



Real Estate Models

I. JOINT VENTURE

In this model the owner would partner with a developer and the developer would develop and build the project, handle lease – up and assume risk

There would be a governance process for major decisions but most decisions are made by the developer

If ownership of the building is a goal for the owner the agreements could spell out a time frame for a first right of purchase including a process where value is determined

COMPENSATION:

Most development fees are 4 - 5% depending on projects costs (excluding land and interest), paid monthly

They go from entitlement, construction and some portion of lease - up

Depending on what capital a developer puts up will determine % of ownership. Most developers will want a 'promoted interest' on top of any % based on capital provided, paid out along these lines -

Cash Flow and Sale Proceeds -- 1st to pay debt; 2nd to pay preferred return on equity; 3rd to return equity; then ratably based on ownership %

You may see some sort of waterfall as well when milestones are achieved

III. OWNERS REPRESENTATIVE

A variation is the Owners Representative, depending on the owner and owners expertise, might be done by the fee developer. Many owners like separate OR reporting both to the developer and owner

The owner would make all the major decisions, take all the risk

COMPENSATION:

Many firms perform this service on an hourly basis and in some cases receive an incentive fee on meeting cost and completion time objectives

II. FEE DEVELOPMENT

In this model the owner retains a third party to be the developer who oversees everything including lease – up

The owner would make all the major decisions, take all the risk, including lease - up and construction

Under both JV and Fee the roles are usually more expansive than in the Owners Representative

COMPENSATION:

In a fee development arrangement there is a fee of 3 - 4%, depending on project size and the scope of responsibility which can vary widely

IV. OWNER DEVELOPER

In this model the owner would assign an internal project manager to represent them

The owner would make all the decisions, take all the risk, including lease up and construction