How We Do What We Do

Part 3: What Happens If…

HighMark Equity Partners, LLC.

Commercial Real Estate Investments

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

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A tenant leaves (1 of 3)

We only buy properties with a mix of local tenants and national credit tenants who have 5 years remaining on their leases.

Let's say we bought a 3-tenant retail strip like the one below. With a national credit tenant and two smaller local tenants all with 5 years remaining, it's a great, stabilized property, 100% occupied. Then 1½ years later, Pier 1 declares bankruptcy.

Pier1	Envy's NAILS	DRAGON EXPRESS
50% of revenue	20% of revenue	30% of revenue

A tenant leaves (2 of 3)

As much as we always do everything possible to mitigate risk on the front end, it happens.

So imagine we're left with 50% of revenue, enough to pay the mortgage and monthly expenses, but not enough to pay a return. We never pay returns out of our reserves, they're for the monthly expenses and held for any tenant improvements needed to attract a replacement tenant.

Pier1	Envy's NAILS	DRAGON EXPRESS
50% of revenue	20% of revenue	30% of revenue

A tenant leaves (3 of 3)

A bankruptcy can keep us from getting the keys back for 12 months… we could go for a year without being able to re-tenant and restore that revenue.

Let’s assume:

Building cost:	*$2,000,000*
Down payment:	$400,000
Reserves:	+ $100,000
Capital Raised:	**$500,000**

This means $40,000 in 8% Preferred Returns would go unpaid, but they would *accumulate.*

50% of revenue	20% of revenue	30% of revenue

We find a new tenant (1 of 2)

Let's say it takes us a year, but we land ULTA, and they pay a similar rental rate and sign a 10-year lease. We get cash flow!

So we resume paying the regular Preferred Returns, <u>and</u> begin paying down the $40,000 in *Accumulated* Preferred Returns. The Quarterly Return is what the property earns after the preferred return is paid out, and is normally split between all shareholders. But we won't pay a Quarterly return until we have caught up the $40,000 in *Accumulated* Preferred Returns.

New 10-year lease

ULTA BEAUTY	Envy's NAILS	DRAGON EXPRESS
50% of revenue	20% of revenue	30% of revenue

We find a new tenant (2 of 2)

So before the Safety, Finders or Ops Team gets paid, the $40,000 in *Accumulated* Preferred Returns must be paid back. This could take 2-3 years. But we're going to catch up that return.

This ends at closing. If we can make the property worth more now than in 10 years, (such as with new 10-year leases from each tenant) we may try and sell it. If we sell while we still have *Accumulated* Preferred Returns they'll get paid at closing.

10-year lease	**New 10-year lease**	**New 10-year lease**
ULTA BEAUTY	Envy's NAILS	DRAGON EXPRESS CHINESE CUISINE
50% of revenue	20% of revenue	30% of revenue

A new tenant, but… (1 of 2)

Let’s replay the scenario above but with a worse outcome. Again Pier 1 declares bankruptcy, again we do everything we can to find a replacement tenant; but this time we don’t.

Then both remaining tenants leave. So now we have an empty strip and negative cash flow.

We’ll use the Reserve account to pay the mortgage and to make any tenant improvements needed to attract replacement tenants.

Pier 1	Envy's Nails	Dragon Express
50% of revenue	20% of revenue	30% of revenue

A new tenant, but… (2 of 2)

Finally after 12-18 months of doing everything we can we find tenants, we find a local VFW willing to take all the space, but… at only 60% of the former rental rate.

We accept it because it's our best deal and it ends our negative cash flow, but…

This is no longer the investment we want for our shareholders, it's become "functionally obsolete," so we have reason to sell it and find a better return elsewhere. *The next two slides are from "How We Do What We Do" (HWDWWD.ppt) and describe the order of distribution on a sale.*

60% of former revenue

How Investors Get Paid (1 of 2 from HWDWWD)

Before we talk about what happens when we sell a property… why would we?:

1. We only *buy* properties we can hold a long time, but there are two reasons we'd sell sooner:
    a. If we can do something to make it immediately worth more than it would be in 10 years OR
    b. If it becomes functionally obsolete (it stops producing)
2. Note: Each LLC is a separate entity that owns a single property, and its bank accounts are completely separate from all the other LLCs. So, when you invest, you're not exposed to risks outside of a single property.

How Investors Get Paid (2 of 2 from HWDWWD)

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.

Conclusion (1 of 2)

Hopefully we are 5, 10, or 15 years into a ownership of a property before anything like this happens and there’s been good income and reserve money available for distribution even if we have to sell it at less than we paid for it.

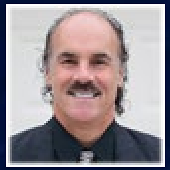
But if we’re so short we can’t pay off the mortgage, it becomes the Safety’s responsibility and ours to handle that. This is a risk factor present in commercial real estate investment. But in our model it never falls upon the investors.

When you invest with HighMark Equity Partners, you join people that have skin in the game and will go the extra mile to take care of our investment, making sure that these scenarios have the smallest possibility of happening. Unforeseen things happen; our job is to help protect your capital.

Conclusion (2 of 2)

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.



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