\$3.21 million)

Less: Arbor
discount captured

(\$4.00 million)

Less: Debt fund
position eliminated

\$2.00 million

Add: Lost seller
credit to cover

\$5.52 million

Net investment basis

Sizing the Acquisition Financing:

Purchase Price	\$33.10 million
Plus: Closing Costs:	\$1.70 million
Total Capital Needed	\$34.80 million
Less: Bank Senior Loan:	(\$23.17 million)
Less: Sponsor Cash	(\$2.90 million)
Financing Required:	\$10.73 million

The Arbitrage Returns

- ✓ Effective discount: 48.6% on financing position
- ✓ Interest rate: 18% (9% cash, 9% accrued)
- ✓ Projected IRR: 55.6% over 2 years
- ✓ Cash required: Only \$1.07 million (after bank loan proceeds)



Key Point:

This wasn't rescue financing—it was pure arbitrage, converting a distressed senior position into discounted high-yield financing.

Alternative to Foreclosure #1: Partnership Structure

Avoiding foreclosure through collaboration with distressed lender

Partnership Approach (True Rescue Structure):

Instead of foreclosing and wiping out the debt fund, we could partner with them—closer to traditional rescue financing:

- ✓ Debt fund contributes \$4 million at 0% interest (avoiding total loss)
- ✓ NetLeaseX provides \$6.73 million new capital
- ✓ Combined \$10.73 million acquisition financing at 18%
- ✓ All interest flows to NetLeaseX

The Math:

Total interest:	$\$10.73\text{M} \times 18\% = \1.93M annually
Debt fund's return:	\$0 (accepts 0% to preserve principal)
NetLeaseX return:	$\$1.93\text{M} \div \$6.73\text{M} = 28.6\%$

Arbitrage vs. Rescue Comparison:

- Foreclosure arbitrage: 48.6% discount, adversarial
- Partnership rescue: 28.6% return, collaborative
- Tradeoff: Higher returns vs. simpler execution



Alternative to Foreclosure #2: Inverted Wrap

Flipping payment priorities through intercreditor agreements

The Inverted Wrap Structure: Rather than foreclosing, we could wrap new money around the existing mezzanine loan with reversed priorities—another form of arbitrage:

- ✓ Family office provides \$6.73 million new capital
- ✓ Wraps around debt fund's existing \$4 million mezz loan
- ✓ Intercreditor agreement flips payment priorities
- ✓ Last money in gets paid first

Payment Priority Arbitrage:

- 1 First \$6.73M + 18% interest → Family office
- 2 Next \$4M → Debt fund (principal only, 0% interest)
- 3 Excess proceeds → 80/20 split

The Value Creation: New money typically takes junior position to existing debt. Through the inverted wrap structure, we flip this—our new capital gets paid first despite being last in. This priority reversal allows us to capture senior-level security with mezzanine-level returns.

Result: 28.6% return with senior position, avoiding the complexity and time of foreclosure.

Alternative to Foreclosure #3: Debt-for-Equity Arbitrage

Converting distressed debt into structured equity

Debt-to-Equity Conversion: Transform the debt fund's distressed position into subordinated equity—arbitraging the difference between debt and equity values:

- ✓ Debt fund converts \$4 million debt to Class B Preferred (0% current)
- ✓ Family office invests \$6.73 million as Class A Preferred
- ✓ Combined entity provides \$10.73 million acquisition financing
- ✓ Class A captures all current returns

Value Recovery Scale for Class B:

- ✓ **Exit at <\$50M:** 80¢ per dollar (\$3.2M)
- ✓ **Exit at \$50-55M:** 100¢ per dollar (\$4.0M)
- ✓ **Exit at >\$55M:** 110¢ per dollar (\$4.4M)
- ✓ **Plus:** 20% of excess proceeds above \$55M

The Arbitrage Opportunity: Converting distressed debt to equity at par while capturing all current yield creates immediate value—28.6% returns through structure rather than foreclosure.

Westwood Estates: Lessons in Distressed Debt Arbitrage

Why even perfect arbitrage requires executable counterparties

The Fatal Flaw: Despite creating multiple arbitrage opportunities with returns from 28.6% to 55.6%, the deal died because **the sponsor couldn't raise their \$2.9 million GP capital.**

Arbitrage Strategies Developed:

- ✓ **Foreclosure arbitrage:** 48.6% discount via note purchase
- ✓ **Partnership arbitrage:** 28.6% return via 0% subordination
- ✓ **Priority arbitrage:** Senior position despite being last money
- ✓ **Debt/equity arbitrage:** Converting distress into structured returns

Key Lessons for Distressed Debt Arbitrage:

- ✓ **Arbitrage requires execution** - The best spread is worthless without closing
- ✓ **Multiple paths create value** - Foreclosure, partnership, and hybrid structures
- ✓ **Verify counterparty capacity** - Sponsor capability as important as structure
- ✓ **Distress ≠ rescue** - Sometimes arbitrage is better than rehabilitation

Bottom Line: We identified \$7.21 million in arbitrage value through distressed debt acquisition and structured multiple ways to capture it, but arbitrage opportunities require capable counterparties to execute.

The Last Money In, First Money Out Advantage

Capturing upside while securing payment priority over sponsors

✓ Creating Value from Aligned Interests

Every stakeholder faces suboptimal outcomes, creating unique concession opportunities:

- **Existing Lenders:** Accept reduced rates or subordinated priorities
- **Sponsors:** Provide enhanced guarantees and additional collateral
- **Senior Lenders:** May bifurcate into A/B notes, allowing rescue capital to take priority over B-note position
- **Property Sellers:** Provide subordinated seller financing to enable transactions

✓ The Optimal Investment Profile

By combining these elements, family offices achieve:

- Equity-like returns (20-30+% IRR)
- Debt-like protections (senior position, guarantees)
- Multiple profit centers beyond stated interest
- Control provisions typically reserved for senior debt
- Protected by sponsor subordination, guarantees, and collateral



In providing rescue financing, family office investors with real estate experience and expertise can generate outsized returns with mitigated risks by 'carving out' a fixed income investment in practically any distressed property with motivated stakeholders.

["NetLeaseX Capital Offers Family Offices Direct Access to Rescue Financing Investments in Real Estate"](#),
Ron Zimmerman, *Famcap.com*, October 13, 2023



The Cost of Capital Arbitrage



Why Family Offices Can Unlock Rescue Financing Opportunities Senior Lenders Can't

Cost of Capital Comparison

Family Office Capital

3-5%

Patient capital from liquid assets or low-cost leverage

Bank Capital

6-8%

Regulated capital with deposit funding costs

Debt Fund Capital

8-12%

LP return requirements plus fund expenses

The Arbitrage Opportunity

Rescue Loan Pricing

14-20%+

900-1,500 basis point spread over family office cost of capital

Family offices provide rescue capital at 3% senior to existing lenders – who agree to subordinate to this low-cost financing rather than deploy additional capital themselves – while family offices capture their remaining returns through subordinated positions behind the lender's lien.



Senior Lender Win

Loan gets rescued without deploying expensive capital or taking write-down



Family Office Win

14-20% returns with senior-like protections and sponsor guarantees



Sponsor Win

Avoids foreclosure and maintains ownership with path to recovery

Negotiating Senior Lender Recognition of Family Office Partners' Class A Preferred



As part of any rescue financing, Family Office Partners will likely enter into a Recognition Agreement with the Sponsor's senior lender.

Similar to intercreditor agreements between senior lenders and mezzanine lenders, this agreement establishes the preferred equity investor's rights:

- ✓ Right to force a sale of the underlying property at a price and upon terms acceptable to Family Office Partners
- ✓ Right to remove the sponsor and assume control of the property-owning LLC
- ✓ Right to receive notices of default from the senior lender and have an opportunity to cure defaults under the senior loan
- ✓ Right to terminate sponsor-affiliated agreements and replace property management with third parties acceptable to Family Office Partners
- ✓ Right to foreclose on a lien in favor of Family Office Partners to take over ownership of the Sponsor's interest in the LLC that owns the project

Making Stretch Loans to Earn Equity Returns While Mitigating Downside Risk



As highlighted in my article on FamCap.com, stretch loans offer Family Office Partners a powerful tool to deploy more capital per transaction and earn higher returns compared to traditional real estate investments with similar risk profiles.

Stretch loans are high-leverage loans that combine senior debt and preferred equity components, providing flexibility and enhanced returns for Family Office Partners.

✓ **Senior stretch loans are secured by first on real estate projects owned by sponsors**

Family Office Partners can earn 14-16% return or higher at loan-to-cost ratios of up to 93%

✓ **Junior stretch loans are secured by second mortgages or UCC-1 filings on sponsors' LLC membership interests**

Family Office Partners can earn 25% or higher return at a combined loan-to-cost ratio of up to 93%



[“The Power of Stretch Loans for Family Office Investors”](#)
[Famcap.com](#)
May 2024

When to Consider a Stretch Loan

Family Office Partners should consider stretch loans when Sponsors face high capital costs from non-bank lenders:

- ✓ Acquiring transitional properties with insufficient rental revenues to cover required debt coverage ratios
- ✓ Sponsors unable or unwilling to sign recourse on conventional bank loans
- ✓ Funding project completion midway through construction

Stretch loans can also serve as rescue financing (see pages 32-59), providing sponsors with capital to overcome challenges and maximize property value.

In today's market, Sponsors and their limited partners face unexpected challenges that put their investments at risk:

- ✓ Market downturns
- ✓ Increases in interest rates or construction costs
- ✓ Project delays or unforeseen expenses

In these situations, stretch loans offer the flexibility, speed, and aligned interests needed to navigate challenges successfully.

Investor Profile for Stretch Loans

While stretch loans may have loan-to-cost ratios up to 93%, the loan-to-value ratio after rehab or renovation is typically less than 75%.

This attractive risk-reward profile appeals to Family Office Partners seeking higher returns with mitigated downside risk.

Family Office Partners extend stretch loans for several key reasons:

- ✓ Desire to deploy larger amounts of capital per transaction compared to traditional equity investments
- ✓ Earning higher returns than conventional senior loans while maintaining a higher position in the capital stack
- ✓ Leveraging sophisticated real estate experience to partner with qualified Sponsors who manage operations and oversee redevelopment or repositioning
- ✓ Securing predictable returns for Family Office Partners through structured financing terms that reduce reliance on Sponsor performance versus proforma projections
- ✓ Maximizing control through senior positions and structured terms
- ✓ Participating in upside from Sponsor's successful execution



Family Office Partners seek to be paid on a gross rather than net basis, avoiding the impact of:

Extraneous Sponsor fees such as development, asset management, acquisition, and construction management fees, and

Sponsor's promoted interest, which would reduce Family Office Partners' returns

Family Office Partners Benefit from Granting Stretch Loans

A stretch loan works like bridge equity in today's capital markets where Sponsors have been unable to raise relatively low-cost bank financing.



Invest higher in the capital stack for:

- Transitional properties requiring CapEx, renovation costs, and/or fund unit turns without sufficient in-place rental revenues to cover debt service
- Development projects with significant Sponsor investment in time obtaining entitlements and have invested significant funds to pay for predevelopment expenses

Taking a longer-term view than restrictive debt funds requiring minimum distributions to limited partners



For predevelopment project financing, Family Office Partners can:

- Earn interest on the stretch loan instead of paying out predevelopment fees and costs like Sponsors
- Shift predevelopment risk to Sponsors, including the period before lease signing or marketing the project for sale

Mitigating investment risk through Sponsor's capital contribution

Family Office Partners Benefit from Granting Stretch Loans (continued)

Increasing returns when making a stretch loan

Family Office Partners can earn 14-16% or higher fixed income returns with first lien positions on stretch loans at loan-to-cost ratios up to 93%, typically resulting in loan-to-value rates less than 75% after renovation or rehab

- ✓ Increase returns through internal leverage by selling a senior position in the stretch loan or hypothecating the stretch loan for additional borrowing
- ✓ Interest earned on stretch loans can be excluded from calculating Sponsor's capital contribution

Structuring Stretch Loans to Mitigate Risk

Stretch loans can be structured to mitigate Family Office Partners' downside risk:

- ✓ **Require Sponsors to pledge additional collateral, such as:**
 - Mortgages or deeds of trust on Sponsor's personal residence, other real estate and/or other Sponsor-owned assets
 - UCC-1 financing statements on:
 - ✓ All personal property, entitlements, permits, contracts, and architectural and engineering plans owned by the development LLCs, and
 - ✓ Sponsor's membership interest in the development LLC
- ✓ **Insist on full recourse to Sponsors**
- ✓ **Require Sponsors to fund interest reserves out of pocket, not from stretch loan proceeds**

Sponsor Benefits in Obtaining a Stretch Loan



Why Sponsors Choose Stretch Loans Over Traditional Financing

High leverage without equity dilution

Stretch loans allow Sponsors to obtain high-leverage financing without diluting their equity stakes, enabling them to maintain larger upside potential while minimizing initial capital contribution.

Lower pay rate than alternative debt sources

To help Sponsors reduce carrying costs during the predevelopment or transitional phase, Family Office Partners can reduce the “pay rate” on their stretch loans to 4% to 6% per annum, with the unpaid interest accruing and payable when the Sponsors pay back the stretch loan.

Faster closing with greater certainty than preferred equity

Stretch loans can be executed more quickly than traditional preferred equity investments, providing Sponsors with faster access to capital and greater certainty of closing.

Interest paid on a stretch loan is tax deductible

Unlike preferred equity investments, the interest paid on a stretch loan is tax-deductible for the Sponsor, providing an additional financial benefit.

Stretch Loans as a Rescue Financing Solution

Increasing Returns when making a Stretch Loan

In today's market, unexpected challenges can put Sponsors' investments at risk. Market downturns, interest rate increases, construction cost overruns, delays, or unforeseen expenses create pressing needs for additional capital to:

- ✓ Cover increased interest expenses due to rising market rates
- ✓ Fund operating deficits
- ✓ Pay down a portion of senior loans
- ✓ Gain leverage for favorable loan workouts to reduce rates, extend maturities, or release/reduce guarantees
- ✓ Fund interest reserves, CapEx, renovations, tenant buildouts, or leasing commissions



Stretch loans provide Sponsors with the lifeline needed to navigate challenges and maximize property value.

As rescue loans, stretch loans are typically structured as second mortgages or mezzanine loans, with Family Office Partners obtaining concessions from senior lenders to allow the rescue financing.

Comparing the Capital Stack Structures:

Conventional Preferred Equity and Senior Debt vs. Stretch Loan

The illustrations below demonstrate that Sponsors are projected to achieve a 45% IRR in both capital stack structures.

Family Office Partners' 15.3% return on the stretch loan equals the weighted average return on:

11.3%

The interest rate on the senior loan portion, and

25%

The 25% IRR on the embedded Class A preferred.

Senior Loan and Conventional	% of Capital Stack	% IRR/ Interest Rate	Stretch Loan	% of Capital Stack	% IRR/ Interest Rate
Sponsor (Class B Preferred)	7%	45%	Sponsor's Equity	7%	45%
Family Office (Class A Preferred)	28%	25%			
Senior Loan	65%	11.3%	Stretch Loan	93%	15.3%



If the Sponsor underperforms and fails to meet projected returns, the stretch loan structure ensures Family Office Partners still earn the same 25% IRR on the embedded Class A preferred, ultimately shifting the underperformance risk to the Sponsor.

Structuring Family Office Partners' Return



Set Accrued Interest to Provide Family Office Partners' with a Projected 50% of Project Profits

- ✓ The interest pay rate is set based on the property's affordability or Family Office Partners' demands. The accrued interest is calculated so the combined pay and accrued interest approximates what the Sponsor would pay if borrowing from a traditional lender and accepting Family Office Partners' preferred equity.
- ✓ Family Office Partners can "lock in" their projected returns, regardless of the Sponsor's ability to meet proforma projections.

Purchase 50% of Common Interest in the Ownership LLC for a Nominal Amount

- ✓ As discussed in my article, "Strategize with Preferred Equity", published in the Scotsman Guide, Family Office Partners and Sponsor could agree to capitalize the common membership interest in the ownership LLC at a nominal amount, such as \$100.
- ✓ As part of the arrangement, Family Office Partners could purchase 50% of the common interests in the LLC for just \$50, simultaneously with providing 80% of the required equity in exchange for a Class A preferred interest.
- ✓ This strategy allows Family Office Partners to gain a 50% ownership stake in the Sponsor's property for a minimal equity investment, while still providing the Sponsor with the necessary capital in the form of Class A preferred interest to move forward with their project.



Family Office Partners' profit participation can be structured as follows:

Making Debt-Free Preferred Equity Investments to Sponsors' Self-Directed Retirement Plans



Many real estate investors self-manage their retirement assets.

Self-directed IRAs enable investors to invest in real estate.

The problem, however, is that the retirement account's profits from properties that have debt financing are taxable.

For example, if an investor borrows 80% of a property's purchase price, 80% of any profit is taxable in the retirement account. This tax is called Unrelated Debt-Financed Income ("UDFI") tax.

Benefits of Leveraging with Preferred Equity instead of Debt

- ✓ Family Office Partners can provide debt-free financing to Sponsors seeking to maximize their after-tax profit.
- ✓ Since the Sponsor purchased the property without debt financing, 100% of the Sponsor's profit will be tax-free and not subject to UDFI.
- ✓ On highly profitable transactions, Sponsors can justify sharing returns with Family Office Partners since the Sponsor's tax savings exceed Family Office Partners' marginal increase in profit. This enables Family Office Partners to make debt-free preferred equity investments earning higher returns than first mortgage loans at the same risk profile.

Why Work with NetLeaseX?



NetLeaseX works as a gatekeeper and won't waste your time, especially if NetLeaseX knows your detailed investment criteria.

Before we contact Family Office Partners regarding any prospective investment, NetLeaseX has already analyzed and screened out unattractive sponsor proposals and performed many of the important tasks that are essential to considering proposed sponsor financings. These include:

- Working with Sponsors to better understand their financing objectives
- Working with the Sponsors to put together a proforma
- Calculating the capital raise based on a detailed Sources and Uses of Funds that NetLeaseX prepares with input from the Sponsor
- Collecting and reviewing due diligence and working with the Sponsor to obtain any additional due diligence not initially provided
- Negotiating with and obtaining a “meeting of the minds” of the terms of NetLeaseX’s proposed financing
- Drafting a detailed term sheet
- Drafting an Agreement with the Sponsor (if the Sponsor signs NetLeaseX’s term sheet)
- Collecting, reviewing, indexing and posting all due diligence, including third-party reports, to NetLeaseX’s web portal (as well as any additional documents requested by Family Office Partners)
- After closing, depositing into escrow with a title company designated by Family Office Partners any unused proceeds from Family Office Partners’ preferred equity investment
- Submitting requests to the escrow agent, as directed by Family Office Partners, to release funds to pay for authorized fees, costs, and expenses as listed on the Sources and Uses of Funds

Benefits to Sponsors of Raising Investment Capital from Family Office Partners

Non-institutional sponsors benefit by working with Family Office Partners as follows:

- ✓ By raising investment capital and developing a track record with Family Office Partners, Sponsors enhance their ability to raise additional capital on subsequent transactions with Family Office Partners and/or other investors, potentially with more attractive terms for them.
- ✓ Sponsors can view Family Office Partners as experienced strategic investors that may provide ongoing advice to Sponsors and make introductions that help the Sponsors in future transactions.
- ✓ Sponsors have opportunities to develop relationships with “below the radar” high net worth investors, family offices, equity funds and other equity investors that the Sponsors would not have been able to reach on their own.
- ✓ Sponsors will be tested by Sam Zell’s “rope theory” (as shown below).
 - If the Sponsor performs (e.g., Zell’s lasso), then, on subsequent capital raises, the Sponsor will be able to use his portion of project profits and track record to attract capital on more attractive terms.
 - If the Sponsor fails to perform (e.g., in Zell parlance, makes a noose and hangs himself), the Sponsor will face a dilutive financial restructuring, incur heavy financial penalties, forced to sell the project at a below market price, and/or lose his project to Family Office Partners.



As Sam Zell famously said about giving Sponsors autonomy:

I believe very strongly in the rope theory, which is that you find the best guy you can, and you give him the rope, and either he makes it into a lasso or hangs himself. And you combine the rope theory with the (deleted)-in-the-wringer theory, and you end up with one plus one equals three.

Sam Zell quoted in “Zell’s Zealous ZigZag to the Top”, J. Linn Allen, Chicago Tribune, March 28, 1993



NetLeaseX's Project Types of Interest

Highest to Lowest Expected Returns



Purchasing and entitling land for sale to Sponsor or third party



Horizontal development of multifamily and housing projects



Ground-up development of multifamily and self-storage facilities



Help Sponsor monetize equity in Sponsor's or limited partners' interests in a stabilized, cash-flowing asset



Senior debt-free preferred equity financing to Sponsors seeking to avoid UBTI tax in self-directed retirement plan investments

Notes:

1. As discussed on page 23, NetLeaseX will work to lock-in the Family Office Partners' profit by negotiating "Minimum Target Price, fixed redemption fee, or fixed return multiple for the top three project types listed above and other compelling investment opportunities.

2. If NetLeaseX is working to help a Sponsor monetize equity in a cash-flowing property or raising funds for an institutional-quality sponsor, NetLeaseX will sign a fee agreement with the Sponsor and raise the funds at market rates.

Design Features of NetLeaseX's Proposed Structured Financings



NetLeaseX will negotiate and memorialize all or most of the provisions described below into Agreements with the Sponsors seeking financing from Family Office Partners.

If you have an interest in funding a particular transaction but would like to add additional provisions and/or restructure the preferred, you are free to do so. Upon receipt of your terms and conditions, NetLeaseX will present your proposal to the Sponsor for their review and consideration.

Selected Summary Operating Agreement Provisions.

Waterfall Priority Order. The preferred interests will be structured on a senior/subordinated or A/B structure where Family Office Partners will receive their returns and investment in full before the Sponsor receives theirs.

LLC Management. The LLC will have three managers, of which two will be appointed by the Sponsor and one will be appointed by Family Office Partners. All major decisions listed in the operating agreement will require unanimous consent of the managers.

No Capital Calls to Family Office Partners. If there is any capital shortfall, the Sponsor will be responsible to advancing such funds to cover it. If the Sponsor fails to cover any such capital shortfall, Family Office Partners will have the right to (a) replace the two managers appointed by the Sponsor and (b) purchase the Sponsor's interest in the LLC for \$10. Alternatively, Family Office Partners could require that the Sponsor agree to pledge its interest in the LLC to Family Office Partners. In the event the Sponsor fails to advance any capital shortfall to the LLC, Family Office Partners would be able to seize the Sponsor's interest in the LLC and take over or sell the project.

NetLeaseX negotiates the terms and conditions of the structured financing with the Sponsor to the benefit of Family Office Partners.

Design Features of NetLeaseX's Proposed Structured Financings (continued)



No Financial Disclosure or Recourse for Family Office Partners to the Senior Lender.

The Sponsor will be solely responsible for obtaining the senior loan without any financial assistance or support from Family Office Partners. If the senior lender is unwilling to proceed on this basis, the Sponsor will need to:

- Find another senior lender,
- Obtain a third-party loan guaranty, or
- Open discussions with Family Office Partners to discuss a mutually beneficial solution.

Sponsor's Investment Drawn Down First. 100% of the Sponsor's investment is drawn down first, before any funds are used from the proceeds of Family Office Partners' Class A preferred investment.

Specified Uses of Funds. Working in collaboration with the Sponsor, NetLeaseX will prepare a detailed Sources and Uses of Funds and attach it to the Term Sheet and the Agreement with the Sponsor. The Sponsor's use of Family Office Partners' Class A preferred investment funds will be limited to the uses listed on the Sources and Uses of Funds.

Escrow Net Proceeds from Family Office Partners' Class A Preferred. At closing, 100% of Family Office Partners' preferred equity investment that is not used at closing will be deposited into escrow at a nationally-recognized title company designated by Family Office Partners. After closing, the Sponsor will submit an email to NetLeaseX and Family Office Partners requesting that the escrow agent release funds to pay for authorized fees, costs and expenses as listed on the Sources and Uses of Funds.

Design Features of NetLeaseX's Proposed Structured Financings (continued)



Failure to Redeem Family Office Partners' Class A Preferred on or Before the Redemption Date. If the Sponsor fails to sell the property on or before the redemption date, the Sponsor would agree to:

- Make a priority distribution in the form of a “guaranteed payment” (as defined in Internal Revenue Code 707(c)) for an amount equal to 8% per quarter of Family Office Partners’ investment for a period of one year,
- If the Sponsor fails to sell the property within one year after the redemption date of Family Office Partners’ Class A preferred investment, the Sponsor will list the property with a nationally-recognized real estate brokerage firm. If the property fails to sell at the listed price, the Sponsor will reduce the price by 5% every 45 days until the property sells. After any such reductions, if the listing price is lowered to a price where the Sponsor would not receive any distributions, the Sponsor will agree to transfer and assign its interest in the LLC to Family Office Partners, the two managers appointed by the Sponsor would resign and Family Office Partners will take control of the LLC and its property.

Restructure Preferred Equity as a Pari Passu Loan Participation with Senior Lender or Mezzanine Loan. In a rescue financing situation, NetLeaseX will include a provision in the term sheet and the Agreement with the Sponsor under which Family Office Partners can restructure the proposed transaction by negotiating with the Sponsor’s senior lender that as a precondition to provide new capital, Family Office Partners’ funding will need to be higher in the capital stack as a way to mitigate risk (see pages 32 to 44 and 59 for an expanded explanation).

NetLeaseX's Interest in Partnering with Experienced and Sophisticated Real Estate Investors



NetLeaseX is open to and encourages Family Office Partners to offer alternative financing structures and strategies or to suggest additional terms and conditions in NetLeaseX's proposed financings. This is especially true when providing rescue financing as part of a loan workout and dealing with obstinate CBMS lenders and their special servicers.



NetLeaseX welcomes Family Office Partners and their counsel to take the lead in negotiating with the Sponsor, the Sponsor's counsel, and, in the case of a loan workout, with the Sponsor's lender, special servicer, and/or their counsel.

Family Office Partners Portal

If you would like to see available NetLeaseX preferred, co-GP or other types of structured investments to review, you can click on the Family Office Partners Portal button at the top of NetLeaseX's website.

After you do so, you will be asked to fill out a detailed intake form asking you about investment criteria, including, for example the following:

- ✓ Which of the following types of investment you're interested in
 - Preferred equity investment
 - Co-GP investment
 - Mezzanine loan
 - Rescue financing
 - Senior debt-free preferred equity investment to sponsors' self-directed retirement plans
 - Taking over projects from Sponsors
- ✓ Minimum and maximum investment amount
- ✓ Minimum IRR
- ✓ Property type(s)
- ✓ Property location(s)

If you are interested in learning more about a particular investment, you can send an email through the Family Office Partners portal to NetLeaseX or call us at 513-621-1031. We'll discuss the investment further, you can request additional due diligence, and NetLeaseX can arrange a conference call for you to speak with the Sponsor directly.



You will also be asked whether or not you'd like to be notified of all newly posted investments or just those which match your investment criteria.



After you complete your intake form, you will be able to see all investments posted to NetLeaseX's website, including:

- ✓ NetLeaseX investment memorandum
- ✓ Proforma
- ✓ Detailed sources and uses of funds
- ✓ All due diligence

Key Takeaways

- ✓ Preferred equity is higher in the capital stack than common equity and therefore a less risky investment
- ✓ By receiving an equity kicker, projected returns on NetLeaseX's preferred equity investments can be similar to profitable common equity investments but with less risk

Benefits to working with NetLeaseX:



NetLeaseX Minimum Target Price, Look-Back yield, fixed redemption fee, or fixed return multiple lock in Family Office Partners' minimum rate of return



No obligation; free look to review prescreened, structured investments



Ability to customize NetLeaseX's agreements and restructure investments to your specifications



Direct access to sponsors and co-investment alongside NetLeaseX with aligned interests

Joint Venture Partnership Framework



Professional Partnership Framework

The JV LLC structure provides Family Office Partners with a direct co-investment platform, delivering:

✓ Partnership Structure

- Joint Venture Agreement governs the relationship between Family Office Partners and NetLeaseX
- Active participation rights in all investment decisions
- Direct ownership in the JV LLC, not passive investment
- Clear documentation of all rights, responsibilities, and profit sharing
- Co-investment alignment with NetLeaseX investing alongside Family Office Partners

✓ Sponsor Relationship

- Sponsors independently determine their capital raising structure
- JV LLC participates as co-investor, not as securities issuer
- Market-standard origination fees (2-5%) charged to sponsors
- Clear separation between JV partnership and any sponsor securities offerings

Joint Venture Economics and Origination Fees



The JV LLC generates revenue and NetLeaseX receives compensation through:

- ✓ NetLeaseX co-invests alongside Family Office Partners and receives promoted or carried interest, aligning interests between NetLeaseX and Family Office Partners
- ✓ NetLeaseX will invest its own capital pari passu with Family Office Partners' investment, with the amount and terms to be negotiated between NetLeaseX and Family Office Partners on each transaction.
- ✓ The JV LLC charges sponsors a 2-5% origination fee at closing, from which NetLeaseX receives compensation for services provided
- ✓ NetLeaseX may receive a yield spread premium on Family Office Partners' investment
- ✓ NetLeaseX may receive a promote (typically 10-20%) after Family Office Partners achieve their minimum negotiated IRR
- ✓ If NetLeaseX is raising co-GP capital for a Sponsor, NetLeaseX may invest in the co-GP capital investment.

Joint Venture Economics and Origination Fees (continued)

An abstract background image consisting of a blue grid pattern that curves and warps, creating a sense of depth and movement against a bright blue sky with a sun flare.

The specific compensation structure is negotiated and clearly documented for each transaction.

Important Note: The JV LLC participates in direct real estate transactions as a co-investor. Sponsors independently determine whether their capital raising activities require securities compliance. The origination fees charged by the JV LLC are real estate transaction fees, not securities-related compensation. Family Office Partners participate through joint venture agreements, not securities purchases.



Ron Zimmerman

Ron Zimmerman is president of NetLeaseX Capital LLC, an investment banking firm specializing in raising investment capital for real estate investors and developers. Mr. Zimmerman is also a real estate broker.

- ✓ More than 39 years of industry experience in real estate investment, distressed debt, capital raising, and real estate brokerage. Significant expertise in structuring real estate financial transactions, investment analysis, real estate finance, and the restructuring and workout of commercial and consumer loans.
- ✓ Extensive experience in tiered financing of acquisitions, financial restructurings, and leveraged recapitalizations. He has worked as a consultant to real estate investors and developers on a national basis and acted as a strategic advisor for clients in complex IRC Section 1031 tax-deferred exchange transactions, net lease financing, and sale/leasebacks.
- ✓ Published author of several articles for industry publications and websites:
 - Scotsman Guide** (3 articles) - a leading publication for commercial real estate lenders and loan brokers:
 - “Strategizing with Preferred Equity” (December 2018)
 - “Throw Out A Lifeline” (July 2020)
 - “Ride To The Rescue” (August 2020)
 - Famcap.com** (2 articles) - a leading website for high net worth and family office investors:
 - “NetLeaseX Capital Offers Family Offices Direct Access to Rescue Financing Investments in Real Estate” (October 2023)
 - “The Power of Stretch Loans for Family Office Investors” (May 2024)

Article reprints available at www.NetLeaseX.com/articles

Let's Talk



To discuss investment opportunities or learn how NetLeaseX can structure a solution for your specific needs, please contact Ron Zimmerman:

NetLeaseX Capital LLC



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