

# How We Do What We Do

## PART 2: INVESTOR PAYMENT AND LLC OWNERSHIP



HIGH-RETURN, SAFETY-FIRST, PASSIVE-INCOME  
REAL ESTATE INVESTMENTS

“Why” must always be answered *before* “How.”

HighMark Equity Partners' mission is to **create and carefully oversee** high-return, safe, passive-income streams for its investors, **to free them** to spend more time on their most meaningful life activities and goals.

# How Investors Get Paid (1 of 5)

We put our investors in a “Safety-first” position.

The first part of this is:

- A “Preferred Return” – payments to investors are the first returns paid out (after the expenses and mortgage payment).
- Preferred Returns are paid out by the 15<sup>th</sup> of every month, they’re ACH’d into investors’ accounts.

*Example:*

- On a \$200,000 investment, an 8% Preferred Return is \$16,000/year, or \$1,333.33/mo.

# How Investors Get Paid (2 of 5)

The next part of the “Safety-first” position is the “**Quarterly Return.**”

- Assuming cash flow exceeds 8% (and we’ve designed it to do so) the Quarterly Return is 50% of the cash flow between 8% and the property’s total return. Typically, another 2-4%.
- For example, if it’s 2%, it means investors will get an **additional 2%** return beyond the 8% Preferred Return, for **a total investor return of 10%**.
- The Quarterly Return is ACH’d into investors’ accounts by the 15<sup>th</sup> of the month following each quarter.

*Example:*

- On a \$200,000 investment, a **2% Quarterly Return** is \$4,000/year, or \$1,000/quarter.

*This is explained further in the next section.*

# How Investors Get Paid (3 of 5)

We **only** buy properties we can hold **a long time**, but when we sell a property, how do investors get paid?

But there are **two reasons** we'd sell sooner:

1. If we can do something to make it immediately worth more than it would be in 10 years

**OR**

2. If it becomes functionally obsolete (it stops producing income for investors)

# How Investors Get Paid (4 of 5)

## Order of Distribution on a Sale of a Property:

1. First we pay the sales expenses: brokerage costs, closing costs. With the money left over after that...
2. We pay off the mortgage. With the money left over after that...
3. We **pay back all** investor capital; **we pay back investors' money first!** With the money left over after that...
4. We pay back any **accumulated preferred returns**. With any money left over after that...
5. We distribute to the ownership of the LLC based on their ownership percentage; investors own 50% of the LLC.

# How Investors Get Paid (5 of 5)

## Order of Distribution on a Sale - Example

*\$4,000,000 Purchase Price*

\$4,500,000 Sales Price

-\$260,000 Sales Expenses

-\$2,400,000 Mortgage

**\$1,840,000 Subtotal**

-\$1,200,000 Pay back investor capital

\$640,000 The gain is split 50/50, Investors / LLC ownership) so **\$320,000 goes to investors.**

# LLC Ownership (1 of 8)

## Of utmost importance is the preservation of investor capital.

Each LLC is a **separate** entity that owns a **single** property, and its bank accounts are completely separate from all the other LLCs. So investors are not exposed to risks outside of **one property**; only those presented in *that property's* Opportunity Profile.

Each LLC is itself owned fractionally by two groups: the Investors and the Sponsor.

A **Sponsor** is how we build a **“wall” of protection** around investor capital.

This Sponsor **consists of three groups**:

- “Safety”
- “Capital Introducers”
- The “Operations Team”



# LLC Ownership (2 of 8)

## To Build a Wall of Protection of Investor Capital:

We start by bringing in a “**Safety**” (a high net-worth individual) to do two things:

1. **Guarantee the loan**; removing that responsibility from the investors.
2. Act as a “backstop” to the deal by being willing to loan money to the LLC should we ever run out of reserve; so we’ll never have to ask investors for money.

## **But we take steps to decrease the need for that:**

1. We buy the property at the “right” price, creating a spread between purchase and market price to **immediately build value** and help insure against losses.
2. We raise additional capital so we can fund significant **reserves** in case something goes wrong; it gives us time to fix it.

# LLC Ownership (3 of 8)

To qualify as a **Safety**, a person must have:

1. Adequate liquidity to pay off the loan if needed.
  2. Enough “backstop” money to loan to the LLC if needed.
- For this service they will receive “A” shares worth typically 10-22% of the LLC ownership depending on the risk. They don’t participate in the Preferred Returns (unless they also invest in B shares) just the **Quarterly Returns** and any gain-on-sale along ownership lines.

“**Capital Introducers**” earn a 3-15% share of A shares, either by introducing investors to us, or by bringing us a property under contract that meets our criteria.

# LLC Ownership (4 of 8)

## A note to potential Safeties:

- If you qualify and agree to help us protect investors' capital, you'll be awarded a large portion of the "A" shares, which participate in the Quarterly Return. You will also earn a return on any investment you place in "B" shares.
- The legal structure is in place, the management of the asset is in place, and the property management is in place. This is a **passive** investment. You'll receive **monthly income** and **annual reports**. Go enjoy life!

# LLC Ownership (5 of 8)

The “**Operations Team**” receives 15%-25% of ownership in exchange for:

1. **Finding the deal** (we comb through an average of 4800 listings to find a deal!)
2. Negotiating a deal that meets our strict requirements.
3. Conducting the **due diligence** to make sure it's everything it appears to be.
4. Soliciting multiple lender offers and choosing the best.
5. Getting investors involved and **protecting their capital** going forward.
6. Navigating through an often complex closing process.
7. During ownership, the team **manages the asset, pays the investors** and markets the asset when the time comes to sell.

# LLC Ownership (6 of 8)

## The Wall of Protection Around Investor Capital:

- There are 5,000 “A” shares and 5000 in “B” shares in each LLC.
- The “B” shares belong to the investors. The “A” shares help us put together a collection of benefits *for the investors* to help **protect** their money.

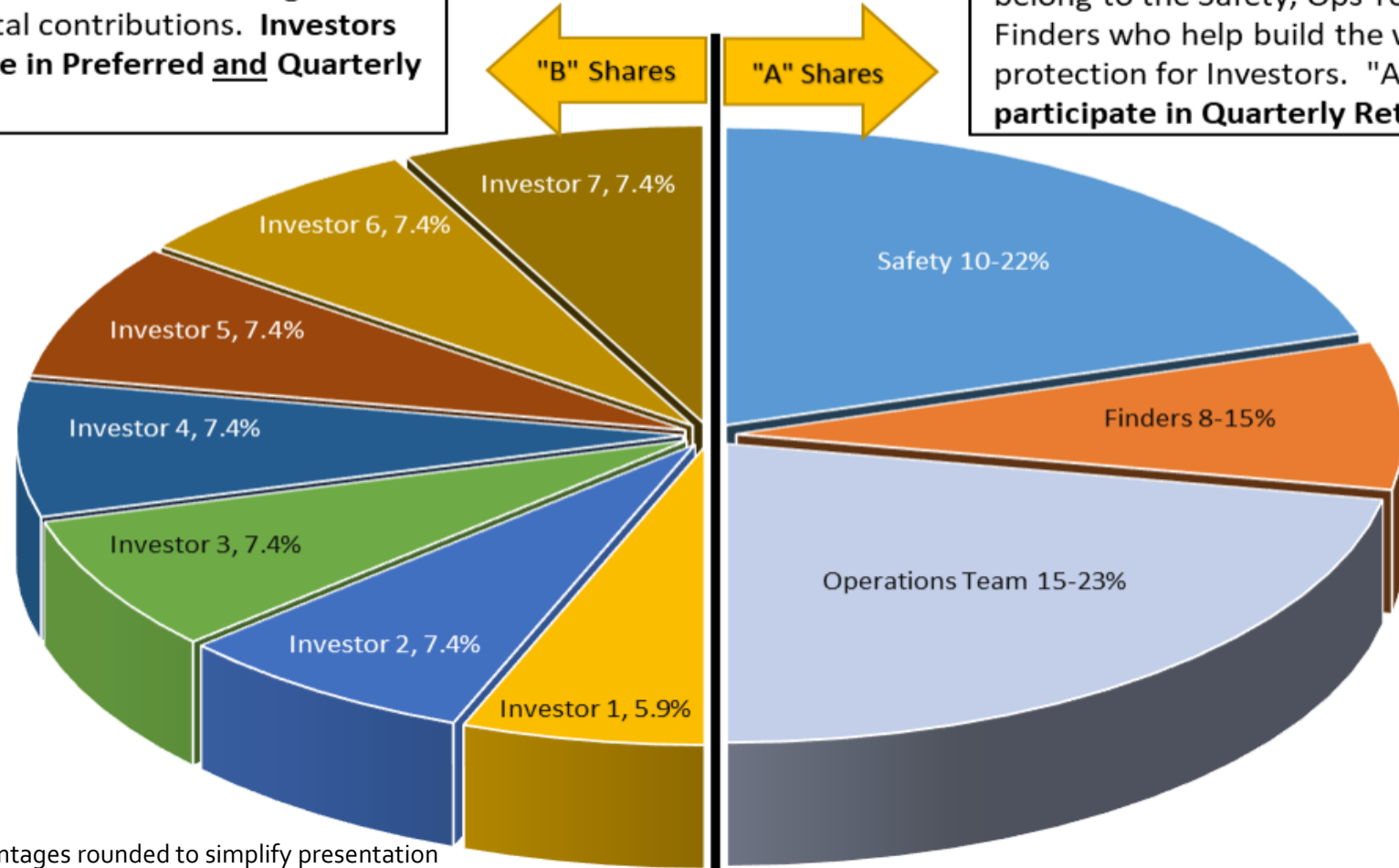
“B” shares	“A” shares
5000 or 50% of Ownership	5000 or 50% of Ownership
Issued to investors and distributed based on each investor’s capital contribution	Issued to the 3 Sponsor groups who help us build a wall of protection around investors’ capital
Participate in Preferred and Quarterly returns (i.e. 10%)	Participate in Quarterly returns (i.e. 2%)

# LLC Ownership (7 of 8)

**"B" shares are 50% of all shares and belong to Investors in exchange for their capital contributions. Investors participate in Preferred and Quarterly Returns.**

**LLC Ownership**  
is split 50/50 into  
"A" and "B" shares.

**"A" shares are 50% of all shares and belong to the Safety, Ops Team, and Finders who help build the wall of protection for Investors. "A" shares participate in Quarterly Returns only.**



Investor percentages rounded to simplify presentation

# LLC Ownership (8 of 8)

Whenever you invest in a syndication of any type, you'll want the **Sponsor** to have **significant ownership** in the deal, so that if things go wrong as they sometimes do, they'll have incentive to go to work and fix the deal to continue to protect and grow investor capital.

We believe this collection of benefits provides a **solid** wall of investor capital protection while still providing enough **benefit** for everyone involved.

# Conclusion

We hope this presentation helped you understand our business model.

**Please contact us with questions.** Thanks for your time.

Please review a property's Opportunity Profile and the associated legal documents before investing. No matter how we work to reduce the risks inherent in investing, there's always risk or there wouldn't be a return. Ask questions to become educated and comfortable with any investment you make.



Robert Church, Principal, GP  
RChurch@HighMark-EP.com  
734-558-1655



HIGH-RETURN, SAFETY-FIRST, PASSIVE-INCOME  
REAL ESTATE INVESTMENTS