

Family Business

# LEGACY & WEALTH

The only wealth management conference for family businesses, family offices & family enterprises

## GROW. SUSTAIN. REPEAT.

September 22-24, 2021

JW MARRIOTT CHICAGO, IL

IN-PERSON + ONLINE

### FOUNDING SPONSOR



### GOLD SPONSORS



### SILVER SPONSOR



### BRONZE SPONSORS



### SUPPORTING SPONSOR

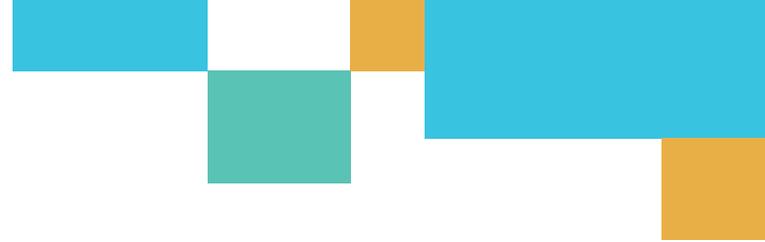




# Family Investing in Real Estate: 2022 and Beyond

i3, LLC – September 23, 2021





# Topics of Discussion

**A Brief Introduction to i3, LLC (Who We Are)**

**What We Help Families Develop (Best Practices)**

**Overview of Commercial Real Estate (i3's Current Concepts)**



# Introduction to i3, LLC

i3 is a boutique **private asset management** and **family CFO office** with a passion for helping families navigate the complexities of behavioral dynamics and multi-generational wealth.

## The Roots of Our Namesake

- **Information** – *we provide families access to information.*
- **Infrastructure** – *we provide an infrastructure to support and manage complex needs*
- **Investment**– *we offer investment (DIPCO) options for capital placement*

## The Vehicles by Which We Operate

- **Family Governance** (aid families in transition)
- **Reporting** (family data aggregation and presentation)
- **Asset Management** (maximizing portfolio performance)
- **DIPCO** (direct investment platform company)

**You worked hard for your legacy.  
We'll work hard to protect it.  
Because families are stronger, together.**

# Introduction to i3, LLC

We help high-net-worth families **unify around the legacy they want to leave behind**. But the road to get there looks a little different for every family. Our strategies and solutions are as unique as the families we serve.

For a deeper dive into who we are, you can visit us online at [www.i3resources.com](http://www.i3resources.com)



Who We're Helping





# How We Deploy Family Governance



i3's Family Governance offering is the **pinnacle offering** by which we assist families, especially as it relates to Commercial Real Estate **portfolio crafting** and its **on-going management**.

## How does Family Governance align with Commercial Real Estate? What best practices arise?

- We orchestrate **Harmony** at the family level
- This harmony leads to a **Family Constitution**
- Within the constitution there is an **Investment Mandate**
- The Mandate guides efforts of **Portfolio Building**
- That portfolio is then **managed**, and returns are **maximized**

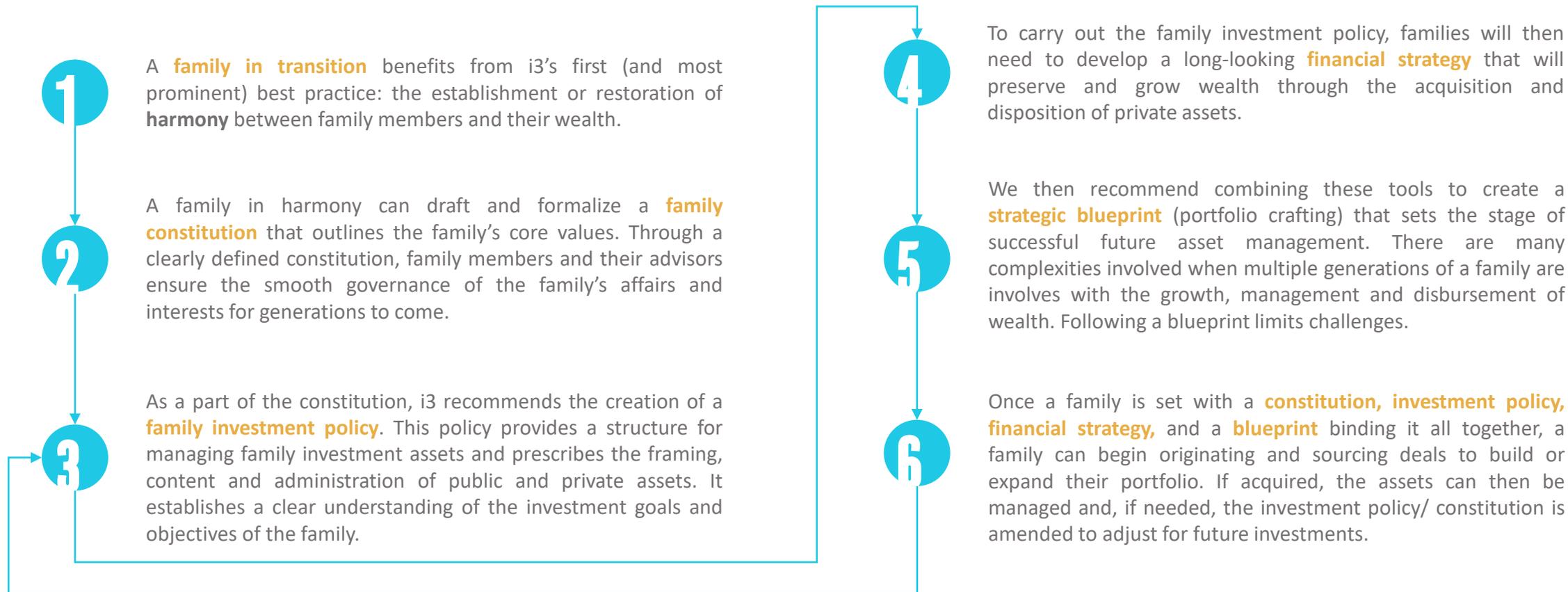
## Our Family Governance Process



# Governance & Portfolio Crafting

(how governance leads to a constitution and how the constitution leads to a performing CRE portfolio)

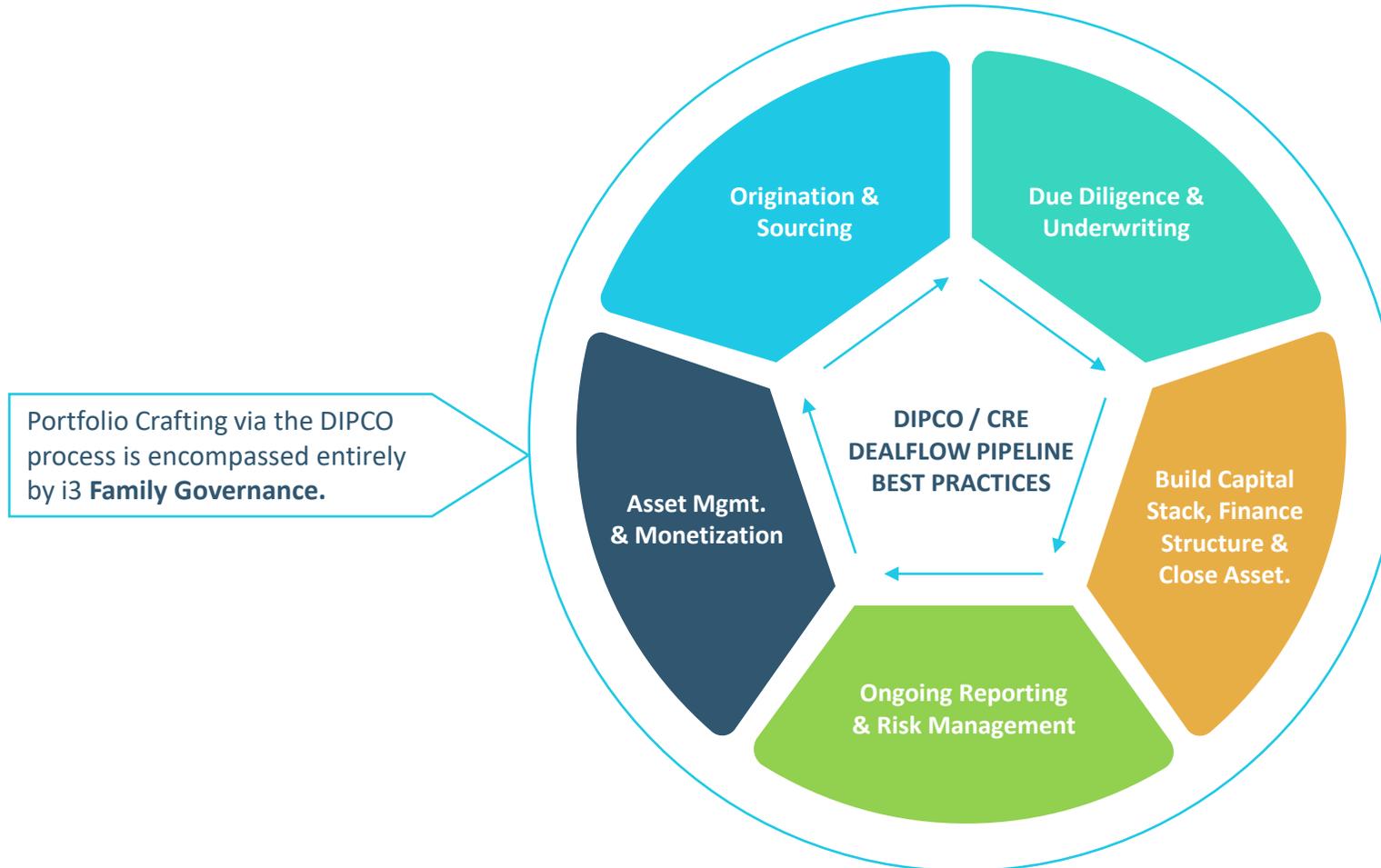
Here is a breakdown of the **best practices** we use to help a family prime their investment engine and begin portfolio crafting:



(Active CRE portfolios require frequent examination of the family investment policy to ensure acquired assets are meeting the family's goals)

# Where Governance meets CRE

Below is a look at the best practices by which we build a portfolio. **Our Family Governance process manages the entire cycle.**





# Governance meets Private Asset Mgmt.

*(how governance leads to a constitution and how the constitution leads to a performing CRE portfolio)*

Successful portfolio crafting means **diversification, longevity, maximum return potential, ease of exit, and resilience.** Here is a breakdown of our process and the best practices we have learned to utilize:



## Origination & Sourcing

- Utilize a **family constitution** and **family investment policy** that aligns with a **financial strategy** and **strategic blueprint** to target very specific investments that support investment desires at play.
- Develop and maintain a network of nationwide connections that keep a steady flow of deals coming into our origination and sourcing efforts.



## Due Diligence & Underwriting

- Underwrite more than the CAP rate. Value the entire deal (see slide 11).
- Underwrite based on an investment policy, which means making assumptions based on the future needs of a portfolio.
- Build a team of experts with nationwide connections to timely and effectively order reports necessary to inspect a possible transaction.



## Align Capital & Close Transaction

- Have several lending institutions at our disposal to quickly seek funding where necessary and align capital to close a transaction.
- Build a network of attorneys and work with them to establish a repeatable process to ensure timely and effective closings.



## Data Aggregation & Monthly Reports

- An extension of our family governance services is our ability to aggregate large amounts of data, organize it into meaningful patterns, and present it in a way that drives conversation for the investors.
- We use these reports to guide monthly conversation and to gauge whether a portfolio is living up to the investment policy behind it.



## Asset Management

- Asset management services shouldn't be confused with property management services.
- The differences are many, but the most prevalent is that we go beyond making sure bills are paid and instead work to ensure every asset within a portfolio is achieving its maximum potential return.

# Develop an Investment Banner!

At i3, we realized long ago that one of our best practices needed to include the creation of an **investment banner**, a **philosophy** that dictates how and when we invest our hard-earned dollars. We suggest families develop an investment banner too! Ours is below:

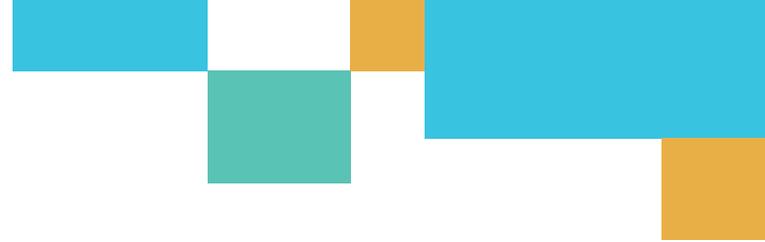
## Principal Investment Banner



Good investments, with competitive pricing, promising returns and limited risk lie at the core of what we strive to achieve or mitigate with every investment. This **philosophy** comes from more than two decades of investing in commercial real estate and realizing that the conversation can really begin with such a simple approach.



# Underwriting More Than the CAP Rate



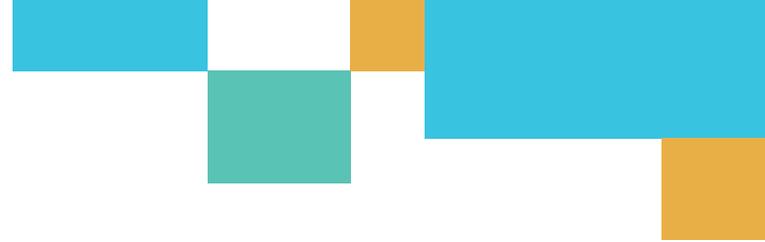
Understanding how to **completely** value an asset in today's CRE market must go beyond the customary modes of underwriting and adopt a highly advanced valuation system that analyzes several non-traditional metrics that include ability to withstand crises and an asset's longevity. See below some notes on our process:

## i3 Valuation Theory Q3 2021

- **Traditional underwriting** finds its roots in a simple formula: underwrite the income of the asset.
  - Project A generates X dollars of Net Operating Income (NOI) every year, which is divided by a CAP (Capitalization) Rate of Y, producing a value of Z.
    - For example, an office building generates \$200k of NOI each year. The sellers are asking for a 5.75% CAP.
      - Therefore:  $\$200,000 \text{ NOI} / 5.75\% \text{ CAP} = \$3.48\text{m Final Value}$
    - At its simplest level, we have valued this asset in the way that many 'selling' parties will value an asset.
  - Many new investors invest capital based on this valuation method alone.
- **Underwriting more than the CAP Rate. Our best practices:**
  - We look at not only the NOI at the time of acquisition, but carefully run scenarios that examine the potential longevity of the asset as well. We look ahead and assess the probability that this asset will continue to generate that same level of performance (or greater) year over year, for the life of the investment.
  - Additionally, we value the specific asset, but also take time to underwrite the tenant, the business, the industry and the market. This means we can hope to identify which assets can survive a down market, which businesses will continue to have cash flow in a pandemic, which industries will thrive during a nationwide lockdown, etc.
  - Based on these metrics we can go beyond the traditional CAP Rate method of valuation and apply various concessions or adjustments based on the risk we find or do not find when underwriting the asset.



# Best Practice: Data Aggregation



We realized early on that the families we were serving all dealt with a common issue. We refer to it as the ‘death by 1,000 paper cuts,’ which ultimately leads to a *much* larger conversation surrounding software applications and artificial intelligence. At its roots, however, we identified the following:

- Families in transition often suffer from a global lack of awareness of their cash positions, the scope and depth of their CRE portfolio, and how the monthly operations of the portfolio transpire.
  - What cash is held where? What can we use it for? Can we distribute some to shareholders?
  - What do we even own? How many Commercial, Residential or Other Assets are in the portfolio?
    - What assets are performing well? What’s going to be their future tax burden?
    - Which assets are costing money every month? Can these losses be applied somewhere?

## Our Solution to ‘Death by 1,000 Paper Cuts’

A custom reporting platform that aggregates, organizes and presents the data of a portfolio.

At the end of the day, it doesn’t matter which reporting platform an investor uses, but it MUST provide the following information:

- Global (portfolio-wide) Cash Positions (Real Time Numbers)
- Monthly, Quarterly & Annual Performance Updates
- Both Monthly and Year-to-Date (YTD) Tracking
- Ability to Track and Report Budget vs. Actual
- Ability to Summarize Financial Documents into Meaningful Numbers (P&L, Balance Sheet, Cash Flow)
- Forecast future Cash Positions, Investments, Capital Needs

# Why Build a CRE Portfolio?

With today's money market offering **multiple modes of investment**, why should a family pursue a CRE portfolio?  
What benefits does it have over other investment vehicles?



*Offers security vs. other income sources*



*Hedge against inflation*



*Steady income source (FCF from assets)*



*Ability to Leverage & Tax Advantages*



*Portfolio Diversification*



# A Breakdown of CRE Benefits

Below is a breakdown of some of our major talking points when discussing the benefits of direct ownership of CRE assets.



## Commercial Real Estate Security

- Tangible Asset – owners have the ability to touch, see, feel, and visit their asset(s).
- Investor's Pride of Ownership. Being able to say that you own something and know that it will be passed along to the next generation.
- Limited Supply – Real Estate (specifically, land) isn't being produced anymore.



## Hedge Against Inflation

- The CRE market often responds slower to sudden or major economic changes.
- Certain CRE assets have proven to be extremely resistant to any number of local or global crises.
- Ability to weather adversities such as COVID-19 and other pandemic-like impacts.



## Steady Income Source

- Set up correctly, CRE assets can generate year over year cash flow to their owners, often increasing each year as well-crafted leases increase the rent to tenants.
- Over the past 20 years, CRE assets have outperformed the S&P 500 by ~90 bps (0.9%).



## Ability to Leverage & Tax Advantages

- A properly structured capital stack means achieving the maximum potential.
- A creatively structured debt component maximizes the ability to leverage the loan to equity ratio and create more promising returns.
- 1031 Exchange – Capital Gains Tax deferral program.
- Can benefit from additional tax benefits by investing in opportunity zones.
- Can benefit from depreciation and other incentives.



## Portfolio Diversification

- Having a CRE component of any investment portfolio offers diversification against any number of market-level threats by mitigating risk to a portion of your capital.
- CRE can be the ideal location for placement of an investor's equity and can help keep a portfolio from being too heavily weighted into one sector or another.

# The Problem is Access!

One challenge many new investors face is not having access to direct ownership of real estate assets. Be it a lack of deal flow, no solution for underwriting / DD, or the inability to close a transaction, the challenge can quickly stack against them. The solution begins with understanding the difference between **direct** and **indirect investments**.

## Direct Investment

VS.

## Indirect Investment





# The Solution is DIPCO!

We realized our best practices combined to form a solution. **DIPCO** (direct investment platform company), is our vehicle by which families / investors can place capital directly into real assets via sole ownership or as part of a partnership level structure, bypassing the constructs of traditional public investment opportunities.

## The Best Practices of DIPCO (we recommend families develop these)

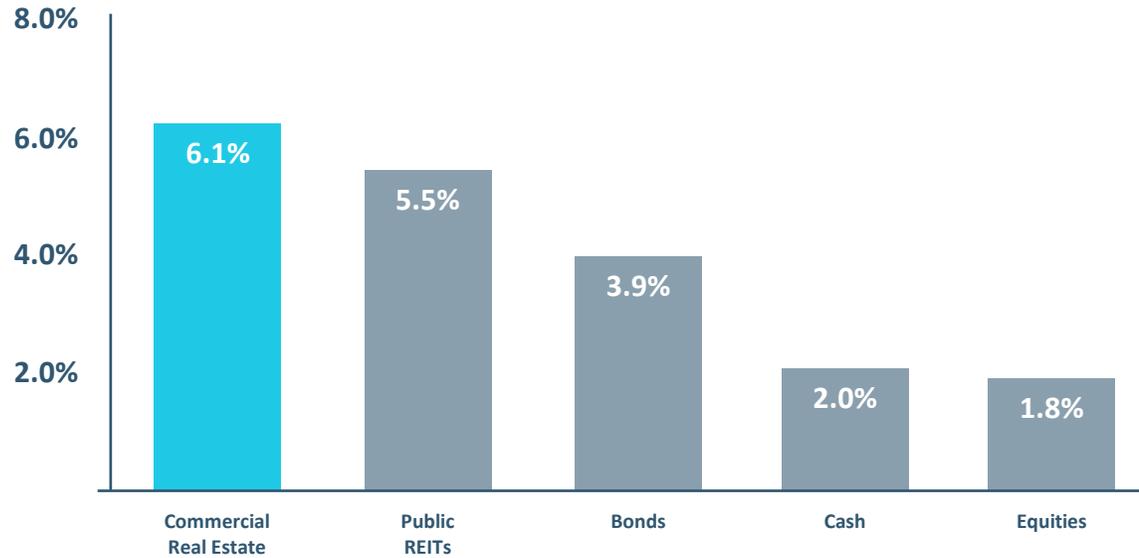
- **Gain Access** – Be able to source lucrative deals (both on and off market) that offer competitive pricing, limited risk and promising returns.
  - **The problem:** Most investors have limited access to quality fund managers or sponsors. As a result, investors have historically filled their portfolio with ‘country club deals’ that are typically overpriced, under-negotiated and ignorant of major risk factors.
- **Form a team of experts to run Due Diligence and Educate** – Forming a team of experts who can accurately value an asset in today’s market and educate investors of the risks behind every deal is paramount for success.
  - **The problem:** Most Registered Investment Advisors (RIAs) lack the team and experience needed to perform appropriate due diligence on incoming investment opportunities. Additionally, they are not practiced enough to adequately value assets or measure risk in the private markets.
- **Build a solution and team to manage your portfolio** – Finding a team to ‘run’ the new investment or portfolio is how investors truly maximize the return on their capital.
  - **The problem:** Most traditional modes of investment lack the expertise and resources necessary to effectively manage liquidity, structure the capital stack, handle contribution / distribution events, or provide investors with transparency through organized and meaningful reporting.



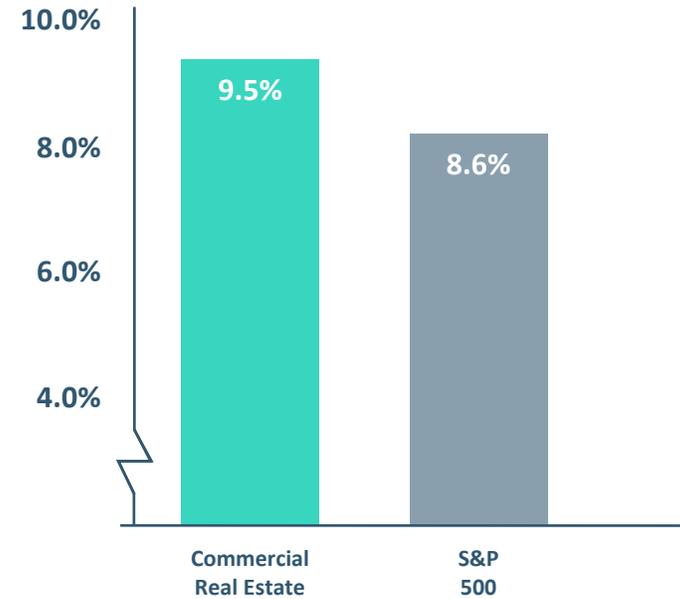
# CRE Yield vs. Other Sources

*(research that has been shared with us)*

CRE Income Fund – CRE Annual CRE Returns Avg.



Forbes 2020 – 20 Year Average Annual Returns





# The Investment Structure (examples of investments)

(From the article: *Ways for Your Family to Invest in CRE*)

- **Invest in a Project (Option 1)**
  - Generally, refers to a project that someone else, usually a developer has originated and is promoting.
  - A project can be defined as any number of things: ground up construction, existing building or re-development, etc.
  - A partnership business plan is defined. Searches for Equity (in the form of the LP or Limited Partners)
  - Investing means paying fees. Typically to the developer based on two variables: 1) management and 2) performance
  - Historically this is the most common entry to CRE market and offers investors limited exposure to risk (commensurate with size of equity contribution)
- **Be the Leader (Option 2)**
  - In this scenario, the project is entirely yours.
  - You source, execute, manage and report to shareholders on the asset.
  - You lead the charge on developing business plan & managing, promoting and developing the project.
  - This is often considered the GP (or General Partner) Route.
  - Being the GP means carrying more risk, but also can lead to greater returns.
- **Have it as Collateral (Option 3)**
  - You loan money as either a senior or mezzanine lender at an agreed upon rate with either full or partial collateral.
  - While you may sacrifice returns (loans usually generate less returns than equity) you have some downside protection.
  - Need to understand your three (3) repayment sources: 1) repaid from rents collected, 2) the appraised value of the asset, 3) the borrower's collateral.
- **Buy it. Own it (Option 4)**
  - What i3 calls direct investment (DIPCO)
  - Depending on your family's balance sheet, you can skip the GP, LP (partnership) roles altogether and go buy your assets directly.
  - This offers complete visibility and control over the assets you purchase and own – which is why so many families take (or wish to take) this route.
  - The downside to this is the headache that comes with owning your own CRE and the management it entails. But proper management can turn those headaches into FCF that isn't affected by other partners, as detailed above.
- **Go Public (Option 5)**
  - The easiest route. Through your online brokerage account, firm or other financial institutions, your CRE strategy plays out in public markets by way of publicly traded instruments such as Real Estate Investment Trusts (REITs).
  - These are easy to track, normally three (3) day liquidity, and – properly regulated – the public options can be a great option for families who want CRE exposure but without the headaches or commitments.



# What You Will Need to Invest!

*(what we recommend your family develops)*

- **The Plan (Investment Goals)**
  - Where and how does the Family want to invest? What's the appetite?
    - Partnership, Direct, Be a Lender, etc.?
  - Who is leading the family in this charge?
  - Who bears the responsibility for carrying out the family's investments?
  - Who is managing them afterwards?
- **Access to Deals (Pipeline)**
  - If you're not using an RIA to handle public investments, you will need access to deals.
  - Where will a family get deals from? What's the source?
  - How many deals are you exposed to? Asset class and price range?
- **Ability to Value Assets (Underwriting)**
  - Families need a way to underwrite (value) the assets they are looking at.
  - Have the ability to gauge risk factors associated with a deal.
  - Software to underwrite with (Argus, Excel, etc.)
  - Need ability to generate a pro-forma and other cash flow documents to make decisions on.
- **Ability to Close Transactions (Due Diligence & Close)**
  - Families will need access to a due diligence process.
  - Who orders reports? Who reviews reports?
  - Who is responsible for reporting the findings of the reports?
  - Negotiate findings with buyer / seller and close deal.
  - Need access to debt support and closing attorneys.
- **Ability to Manage your Portfolio (Reporting & Asset Management)**
  - How will the family manage the portfolio after acquisition?
  - Need ability to maximize the performance of the portfolio.
    - Avoid death by 1,000 papercuts.
  - Who is responsible for the future of the portfolio?
  - What are we going to keep (or start) buying?
  - What are we going to liquidate and when?



# Disclaimer

*This document is intended for informational purposes only. It is not an invitation or offer to sell or a solicitation of any offer to buy any security. This document has been prepared to assist interested parties in determining whether to seek additional information regarding investments that may be described herein or other future investments and does not purport to be all-inclusive or to contain all the information that a prospective investor may desire. Any representation to the contrary is not permitted. Any investment involves risk. Potential investors must familiarize themselves with the offering materials related to any investment and must meet certain investment sophistication levels in order to make such investments and must be able to fully absorb the risk associated with such investments. Further information will be made available to those who demonstrate the capacity to evaluate the risks and merits of this investment. The past performance of any investment discussed herein is no indication of future results that may be achieved by that investment or any future investment.*

*No representation or warranty, express or implied, is or will be made and no responsibility or liability is or will be accepted by the creators of this document or by any of their respective officers, employees or agents in relation to the accuracy or completeness of this document or any other written or oral information made available to the recipient and any such liability is expressly disclaimed. In particular, but without prejudice to the foregoing, no representation or warranty is given as to the reasonableness of any of the statements, estimates or projections contained in this document or other written or oral information. Any investment in any transaction, fund or entity will be made in reliance solely on the definitive documents entered with respect thereto.*