

Real Estate Private Equity Funds

Evolution

- Advantages of Having Equity with Certainty
- Possibility of a 2-3% Discount in Purchase Price

Funds Today

- Started with the creation of Zell-Merrill Fund I in 1988
- Today there are approximately 1,000 professionals working in the business
- Funds are now raising between \$12 billion to \$18 billion annually

Who Are They?

- Investment Banks
 - Goldman Sachs (Whitehall), Morgan Stanley (MSREF), and Lehman Brothers
- Investment Houses
 - Angelo Gordon, Blackstone, Carlyle, and Apollo
- Dedicated Real Estate Players
 - Starwood, Lonestar, Lubert-Adler, and JE Robert

Return Waterfall: An Example

Bhavik Fund Waterfall with 80/20 after 9% Pref is Paid		
Option 1: Split above 9%		
Total Investment		\$ 100 MM
<i>Prushansky Pension</i>		\$ 90 MM
<i>Bhavik Fund</i>		\$ 10 MM
Total Profit		\$ 25 MM
Preferred Return on Cash: 9%	=100*.9	\$ 9 MM
<i>90/100 to Prushansky Pension</i>	=9*.9	\$ 8.10 MM
<i>10/100 to Bhavik Fund</i>	=9*.1	\$.90 MM
Cash Remaining for Split	=25-9	\$ 16 MM
<i>80% To Money (Prushansky and Bhavik)</i>	=16*.8	\$ 12.80 MM
90/100 to Prushansky Pension	=12.8*.9	\$ 11.52 MM
10/100 to Bhavik Fund	=12.8*.1	\$ 1.28 MM
<i>20% To Sponsor (Bhavik)</i>	=16*.2	\$ 3.20 MM
Total Money to Bhavik Fund		
Money from Pref Return		\$.90 MM
Money from 20% Split		\$ 3.20 MM
Money from Pro Rata 80% Split		\$ 1.28 MM
		\$ 5.38 MM
Total Money to Prushansky Pension		
Money from Pref Return		\$ 8.10 MM
Money from Pro Rata 80% Split		\$ 11.52 MM
		\$ 19.62 MM

Return Waterfall: An Example (cont'd)

Bhavik Fund Waterfall with 80/20 as Long as 9% Paid to Money		
Option 2: "The Money" is above 9%		
Total Investment		\$ 100 MM
<i>Prushansky Pension</i>		\$ 90 MM
<i>Bhavik Fund</i>		\$ 10 MM
Total Profit		\$ 25 MM
80% To Money (<i>Prushansky and Bhavik</i>)	=25*.8	\$ 20.00 MM
90/100 to Prushansky Pension	=20*.9	\$ 18.00 MM
10/100 to Bhavik Fund	=20*.1	\$ 2.00 MM
20% To Sponsor (<i>Bhavik</i>)	=25*.2	\$ 5.00 MM
Return to Money	=20/100	20%
Total Money to Bhavik Fund		
Money from 20% Split		\$ 5.00 MM
Money from Pro Rata 80% Split		\$ 2.00 MM
		\$ 7.00 MM
Total Money to Prushansky Pension		
Money from Pro Rata 80% Split		\$ 18.00 MM

Investor Return Summary

Investor Return Summary on \$10M Investment						
Total Realized	Total Profit	Investor Profit	Investor IRR	Investor Share	Sponsor Profit	Sponsor Share
\$8.0 MM	(\$2.0 MM)	(\$2.0 MM)	(5.4%)	100.0%	\$0.0 MM	0.0%
\$10.0 MM	\$0.0 MM	\$0.0 MM	0.0%	100.0%	\$0.0 MM	0.0%
\$12.0 MM	\$2.0 MM	\$2.0 MM	4.7%	100.0%	\$0.0 MM	0.0%
\$14.1 MM	\$4.1 MM	\$4.1 MM	9.0%	100.0%	\$0.0 MM	0.0%
\$16.0 MM	\$6.0 MM	\$5.1 MM	10.9%	85.0%	\$0.9 MM	15.0%
\$17.0 MM	\$7.0 MM	\$5.6 MM	11.8%	80.0%	\$1.4 MM	20.0%
\$18.0 MM	\$8.0 MM	\$6.4 MM	13.2%	80.0%	\$1.6 MM	20.0%
\$20.0 MM	\$10.0 MM	\$8.0 MM	15.8%	80.0%	\$2.0 MM	20.0%

Investor Return Summary (cont'd)

Summary					
Total Profit	Investor Profit	Investor IRR	Investor Share	Sponsor Profit	Sponsor Share
7 MM	5.6 MM	11.8%	80.0%	1.4 MM	20.0%

Total Cash Flows (in MM)				
Year 0	Year 1	Year 2	Year 3	Year 4
-10	0	0	0	17
IRR	14.2%			

Total Cash Flows For Investor (in MM)				
Year 0	Year 1	Year 2	Year 3	Year 4
-10	0	0	0	15.6
IRR	11.8%			

The Calculation	
Investor Profit (If IRR > 9% then (Total Profit - Sponsor Profit), but if IRR < 9% then equals total profit)	5.600 MM
Total Amount To Achieve Preferred Return of 9% (this can be determined using algebra or a spread sheet)	14.105 MM
Profits Left After Split (Total Revenue - Amount Paid for Preferred Return). Only applies of pref is covered, or else is 0.	2.895 MM
50/50 Catch Up (0.5*(Total Revenue - Amount Paid for Preferred Return). Only applies of pref is covered, or else is 0.	1.448 MM
Percent 50/50 Catch up is of total profits	21%
Max Percent Catch up can be of 50/50 split	20%
Sponsor Profit (if 50/50<20% then 50/50 Catch up figure or else (0.2*(Total Profits)). Minimum this can be is 0	1.400 MM

Investor Return Summary (cont'd)

