



HIGH YIELD PREFERRED EQUITY REAL ESTATE-RELATED INVESTMENT STRATEGY

OVERVIEW

Seminole Advisory Services, LLC, a member of The Seminole Companies (“Seminole”), is an investment management firm that specializes in short and mid-term duration real estate-related yield generating investment strategies. Our team has decades of experience with originating both debt and equity real estate investments.

Our investment objective is to add return to investors’ income generating portfolios while having low correlation to their core fixed income allocations.

Seeking out high yield/mid-term liquidity investment opportunities, we look to deliver low to mid-teen returns by investing in preferred equity investments that primarily fund construction for single purpose operating entities in the multi-family housing sector, with a focus on market rate apartments, student and senior housing. Seminole manages the entire lifecycle of the investment from origination and underwriting to servicing and asset management.

We identify investment opportunities in the construction of multi-family real estate, whether it is new construction or moderate rehab developments. Specializing in this segment of the multi-family industry, we have found the potential to generate attractive yields on relatively short term investments and limit volatility inherent in making investments in the real estate market.

By seeking out preferred equity investments, we target a higher (preferred) rate of return. Most investments are in the \$2 million to \$20 million range. We only consider investing with high quality developers and operational sponsors whom we have vetted

based on their integrity and expertise, that have a proven record of development in their respective markets, and whose projects are fully permitted, have a tier one senior lender, and are insured and bonded. Principals of Seminole typically invest 5% along with sponsors on investments.

The first money into the real estate projects is sponsor partner equity, which is generally used to fund viability analysis of the real estate project and acquisition of the land. Once the sponsor deems the investment viable, they will find senior debt to fund the project. It is around this point that we would typically get involved on behalf of a client, who would become an equity investor along with the sponsor in the capital stack. Most often the sponsor invests 5% - 10% of the equity through cash or contributing land or other assets to the deal.

The initial term of our multi-family investments generally is three to five years. With most construction related investment opportunities, whether new or rehab projects, we have found they generally pay off sooner. Since inception, we have originated 25 investments, 16 of which have paid off and nine of which are in our current portfolio. On average, the 16 investments were outstanding approximately two years.

The average yield on the investments that have paid off has been a 16.8% IRR gross return on a project level basis, before costs and fees. All of these investments were held by Seminole Equity REIT, a fund managed by us. Seminole Equity REIT’s yields were 16.2% and 12.6% for the years ending 2014 and 2015, respectively, net after costs and fees.

Deal Structuring

Our preferred equity investments are investments made into the special purpose entity that owns the project. Our client is the investor member. We will represent the investor member and manage the investment on their behalf. In this role, we have rights to pay draw requests and costs as agreed upon, approve major decisions, receive a preferred return, declare defaults, replace the management agent and have the right to step into the role of managing member. The developer will act as the managing member and is responsible for development of the project and daily operations.

Yields on the individual preferred equity deals we seek tend to range from 15% - 25%+. The partnerships are structured with a 9% - 10% current pay, which provides the capital allowing the fund to pay a current dividend to its investors. Some partnerships require a fixed overall yield at repayment while others contain a waterfall feature for allocating profit to determine the overall return. Typically, the waterfall structure would flow as follows: repayment of debt, payment of any unpaid investor member current preferred return, return of capital pro-rata to each member, proceeds split to get the investor member to reach a predetermined IRR of, say, 15%, and further split of proceeds to get the investor member to a predetermined IRR of, say, 18%, and finally, some percentage sharing above that for an open-ended yield potential.

Seminole requires guarantees on most preferred equity investments. Guarantees could include guarantee of construction completion, guarantee of preferred return or guarantee of return of capital.

Deal Sizing

Preferred equity investment sizing is based on a need to complete the capital stack subject to coverage ratios. Investor equity typically accounts for 90% - 95% of the equity necessary to balance the budget when combined with the senior debt. We require a reserve to pay for preferred return or interest during the construction term, thus, coverage ratios are ensured until operations begin. Most of our deals are paid off before these reserves are depleted.

The information presented in this report is not intended to constitute investment advice and should not be relied upon as such. Such information may not be complete, is subject to change without notice, is provided for general informational purposes only and is not provided to address the specific investment objectives or needs of any specific person. Recipients should seek financial advice regarding the appropriateness to them of any investment strategy discussed in this report. There is no guarantee that any such investment strategy will achieve results similar to those discussed in this report and there is a possibility of loss. Past performance is not a guarantee of future results.