Project: Bornemann Capital Stack & IRR Optimization Model

Purpose: Explaining the model type, summarizing what the current version is doing, and identifying amendments that can make the deal more attractive to both LPs and the GP for a U.S.-based client.

Important note: This report is a commercial structuring memo based on the workbook supplied. It is not legal, tax, securities, or investment advice. Any final U.S. offering terms should be reviewed by U.S. counsel, CPA/tax advisors, and the sponsor's securities team.

1. Executive Summary

This workbook is described as an all-equity retail commercial development feasibility model with an LP/GP waterfall, a preferred return layer, scenario analysis, and a dashboard. In other words, it starts with total development cost and equity funding, flows through property operations, and then distributes cash flow under a sponsor-investor waterfall.

Key Metric	Current Base Case	Interpretation	Comment
Total project cost	$1,467,000	Moderate-sized retail development	Land plus base building construction
Total equity raised	$1,750,000	100% equity capitalization	No senior debt modeled
Funding surplus / reserve pool	$283,000	Protective liquidity cushion	Can absorb soft costs and reserve items
Annual NOI (Years 1–7)	$49,800	Stable but modest cash generation	Based on $72,000 EGI and $22,200 cash opex
Projected sale price	$1,940,999	Exit drives the result	Large share of total return comes at sale
Project IRR	4.22%	Low project-level return	Base case is not especially aggressive
LP IRR	4.77%	LP receives priority but modest return	Below the 8% pref threshold
GP IRR	-3.27%	Current base case is weak for GP	GP does not receive enough promote/return

Bottom line of the Study: The current model is structurally LP-protective because the waterfall pays LP preferred return first and only then returns capital and residual cash. However, it is not strongly attractive on absolute returns for either side in the present base case. LPs have priority but not a high enough IRR, while the GP economics are plainly too thin in the current scenario.

2. What Type of Model This Is

- Asset type: retail commercial development / stabilized retail hold.
- Capital structure: all-equity structure in the current workbook; no mortgage debt is modeled.
- Return engine: annual operating cash flow plus terminal sale proceeds.
- Distribution engine: LP preferred return, capital return step, then residual split.
- Decision-use: feasibility screening, investor return explanation, and sponsor/LP negotiations.

Because the workbook combines development uses, equity sizing, annual operations, waterfall math, scenario analysis, and a dashboard, it functions as a sponsor-underwriting and investor-communication model rather than a simple rent roll or a simple acquisition model.

3. Step-by-Step Explanation of How the Model Works

Step 1 — Start Here

This is the navigation and orientation tab. It identifies the model as a single-flow structure and tells the reader the intended reading order: Development Summary → Capital Stack → Final Retail Commercial Assumptions → Operating Engine → Preferred Return + Promote → Scenario Comparison → Dashboard.

Step 2 — Development Summary

This tab establishes the project uses and the overall shape of the deal. It shows land at $267,000, base building construction at $1,200,000, and total base development cost of $1,467,000. It also shows total equity raised of $1,750,000 and a $283,000 surplus / reserve pool. This sheet is the cleanest place to explain total uses, funding cushion, project size, hold period, and exit value too.

Step 3 — Capital Stack

This tab translates the total equity into LP and GP capital accounts. The workbook allocates 35 shares to LP and 3 shares to GP, resulting in about 92.11% LP ownership and 7.89% GP ownership. It also states the economic rules: 8% LP preferred return, return of capital, and then a 70% / 30% residual split.

Step 4 — Final Retail Commercial Assumptions

This is the control panel of the model. It drives the active scenario and determines hold period, rentable area, annual rent per square foot, vacancy rate, other income, rent growth, exit appreciation, and expense assumptions. This is the correct place for scenario inputs and quality-control checks.

Step 5 — Operating Engine

This tab converts assumptions into annual property cash flow. In the current base case, the model shows potential gross rent of $72,000 per year, effective gross income of $72,000, cash operating expenses of $22,200, and NOI of $49,800. The hold period is 7 years, so later years zero out.

Step 6 — Preferred Return + Promote

This is the waterfall engine. Every year's equity cash flow is routed first to current and accrued LP preferred return, then to capital return, and only after those layers are addressed would residually cash split 70% to LP and 30% to GP. In the current base case, almost all available economics are consumed before a meaningful GP promote appears.

Step 7 — LP/GP Scenario Comparison + 2D IRR Grids

This tab stress-tests the deal under downside, base, and upside assumptions. It measures project IRR, tranche outcomes, exit value, sale proceeds, and sensitivity to vacancy, appreciation, and rent. This is the right tab for negotiation with the partners, because it shows whether the structure survives under less favorable assumptions.

Step 8 — Dashboard

This is the presentation layer. It summarizes total project cost, project IRR, LP IRR, GP IRR, exit value, equity multiple, break-even occupancy, scenario notes, and annual distributions. For the client and partners, this should be the final visual landing page after the logic is explained.

4. Is the Current Model LP-Friendly?

Structurally, yes. Economically, only partly. The model clearly favors LP protection in the payment order, but the resulting LP return is still modest because the project-level economics (provided by the GP) are not high enough to generate a strong residual upside.

- LPs are senior in the waterfall because the 8% preferred return is paid before any GP promote.

- The deal is de-risked by the no-debt structure; there is no interest-rate or loan-refinancing pressure inside the Model.
- The $283,000 surplus / reserve pool gives the appearance of funding discipline and reduces near-term cash-call risk. (As per the client's instruction, additional cash calls are to be avoided)
- The current base case produces stable annual cash flow, which supports a conservative narrative.
- However, LP IRR of about 4.77% remains below the stated 8% pref, which means the deal is LP-protective in structure but not yet compelling in performance terms.

Why this matters for the client conversation

A sophisticated U.S. investor may appreciate the conservative structure, but many LPs will still focus on whether the return actually clears their hurdle. In this model, the waterfall order is favorable to LPs, yet the project itself is not producing enough spread to make the LP economics stand out.

Suggestions to make the LP side more attractive

- Increase Year 1 NOI rather than relying mostly on exit value. The cleanest routes are higher base rent, better other-income capture, or lower controllable expenses.
- Add moderate annual rent growth if there is a credible local market basis. Even small growth improves both interim cash flow and the exit value narrative (**Moderate annual rent growth can be incorporated where supported by credible local market data. This has not been assumed in the base case to maintain a conservative underwriting approach, but can be layered into sensitivity scenarios if required**).
- Underwrite a realistic reimbursement strategy (CAM / NNN-style recoveries if appropriate to the lease structure) so that the expense burden does not sit entirely on ownership.
- Introduce a reserve policy rather than leaving everything as a generic surplus. LPs usually respond better when reserve uses are clearly labeled: soft costs, leasing, TI/LC, taxes, working capital, contingency.
- Show a downside case with still-positive survival metrics. LPs care about loss containment almost as much as upside.
- Consider a pref structure that is strong but realistic for the underlying yield. A pref that is too high relative to project economics can look good on paper but impossible in practice.

5. Why the Current Base Case Is Not GP-Friendly

The GP appears to be under-compensated in the current base case for three reasons. First, the project-level return is low. Second, the LP preferred return absorbs much of the available distributable cash flow. Third, the waterfall does not leave enough residual profit for the GP promote to matter. The dashboard's negative GP IRR makes that clear.

- The GP gets only a small capital account relative to the LP pool.
- The annual distributable cash flow is too thin to clear pref comfortably before the sale year.
- By the time sale proceeds arrive, most economics are still being used for accrued LP pref and capital return.
- With no meaningful residual left, the 30% promote is mathematically weak even though it exists in form.
- Result: the GP may be taking sponsor risk, execution risk, leasing risk, and reputational risk without a proportionate reward.

Suggestions to make the GP side more attractive

- To enhance GP economics, standard sponsor compensation structures (e.g., development fee, asset management fee, and disposition fee) can be incorporated depending on the desired positioning of the offering. These have not been included in the base case to maintain a clean and investor-attractive structure, but can be layered in as part of final deal structuring.
- A multi-tier promote structure can be introduced in place of a single residual split, allowing profit-sharing to become more GP-favorable as higher return hurdles are achieved. This enhances sponsor upside while maintaining alignment with LP performance targets.

- Increase project profitability before changing the split too aggressively. If the deal itself is weak, merely moving economics from LP to GP may make fundraising harder.
- Separate true operating fees from waterfall economics so the GP has some baseline compensation for active management even in a conservative outcome.

6. Recommended Amendment Packages

Below are three practical amendment pathways. They are not the only options, but they are easy to explain to a U.S.-based sponsor or investor and they preserve the current model logic.

Package	What changes	Who benefits most	Best use case
Package A — Conservative LP-first	Keep current pref-first structure; improve NOI, reserve labeling, and downside transparency; add only light sponsor fees.	LPs first	Best when the client wants capital raise credibility and lower perceived risk.
Package B — Balanced institutional	Keep LP pref; add GP catch-up after pref; use a two-tier or three-tier promote; define asset-management and development fees clearly.	Both sides	Best when the client wants a marketable structure without looking overly sponsor-heavy.
Package C — GP-realigned growth case	Moderately reduce LP drag after hurdle achievement; increase sponsor promote only at higher IRR/equity-multiple hurdles; add operating growth assumptions supported by market evidence.	GP, but performance-based	Best when the sponsor is taking real execution risk and needs upside to justify effort.

My preferred recommendation for the Model

Package B is the strongest final-delivery recommendation. It keeps the investor-facing discipline of the current LP-first structure, but it gives the sponsor a more defendable business case. In practical terms, that means keeping the LP preferred return, adding a GP catch-up mechanism, defining sponsor fees separately from the promote, and making the higher GP upside conditional on stronger project performance rather than gifting it on day one.

7. Final Conclusion

This workbook is a solid final-frame model for presentation because it already has a coherent flow: development → capitalization → operations → waterfall → scenario analysis → dashboard. The present economics support the statement that the deal is LP-protective in structure but not yet compelling enough for either side on return. The best next-step amendment is not to abandon the model, but to strengthen it: increase real property cash flow where supportable, define sponsor compensation more clearly, and shift the waterfall from a simple static residual split to a more institutional, performance-based catch-up and tiered promote structure.

Key Terms Extracted from the Workbook

Term	Workbook value
Hold period	7 years
Building area	6,000 sf
Base rent assumption	$12.00 / sf
Vacancy in active base	0.0%
Property taxes	$7,800 per year
Maintenance & repairs	$14,400 per year
Residual split	70% LP / 30% GP after pref and capital return
LP ownership view	35 shares
GP ownership view	3 shares