INVESTING IN COMMERCIAL REAL ESTATE

by Gary Thomas Saykaly

CAROFIN.COM
828.393.0088

carofin
MEANINGFUL INVESTMENTS
VITAL CAPITAL

Investing in commercial real estate through a private placement is well worth consideration for most high-net-worth individuals. Naturally, investors should first understand the commercial real estate asset class and all attendant considerations before diving in. This paper is designed to offer a comprenensive framework to assist curious investors in building a deeper understanding of, and readiness for, investment.

TABLE OF CONTENTS

WHY INVEST IN COMMERCIAL REAL ESTATE?

Whether or not you have dabbled in commercial real estate, this paper is meant to provide high-net-worth investors with an overview of the industry, roles various parties play, the range of investment options, and steps to consider before investing through a private placement.

For years, commercial real estate (CRE) has attracted many. Despite uncertainties surrounding factors like sponsor quality, property specifics, the investment's structure, or the macroeconomic landscape, the 2024 CRE market outlook remains promising for sectors like multifamily, retail, and industrial. Still, other sectors such as office space lag due to normalizing hybrid working arrangements.

So, why the enduring appeal of CRE investments? Not only is there a wide variety available, but investors are also drawn to potential tax benefits, current income, and growth prospects, whether they opt for passive investment through private placements or direct ownership of properties. The following outlines some reasons behind their lasting attraction.

HISTORICAL RETURNS: THE PROOF IS IN THE PUDDING

Over the last decade, investors have poured billions of dollars into CRE, including ~ $1.6 Bn between '21-'22, no doubt driven by its historical performance.

Source: MSCI Real Assets, CBRE Research, Q2 2023

Private commercial real estate properties held for investment purposes over the last 25 years have generated approximately 10.3% average annual returns versus the S&P 500's return over the same time period of 9.6%, according to Forbes.[1]

Notably, top performing property sectors, along with those providing greater opportunities for capital appreciation (such as value-add projects), have exceeded these returns. An example would be investments in below-market apartment complexes with below market rents having upcoming lease expirations affording the opportunity to raise rental income. Note that, because CRE uses leverage, total returns have ranged from 12-20%+, far exceeding the public market index.

Furthermore, according to John Chang, SVP and Director of Research Services at Marcus & Millichap, between 2000 and 2022, price volatility was significantly lower in CRE when compared to the S&P 500. Quarter-over-quarter changes in the S&P vs. CRE prices were 6.6% vs. 1.8% respectively, providing investors with relatively sedate values over time.

BENEFITS OF DIRECT CRE INVESTING: PERSONAL OPPORTUNITIES

Direct private investments offer potential advantages for high-net-worth individuals and family offices who are looking to diversify their portfolios:

- Potential for Attractive Risk-Adjusted Returns
- Current Income Generation
- Diversification with Low Correlation to Stocks & Bonds[2]
- Tangible Assets with Intrinsic Value
- Tax Benefits (based on the investment structure)
- Portfolio Hedging & Risk Management Considerations

"Buying real estate is not only the best way, the quickest way, the safest way, but the only way to become wealthy."

Marshall Field, entrepreneur

A mixed-use complex

These potential advantages make commercial real estate a logical choice within a basket of other investments. Investors should evaluate local and national trends affecting investment returns. We advise investors to conduct thorough due diligence to help ensure alignment with their risk profile and investment strategy.

The following framework sketches a simple but important picture of commercial real estate investing.

The Four Quadrants:
Standard Classifications for CRE Investing

CRE investing can be broken down into four distinct categories:

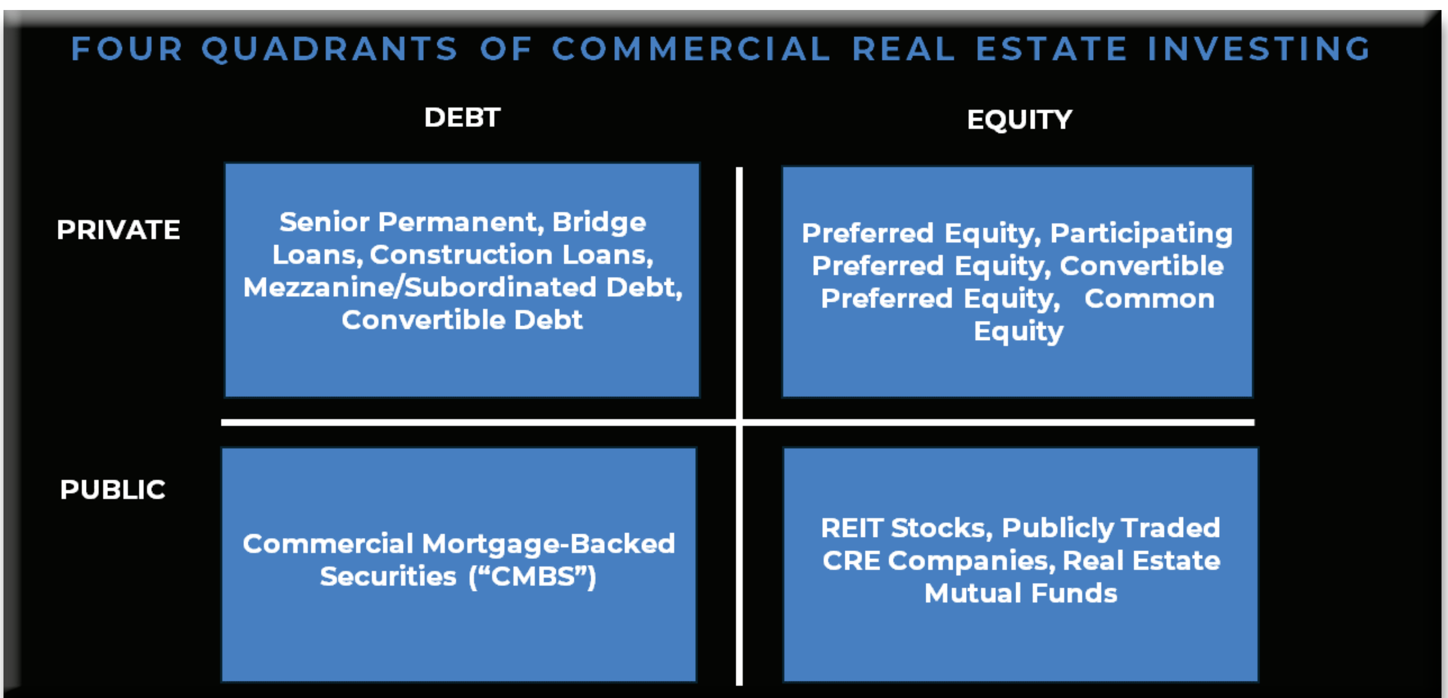
Debt vs. Equity:

Within both markets, investors can choose between debt and equity investments. Debt investments involve lending money to projects in exchange for regular interest payments and eventual repayment of the principal amount. Equity investments, on the other hand, entail ownership stakes in projects, allowing investors to share in the profits and losses of the venture.

Public vs. Private Markets:

Investors have two primary avenues for CRE investment: public markets and private markets. Public markets offer a wide array of choices, including public REITs and real estate operating companies, providing accessibility and cost-effectiveness. On the other hand, private markets offer more investors exclusive opportunities to invest in projects directly.

Carofin specializes in private debt and equity offerings, with a focus on delivering tailored investment solutions to meet the varying needs of investors.



The Basics: Sponsors, Financing Approaches, & Sectors

With this general introduction, let's shift our focus to how these opportunities come about. Who are sponsors? What roles do they play, and how do they finance their companies, projects, and funds?

SPONSOR ROLES AND VARIETIES

Multiple parties are involved in commercial real estate projects: the general partner, limited partners, contractors, lenders, and related service providers. Among these, the sponsor -- typically the GP -- holds the pivotal position. This individual or company is tasked with finding, acquiring, developing, and managing real estate properties on behalf of the investment partnership, typically structured as an LLC, LP, LLP, or LLLP.

Some developers, no doubt, will come to mind. Think of Cushman & Wake-field, whose predecessor company was founded in 1784 in Birmingham, En-gland and went on to develop Chicago's Sears Tower. Today it is known as one of the top four real estate services providers internationally.

There are three types of commercial real estate sponsors, each with different motivations, capitalization needs, and opportunities for investors.

CRE Operators/Developers

CRE operators and develop-ers either own or are building portfolios of income-producing multi-tenant properties. For instance, a shopping center developer with ten lifestyle centers nationwide, along with three new developments un-derway, requires capital to

Sponsor developing high-rise apartment complex expand its company, develop new projects, acquire or recapitalize properties, and refinance existing assets. Specializing in particular property types and geographic regions, operators and developers offer investment opportunities at various levels, including the operating company, portfolio, project, and fund.

Corporate Owner / Occupier

Private companies in this category own the buildings or spaces where their business operations take place, such as food & beverage producers and distributors using distribution warehouses. These corporate owners/occupiers need to grow their businesses, often owning multiple warehouses and requiring more capital to support their expansion plans.

Monetizing owned assets becomes crucial to financing further company growth. When investing in a property that is owner/occupied, a primary consideration is the creditworthiness of the issuing corporate owner.

Many owners/occupiers, such as a major food producer or distributor of packaged goods, may require capital both for existing and new single-tenant warehouses (and office headquarters) either on a project-by-project or portfolio basis. To do so, they may take multiple approaches for monetizing their owned real estate. One common strategy is a "sale-leaseback." In this arrangement, the owner continues using the property while monetizing, or recapturing, the capital investment and the increased value in the building derived from their long-term lease. Companies such as Sun Microsystems Inc., British Petroleum, and Dell Computer have used this strategy.

Warehouses with multiple truck bays

CRE Investment Funds

Commercial real estate investment funds employ specific investment strategies to seek above-average returns relative to the level of risk.

These funds leverage their expertise, access to opportunities, and executional capabilities to pursue strategies such as distressed asset/loan investments, redevelopment, value-add initiatives, or repositioning of properties.

These approaches can be tailored to specific property types, geographic regions, or opportunities. For instance, an investment fund may acquire off-market underutilized mixed-use projects in the Southeast, given its favorable demographics, hoping to enhance their value. The investment's duration varies depending on the fund's mandate, but many seek to exit once the property has stabilized, typically within 3-5 years, through a sale or refinancing.

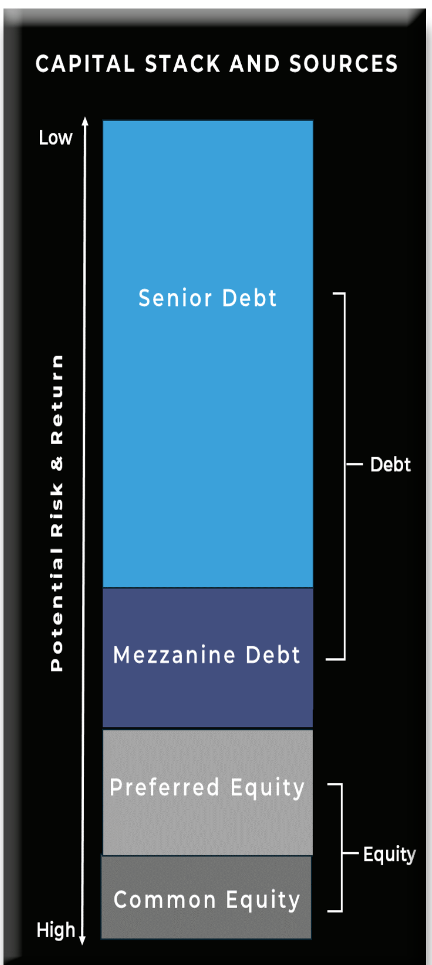
CRE investment funds commonly raise capital from accredited investors seeking higher returns, understanding the associated risks and the longer-term commitment required. A typical compensation structure for these funds is the "2 and 20" model, where the funds charge 2% annual management fees based on net asset value and receive 20% of the generated profits.

An investment in an office building by a CRE investment fund

FINANCING: THE CAPITAL STACK AND CAPITAL SOURCES

In the realm of commercial real estate investments, understanding the capital stack is key. Picture it as layers of capital necessary to fund and operate a CRE venture.

How do sponsors finance their activities? When developers embark on projects such as industrial parks or shopping centers, they typically seek financing from various sources. These may include institutions like banks, life insurance companies, pension funds, investment managers, sovereign wealth funds, as well as private investment groups and funds. Additionally, they may tap into family offices and high-net-worth individuals to secure different forms of capital.



Senior Debt: This forms the foundation of the capital stack. The primary objective here is to secure the bulk of funding from institutional lenders, given its lower cost of financing. However, the sponsors are rarely able to secure more than 60-70% of the required funds through senior debt. Terms like senior permanent loans, bridge loans, or construction loans often refer to this segment.

For existing projects, the senior loan is typically permanent, while for new projects, financing is used for property acquisition and enhancement, e.g., value-add, like an office building that will be leased up post-acquisition. See Investment Classifications below.

Mezzanine Financing: Moving down the stack, developers seek mezzanine financing, also known as “subordinated” or “junior” financing. This layer adds around 10% to the project’s capitalization. Mezzanine financing allows developers to reduce the equity needed to capitalize their project.

Equity Financing: Finally, despite diluting their ownership, sponsors must invariably offer investors some form of equity to complete their round of funding. Depending on their requirements, issuers may structure these investments in various forms, including preferred, participating preferred, convertible preferred, or common equity.

Experienced developers understand how to finance CRE projects, ensuring they strike the right balance between debt and equity to bring their ventures to fruition.

COMMERCIAL REAL ESTATE SECTORS

Most issuers aim to grow their companies, whether through expansion or through property acquisition and development. They may raise capital at different levels: the CRE operating company, portfolio, project, or fund level. Regardless of the issuer's composition, most focus on specific property sectors and/or geographic regions within the U.S. Primary property sectors include:

- Mixed-use developments
- Multifamily residential properties
- Office buildings
- Medical office buildings
- Industrial warehouses
- Hotel projects
- Student and senior housing
- Self-storage
- Shopping centers

A 5-Star hotel's lobby bar

Cold storage and data centers are two subcategories currently in high demand, offering good investment opportunities due to favorable supply and demand factors. Of course, different sectors come in and out of favor, and you should pay close attention to the market's supply and demand trends.

For instance, investments in office spaces were favorable before the onset of the COVID-19 pandemic. However, three years later, there's an oversupply of office spaces, particularly in secondary markets, and this has left office investors grappling with their decisions. So, both macro trends and local factors play important roles in sector selection.

Investor Insights

To help you develop your investment plan and broaden your exposure to commercial real estate, the following examines risk/return scenarios, investment classifications, and private placement investing.

ASSESSING RISK / RETURN

High-net-worth investors have plenty of investment choices and security structures to select, each tailored to specific investment objectives and varying levels of risk. These run the gamut from conservative choices with modest returns to ventures offering potentially higher rewards but with increased risk.

Security Structure / Capital Stack

The Capital Stack

Picture the capital stack as a tiered cake, with each layer representing a different type of investment. At the top, we have senior debt – the cornerstone for those seeking steady income. This form of financing, like a first-position mortgage, is commonly used for property acquisitions or refinancing. It is secured against the property, providing investors with priority in case of liquidation, and it carries the least risk within the capital stack framework.

Moving down the stack, mezzanine financing typically offers higher interest rates and current income. However, being subordinated, it offers a higher risk profile. Mezzanine loans commonly yield mid- to upper-teens rates, but investors typically don't participate in dividends or capital appreciation, receiving a lump sum (balloon) payment at maturity instead.

Finally, we reach preferred and common equity – functioning just as they do in other industries. These investments represent ownership stakes in the funded entity, with common equity generally bearing the highest risk and potential return. Preferred equity ensures investors' rights are met before common equity holders in liquidation, often featuring a preferred return – receiving profits or distributions before common equity holders.

Understanding where a security lies within the capital stack is crucial for aligning it with your investment profile. It's like knowing the ingredients of each level of a layer cake – each serving a different purpose and offering singular "flavors" of risk and return.

Investment Classifications

Now, how are commercial real estate investments classified? Just like the structure of a building that tells you about its stability, understanding the investment classifications in CRE gives you additional insights into the risks and rewards involved.

Core: The Low Risk / High Quality Opportunities

Core investments are like the sturdy foundation of a building – low-risk, with stable income streams. These properties are usually top-notch, situated in prime locations in major, or primary, markets, and are leased to reliable, creditworthy tenants for long periods. Think of a bustling shopping center like Fashion Island in Newport Beach, CA, anchored by big-name stores such as Nordstrom. If you're all about steady cash flow, this category is your go-to.

Core+: One Notch Riskier / Relatively High-Quality Opportunities

Core+ investments share similarities with core properties, offering stable cash flows, but they also have the potential for modest value enhancement. In exchange for minor improvements or strategies to address higher vacancy rates, for instance, sponsors may be able to increase their value. Accredited investors and family offices often find these appealing, although they carry a tad more risk than core properties.

Value-Add: Improvements = More Risk / Income and Capital Appreciation

> *"Every person who invests in well-selected real estate in a growing section of a prosperous community adopts the surest and safest method of becoming independent, for real estate is the basis of wealth."*
>
> *Theodore Roosevelt*
> *26th US President (1858-1919)*

Value-add investments are like renovating an old shopping mall – riskier but with the potential for higher returns. Here's the deal: you acquire properties with untapped potential and boost their value through thoughtful upgrades, lease up and renovations, or operational enhancements. While they offer the chance for bigger profits, they're more speculative than core projects. It's like playing in the big leagues – recommended only for seasoned investors who know the game well. Investors should trust the expertise of experienced sponsors before diving in.

Distressed: Significant Risk / Potentially High Returns

Now, let's talk about distressed properties – high-risk, high-reward. These are like fixing up a run-down housing development with the hopes of selling it for a hefty profit. The sponsor acquires properties that are facing financial trouble, foreclosure, or operational issues at below-market prices, aiming to turn them around for a tidy sum. These investments are not for first timers; you're betting on the potential of big gains, but they come with uncertain cash flows. Only experienced investors with a high tolerance for risk should venture here, and, even then, it's wise to work with seasoned sponsors who know the ropes.

Opportunistic: High-Risk, High-Reward Opportunities

Opportunistic investments are like embarking on an ambitious construction project – the highest risk, but they pose the highest reward. These ventures involve significant development, redevelopment, or ground-up construction projects, often in emerging markets or niche sectors – like buying a vacant office building, demolishing it, and developing a lifestyle center. Cash flows invariably are negative during development phases, but they offer the potential for substantial returns. This is the playground for seasoned investors seeking maximum profits, but it's not for the faint-hearted. If you're moving forward in this direction, make sure you're partnering with sponsors who have a proven track record in these high-stakes endeavors.

When reviewing an opportunity, investors should weigh the probability that they will achieve a "return on and of" their invested capital and that the expected return is commensurate with the risk, i.e., the risk premium. This is referred to as the risk-adjusted return.

Return On and Return Of Investment

How does your investment in commercial real estate bear fruit? There are two ways that it can pay you back.

Return on Investment (ROI) in CRE means getting quarterly payouts from leases, potential future growth in revenue, and seeing the property's value go up during your investment period. The mix of these factors varies based on the type of investment. core and core+ focus more on generating income, while opportunistic and distressed aim for capital gains. Value-add investments strike a balance between current income and value appreciation.

Return On Investment

This part is all about the cash flow. Imagine you own a property, and, each month, you're pocketing net cash flow which considers rental and miscellaneous income. It's essential to check the quality and sustainability of this income. Long-term leases with reliable tenants mean steady income. But, sometimes, market rates can outpace what you're earning, especially with so-called "flat" leases that do not increase over time. Value-add projects often see income grow over time due to strategies that enhance the cash flows.[4]

Return Of Capital

What about price appreciation? How does that affect the value proposition?

Over time, your investment is likely to grow, given historic results. When you exit your investment, you are hoping both for a return of what you put in and also a return on the increased value of the property. The latter depends on various factors like the initial purchase price, the property's net operating income, and the state of the market when you sell. Distressed and opportunistic investments can see significant price appreciation due to their higher risk levels.

A leveraged project means that the developer has used borrowed funds to boost returns. Even stabilized income-oriented projects can benefit from leverage. But it's important that the projected results outweigh the costs of borrowing – in technical jargon, there should be a positive spread between the project's capitalization rate (the net operating income divided by the asset price) and the debt financing rate (mortgage constant).

So, this is how your investment in CRE can bear fruit, but it requires patience, attention to detail, and the right mix of resources and know-how.

INVESTING THROUGH PRIVATE PLACEMENTS

The following describes the typical security structures found in private placements.

PRIVATE SECURITY STRUCTURES

Private Security	Description
DEBT	
Senior	Typically unavailable to retail investors. Largely controlled by institutional lenders except for distressed properties often well suited for private lenders.
Convertible	Gain the benefits of debt plus the opportunity to convert to equity and participate in the capital appreciation of the project.
Subordinated/Mezzanine	Offering higher rates in the mid to high teens and carrying higher risk than senior debt but lower risk than any form of equity.
EQUITY	
Preferred	Senior position to common equity that provides a preferred return.
Participating Preferred	Same as preferred but allows investors to participate in profits.
Convertible Preferred	Same as preferred but allows investors to convert to common equity.
Common	Highest risk position that is entitled to profits only after the lenders and preferred equity holders receive their monies; however, the largest opportunity for profit.

There are numerous advantages to investing directly in real estate and avenues to do so. However, there are advantages , when investing through private placements, not found when investing directly. This is true, whether in debt or equity.

Among them, private placements with qualified operators and developers offer accredited investors access to larger, higher-quality commercial real estate projects. These are meticulously sourced, evaluated, and overseen by developers with extensive experience in complex real estate ventures, utilizing their industry connections to boost project cash flows and valuation.

This differs from larger investors who can directly invest in properties themselves. Institutions and large private investment groups have privileged access to substantial institutional-grade CRE investments, unlike individual investors.

Investing via private placements offers...

Diversification and Risk Management

Participating through private placements allows investors to place smaller amounts, spreading their real estate investments across various projects and asset classes and likely reducing the risk inherent from a large investment in any single property or market.

Operational Burden Mitigation

High-net-worth investors can avoid the operational responsibilities associated with direct property ownership, allowing them to focus on wealth accumulation and asset allocation strategies.

Professional Management and Expertise

Investing through private placements means accessing professional management with a proven track record and expertise in similar projects.

Investor Control and Transparency

Private placements offer investors transparency and control through detailed disclosure documents, investment agreements, and reporting requirements. Investors can track the project's progress, financial performance, and decision-making processes.

Liquidity Options and Exit Strategies

Larger, higher-quality projects typically offer more liquidity than smaller projects, as returns are often realized through property sales or financing, resulting in more aggressive pricing levels.

Investment Banker's Due Diligence

When investment bankers offer private placements, they will have already conducted the due diligence, underwriting, and necessary compliance reviews, all to benefit high-net-worth investors. That due diligence will include a comprehensive review of the sponsor, along with background checks, and the underwriting will confirm that the terms are market based.

Navigating CRE Investments

If you're considering adding commercial real estate to your portfolio, and you've decided to invest through private placements, the following steps offer a guide to help you navigate your decisions:

1. **Define Your Investment Objectives: Current Income vs. Capital Gains**

   Consider whether you aim to generate income or seek capital gains from your CRE investment. This decision will help you focus on specific sections of the capital stack and various real estate classifications.

2. **Research and Analysis: Dive Into Options**

   Explore different classifications like core, value-add, etc., and consider the varying risk levels associated with each. Additionally, be sure to stay up to date on attendant news and industry trends to gauge growth and associated risks relevant to the sectors you've chosen.

   Equity options (preferred, participating preferred, convertible, or common) may suit moderate to aggressive risk-takers. For higher risk and potential rewards, consider classifications like value-add, distressed, or opportunistic, but these are best for experienced investors.

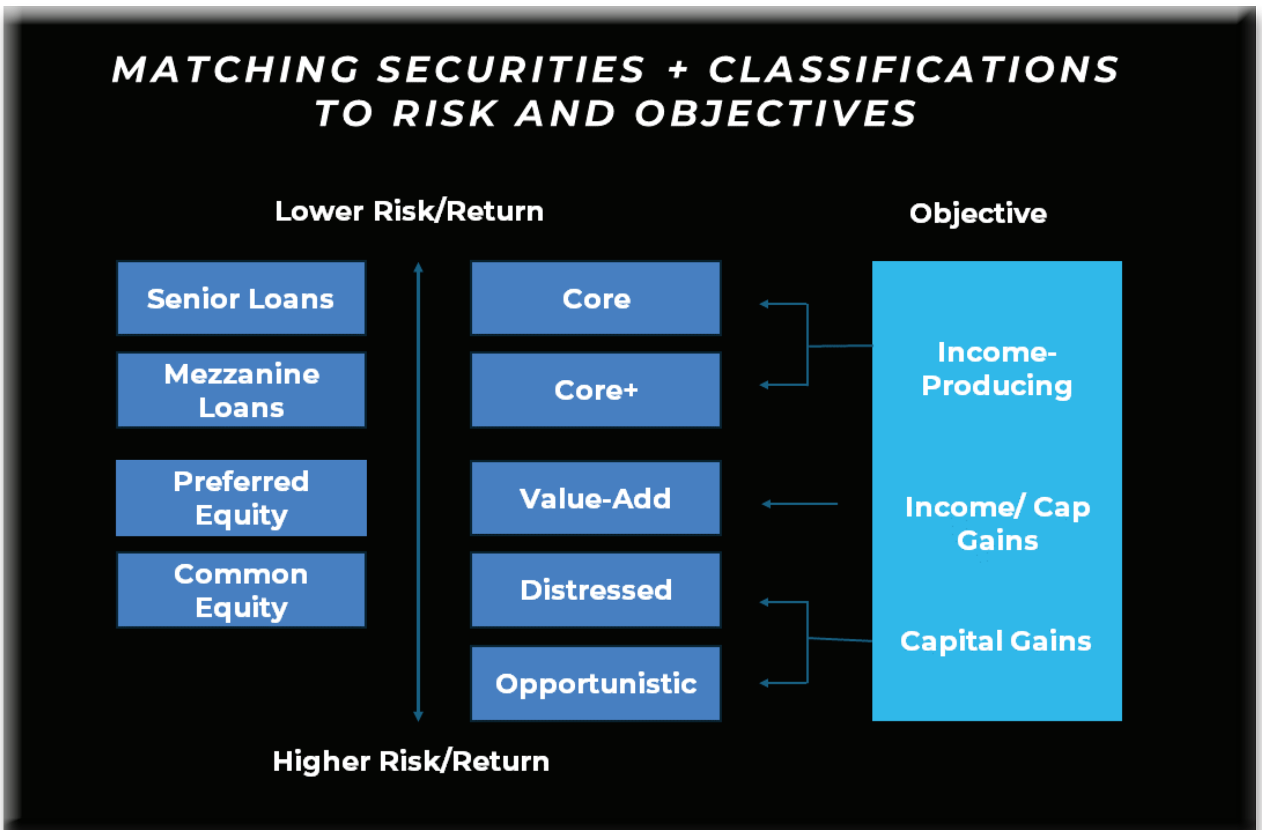
3. **Security Selection: Assess Your Risk Appetite**

   Based on your objectives, determine whether debt or equity investments align with your risk appetite. If you're looking for current income and lower risk, two alternatives are your go-to's: debt investments (convertible, sub-debt, or mezzanine) and core or core+.

4. **Due Diligence: Dig In or Seek Expertise**

   Consider partnering with an experienced investment bank for thorough due diligence on the sponsor and project if you lack the time or inclination to do so. Their expertise can instill confidence in your investment decisions by evaluating key aspects comprehensively.

High-net-worth individuals who invest in CRE through private placements gain access to institutional-grade deals, portfolio diversification, professional management, operational efficiency, scalability, potential tax benefits, investor control, and liquidity options. These advantages make private placements an appealing choice for seeking to manage risks and maximize returns. However, thorough due diligence, assessing risk tolerance, and consulting financial advisors are essential to evaluate the suitability of private placement investments within your overall strategy.



Investing in commercial real estate through a private placement is well worth consideration for most high-net-worth individuals. Naturally, investors should first understand CRE asset class and all attendant considerations when doing so.

Whether you are considering putting your money to work in warehouses, storage facilities, hotels, shopping centers or a myriad of other types of CRE investments, the advantages and variety as described in this white paper make private placements an appealing investment choice for high-net-worth individuals seeking to manage risks and maximize returns.

carofin

NEANINGFUL INVESTMENTS — VITAL CAPITAL

[1] Past performance is not a guarantee or indication of future performance. Investing involves risks, including the loss of principal.

[2] Diversification does not guarantee a profit or protect against a loss in a declining market. It is a method used to help manage investment risk.

[3] The actual amount and timing of distributions paid is not guaranteed and may vary. There is no guarantee that investors will receive distributions or a return of their capital. These programs can give no assurance that it will be able to pay or maintain distributions, or that distributions will increase over time.

[4] Programs that depend on tenants for their revenue may suffer adverse consequences as a result of any financial difficulties, bankruptcy or insolvency of their tenants.

Carofin, LLC

We are committed to improving investment standards for the direct private investment community, and we hope that you find this information helpful. Please tell us your experiences so we can share them with others.

Carofin and its affiliate offer direct private investments that reflect our firm's 27 years of experience across 200+ transactions. If you would like to consider participating, we welcome a discussion with one of our registered representatives at a time of your convenience.

Relevant White Papers

For additional insight on investing in private placement offerings and private securities, please refer to the three white paper links below.

- Co-Investing In Direct Private Investments
- Understanding Private Securities
- Investing in Real Estate

For additional information, please contact:

Bruce Smith
VP - Investor Development
bsmith@carofin.com

Gary Thomas Saykaly
Managing Director
gtsaykaly@carofin.com

If you like reading these papers and want to stay current, please "Follow us" on LinkedIn.

And, if you are ready to consider investing in our alternative investments, please click here.

If you'd like to learn more about private investments, please see Carofin's Knowledge Base.

Financial terms used herein are more fully defined in Carofin's Glossary of Investment Terms.

Written by Gary Thomas Saykaly; edited by Bruce Smith and Stuart Rekant.

APPENDIX

A GUIDE TO CRE INVESTING IN PRIVATE PLACEMENTS

If you are considering adding private commercial real estate to your portfolio, you might be wondering where to begin. The following steps should help you navigate your decisions.

An Initial Pass for Making a CRE Investment Decision	Answer
Investor Considerations	
What are your investment objectives?	Income, capital appreciation, both
What is your risk / return threshold?	Low, medium, high
What amount of capital per CRE investment?	$
What type of private securities are of interest?	DEBT: senior, mezzanine, convertible; EQUITY: preferred, participating pref., convertible pref., common
Which investment classification fits?	Core, Core+, Value-Add, Distressed, Opportunistic
What type of issuer is of interest?	CRE operator/developer, corporate owner/occupier, fund
What entity level interests you?	Operating company, portfolio, project, fund
What type of funding purpose do you like?	Company growth, acquisitions, development, recapitalizations, portfolio enhancements
Are you property type and geography agnostic?	Yes. If No, what type of properties and what geography
Research & analysis - do you understand relevant CRE trends?	Yes, No
Investment Banker Considerations	
Investment banker's CRE experience	Years
Completed an exhaustive due diligence: Issuer?	Yes or No
Completed an exhaustive due diligence: Project?	Yes or No
Does the offering comply with regulations?	Yes or No
Do they understand each aspect of the offering?	Yes or No
Risks defined w/ a risk management strategy?	Yes or No
Is the offering memorandum comprehensive?	Yes or No
Projections based on viable assumptions?	Yes or No
Investment banker's virtual data room complete?	Yes or No
Issuer/Sponsor Considerations	
Issuer type	Corporate owner/occupier, operator/developer, fund
Issuer industry segment focus	Property type and Geography
Geographic presence	International, national, regional or local
Years in business	Years
Issuer net worth	$
Main focus in commercial real estate	Developing, acquiring, operating, occupier
CRE portolio size	NAV, SF, # of properties
CRE portfolio geographic locations	Geographic locations
Senior asset, property & leasing mgt team applicable experience	Years
Issuer/sponsor similar project success stories	Years, projects
Adequacy of issuer's operations & resources for project	Yes or No
Projected exit strategy	Sale or Refinance
Do they have equity in the deal?	% of total equity required
Are they using any JV partners to execute?	Who

Investment Banker Due Diligence Roadmap

Area of Focus	Description
Sponsor Quality	Experience, expertise, management/leasing team, resources to execute track record
Financial Projections	Revenue and expense levels/projections, assumptions behind projections including the exit/residential value; in place vs. spec income
Location	A key determinant of success. "A" locations secure the most demand and capture the top-tier tenants
City/Region's Economic Drivers	New employers; drivers of the economy; quality of life; city's transportation and educational systems
Trade Area Demographic Trends	Understanding if the demographics of the trade area support the project -- depending on property type, i.e., population size, population growth, average household income, income growth, educational levels, homeowners/rentals, population age
Submarket Supply & Demand	Level of vacancy and trend. Rental rate trends, demand/absorption, planned/proposed development, new development, available land
Competitive Landscape	How does the project compare to the competitors' occupancy levels, asking rental rates and anchore tenants
Tenancy	Anchor and/or national credit tenants vs. local/regional tenants
Lease Terms	Average lease term; do anchor tenants have adequate duration
Contract vs. Lease Rates	Above or below market; rent increases in leases
Physical Characteristics	Configuration, amenities, quality of construction, parkeing, ingress/egress

CRE Sponsor / Issuer Type

CRE SPONSORS, DESCRIPTION, AND OPPORTUNITIES

CRE Sponsor / Issuer Type	Description	CRE DPI Opportunities
CRE Operators / Developers	CRE operators & developers have portfolios of income producing multi-tenant properties and require capital to fund company growth, new development, acquisitions, recapitalizations, refinancings, etc. They typically specialize in a property type and geographic area given their expertise.	Opportunities for investment at the operating company, portfolio, project and fund level with varying risk & return profiles. May generate income and/or capital.
Corporate Owner / Occupier	Private corporations that operate a warehouse network within their supply chain efforts. The primary capital needs revolve around monetizing owned assets to redeploy capital into the company's business and capitalizing the expansion of their warehouse network through development and acquisitions. The credit of the issuer is an important consideration.	Opportunity to invest in existing and new single tenant warehouses (& office HQ) on a project or portfolio basis
CRE Investment Funds	These entities have created a Fund to execute various debt and equity investment strategies where they seek to generate above average risk-adjusted returns. The benefit of investing in a Fund is their execution expertise, access to opportunities not available to individual investors and ability to invest in an investment strategy with multiple projects.	Investors can invest in open-ended and close-ended funds where the properties are identified, semi-blind pool, blind pool.

COMMERCIAL REAL ESTATE CLASSIFICATIONS

Investment Classification	Description	Characteristics	Investor Profile
Core	Core investments are low-risk, stable assets with steady income streams. They are typically high-quality properties in prime locations with long-term leases to credit-worthy tenants.	Low volatility; predictable cash flows; Limited capital appreciation.	Investors seeking stable, long-term returns with lower risk tolerance.
Core+	Core+ investments share similarities with core properties but may require minor improvements or have slightly higher vacancy rates. These properties offer a balance between stability and potential for modest value enhancement.	Slightly higher risk and return potential compared to core; Moderate capital appreciation; Stable cash flows with some room for improvement	Investors seeking stable income with some potential for capital appreciation, willing to accept slightly higher risk.
Value-Add	Value-add investments involve acquiring properties with the intention of implementing strategic improvements to increase their value. This could include renovations, repositioning, or operational enhancements.	Moderate to high risk; Potential for significant capital appre- ciation; Cash flow may be lower initially but can improve over time	Investors willing to take on higher risk in exchange for potentially higher returns.
Distressed	Distressed investments involve acquiring properties facing financial distress, foreclosure, or operational challenges. These properties are often purchased below market value, with the aim of turning them around for profit.	High risk; Potential for substan- tial capital appreciation; Uncer- tain cash flows, often negative initially	Experienced investors with a high tolerance for risk and expertise in distressed asset acquisition and turnaround strategies.
Opportunistic	Opportunistic investments repre- sent the highest risk and potentially highest reward category. These investments involve significant development, redevelopment, or ground-up construction projects, often in emerging markets or niche sectors.	Highest risk; Potential for significant capital appreciation; Cash flow typically negative during development phases	Institutional investors or experienced developers seeking maximum returns, willing to take on substantial risk and actively manage complex projects.

carofin

MEANINGFUL INVESTMENTS — VITAL CAPITAL

Securities are offered through Carofin, LLC, Member of FINRA/SIPC. Carolina Financial Securities is an affiliate of Carofin and both Broker-Dealers are affiliates of Carolina Financial Group, LLC.

Our firms seek to present vital capital with meaningful investment opportunities through the fundamental analysis of the businesses we seek to finance. Such analysis is usually conducted through a First Principles approach.When we provide you with a recommendation, we have to act in your best interest and not put our interest ahead of yours. At the same time, the way we make money creates some conflicts with your interests. You should understand and ask us about these conflicts because they can affect the recommendations we provide you. Here are some examples to help you understand what this means:

Proprietary Products: Our firms will often present investments that are only available through them, which may result in a higher placement fee. The Firms will receive the placement fee regardless of your investment performing as expected.

Administrative Agent Services: CFG Financial Services, LLC, an affiliate of our firms, will act as Administrative agent for the securities while they are outstanding. Given that our firms have an interest in providing recurring services to the Issuer, while the administrative agent looks after the interests of investors, there may be a conflict of interest between the firms and its affiliates.

Our firms offer brokerage services to accredited investors, exclusively through the sale of private placements. the offerings we bring to market are carefully selected, and any recommendation you may receive from us will be limited to these offerings. Therefore, we may be unable to adequately compare the risks and benefits of the offerings we bring to offerings presented by other financial professionals. While our firms will often present new investments and discuss such investment's risks and benefits with you, the ultimate authority to make such investment rests solely with you.

Our firms do not hold any investor cash or securities, and securities offered by us often have no easily assessable market value, so our firms will not monitor the market value of your investment on an ongoing basis. The investments we present often require a minimum investment of $5,000 for equity offerings and $10,000 for debt offerings.

Fees and costs may reduce any amount of money you make on your investments over time. Our firms are mostly compensated through placement fees, which are payable by the issuer, meaning that the firms will be compensated by receiving a percentage of the funds raised in an offering, regardless of the investment performing as expected. Such placement fee is usually between 3% and 7% (please find the specific Placement Fee for this offering in the "Placement Agent Fees" section of the "Security Terms". Given that different investments have different placement fees, we may often have a conflict of interest when presenting these investments to you. The Firms' bankers are often compensated by receiving a percentage of the placement fee, and may have their own conflict of interest when presenting you with offerings they structure.

Private placements are high risk and illiquid investments. As with other investments, you can lose some or all of your investment. Nothing in this document should be interpreted to state or imply that past results indicate future performance, nor should it be interpreted that FINRA, the SEC or any other securities regulator approves of any of these securities. Additionally, there are no warranties expressed or implied as to accuracy, completeness, or results obtained from any information provided in this document. Investing in private securities transactions bears risk, in part due to the following factors: there is no secondary market for the securities; there is credit risk; where there is collateral as security for the investment, its value may be imped if it is sold. Please see the Private Placement Memorandum (PPM), and the complete list of contents for each contemplated investment for a more detailed explanation of the securities Summary of Terms, Investor Suitability Standards, Confidentiality, Securities Matters and Risk Factors.

Caution Regarding Forward-Looking Statements

Certain statements herein may be "Forward-looking" in that they do not discuss historical facts but instead note future expectations, projections, intentions, or other items relating to the future. We caution you to be aware of the speculative nature of forward-looking statements as these statements are not guarantees of performance or results.

Forward-looking statements, which are generally prefaced by the words "may," "anticipate," "estimate," "could," "should," "would," "expect," "believe," "will," "plan," "project," "intend," and similar terms, are subject to known and unknown risks, uncertainties and other facts that may cause our actual results or performance to differ materially from those contemplated by the forward-looking statements.

Although these forward-looking statements reflect our good faith belief based on current expectations, estimates and projections about, among other things, the industry, and the markets in which we operate, they are not guarantees of future performance. Whether actual results will conform to our expectations and predictions is subject to several known and unknown risks and uncertainties, including risks and uncertainties discussed in the offering materials for each specific investment.

Consequently, all the forward-looking statements made herein are qualified by these cautionary statements and there can be no assurance that the actual results anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, your investment. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.