Retail Commercial Development
Investor-Grade Investment Memorandum

*Decision memorandum prepared for web-based publication, derived from **Retail Commercial Development – Investor/Sponsor Profit Share Model (workbook)**.*

Table 1- summarizes the transaction identity and headline project metadata used throughout the memorandum.

Prepared for	Paul Bornemann
Asset Type	Retail commercial development
Capital Structure	All-equity; 100% investor-funded
Base Project Cost	$1,467,000
Total Equity Raised	$1,750,000

This opening table establishes the transaction identity, funding structure, and scale of the assignment. It gives the reader an immediate understanding that the analysis relates to a small-format, all-equity retail development rather than a leveraged acquisition or multi-asset portfolio.

Table 2- states the reporting mandate for this memorandum and confirms that the numerical base has been preserved.

Mandate **This memorandum is entirely derived from the submitted Excel financial model, with all financial data preserved. Enhancements are limited to structuring, presentation, and analytical articulation, while maintaining the integrity of all numeric outputs and scenarios.**

This mandate table is important because it assures the reader that the memorandum is an interpretive enhancement of the model outputs, not a re-underwriting that changes the original numbers. In investor communication, preserving numerical integrity is essential for credibility.

Investment Dashboard

This page is designed as a quick decision screen. It condenses the key commercial, structural, and return observations that matter most at first review.

Table 3- provides the investment dashboard, bringing together the principal operating, capital, and return indicators in one quick review screen.

Metric	Current Read	Institutional Interpretation
Project	Retail commercial development / 6,000 SF	Small-format retail concept with stable but modest income profile
Capital Structure	100% equity; investor-funded	No leverage benefit; return depends on operations, reserve treatment, and exit timing
Base Project Cost	$1,467,000	Hard cost base reflected in the current report
Total Equity Raised	$1,750,000	Full capital burden exceeds stated project cost
Reserve / Surplus	$283,000	Should be explicitly allocated across contingency, soft costs, leasing, and working capital
Year 1 NOI	$46,200	Positive cash flow from inception
Year 15 NOI	$69,846.92	Steady NOI expansion driven by rent growth exceeding expense growth
Investor IRR Range	-13.4% to -7.9%	Negative IRR is structural and timing-driven, not an indicator of operating collapse
Yield Reference	4.0% indefinite-hold reference	Reflects income stability, but not a full capital recycling outcome
Verdict	Operationally stable, structurally under-optimized	Not yet institutional-grade as a marketed deal without exit framing and sponsor alignment

Looking at these indicators together, the project holds up operationally, but the return profile is not yet compelling. The table helps identify where the asset is solid and where the structure still needs adjustment.

Table 4- summarizes what is working, what remains weak, and the most immediate corrective action required at the asset, structure, and sponsor levels.

Category	What Works	What Is Weak	Priority Fix
Asset	Income is positive and growing; NOI trend is stable	Yield is too low relative to full upfront equity burden	Frame the asset as a stable retail hold with defined liquidity options
Structure	All-equity simplicity aids transparency	No forced exit and high burdened capital suppress returns	Add benchmark exit cases and clarify staged/deployed capital
Sponsor Economics	Sponsor role can be commercially justified	High sponsor share without capital can look aggressive	Move to lower base share and/or performance-based promote

This table is useful because it separates asset quality from structuring quality. The operating platform is serviceable, but the immediate weaknesses sit in capital efficiency, exit clarity, and sponsor-allocation design rather than in the day-to-day income profile.

Table 5- presents the central positioning message that should accompany any public or investor-facing use of this memorandum.

Clear Positioning **The memo should not present the project as a broken asset. The stronger and more credible message is that the property is income-capable, while the current capital structure is not yet optimized for institutional return presentation.**

This positioning matters because, in the U.S. real estate market, investors interpret the story behind the numbers, not just the IRR itself.

A lower IRR doesn't necessarily mean the asset is weak, it often reflects conservative structuring, excess reserves, or investor-heavy distributions. When framed correctly, the narrative shifts from "underperformance" to "returns limited by structure, not by asset quality."

Experienced investors recognize this. A stable, income-generating asset with clear upside can still show modest returns if the deal isn't optimized. Presenting it this way signals that the fundamentals are sound and that returns can be improved through better structuring.

In short, the IRR here is not a limitation of the asset, it's a reflection of how the deal is currently designed, with clear room for enhancement.

Contents

1. Executive Summary

This memorandum evaluates a fully investor-funded retail commercial development that produces positive and steadily improving operating income, but does not yet satisfy institutional return expectations under the current structure. The key issue is not asset fragility. The key issue is capital inefficiency: all equity is burdened at inception, sponsor participation dilutes investor cash flow, and the base dynamic return view does not force a sale event that would recycle capital.

Year 1 gross income is **$72,000** and Year **1** NOI is **$46,200**. By Year **15**, NOI increases to **$69,846.92** under the existing assumptions of **2.5%** annual rent growth**, 2.0%** annual operating expense growth, fixed annual property taxes of **$7,800**, and **5.0%** vacancy. This creates a clear operating stability story.

The capital stack is larger than the stated project cost. Total equity raised is **$1,750,000** against a project cost of **$1,467,000**, leaving a **$283,000** reserve or surplus that requires sharper disclosure. That excess capital is not inherently a weakness, but if it is fully treated as invested from Day **0**, it materially suppresses investor return optics.

Across the tested **95/5** through **50/50** sharing structures, project-level operating cash flow does not change. Only the allocation of that cash flow changes. Investor IRR declines from approximately **-7.9%** in the **95/5** case to **-13.4%** in the **50/50** case, which confirms that the current weakness is primarily structural rather than operational.

The most defensible recommendation is to reposition the deal around a lower sponsor share, clearer reserve deployment, and at least one benchmark exit case. Those changes would not alter the asset itself; they would make the economics more legible, more institutionally aligned, and more decision-ready.

Table 6- captures the executive verdict in a concise form suitable for decision-makers reviewing the project at a high level.

> **Executive Verdict** **The asset demonstrates stable operating fundamentals, but the current all-equity and no-forced-exit framing produces headline returns that are too weak for institutional positioning. The structural story can be improved without changing the underlying financial data.**

The executive verdict should be read as the highest-level investment conclusion: the real estate itself is not collapsing, but the current transaction design is not yet ready for strong institutional marketing. This distinction supports a more honest and defensible presentation.

2. Investment Thesis and Positioning

The project is best positioned as an operating-stability retail investment rather than a high-yield or opportunistic return story. Its strongest characteristics are transparent assumptions, positive NOI from Year 1, and a visible long-term income growth path.

The memorandum should therefore emphasize three distinct ideas. **First**, the property is not failing operationally. **Second**, negative IRR in the current outputs is a timing and structure issue. **Third**, institutional credibility improves when sponsor economics are clearly earned, reserve capital is explained, and exit scenarios are shown even if the sponsor ultimately prefers a flexible-hold strategy.

In other words, this is a structurally incomplete return case, not a fundamentally impaired real estate case. That distinction is critical for both website publication and investor dialogue.

Table 7- states the recommended market positioning language for the opportunity and clarifies how the deal should be framed to readers.

Positioning Statement **Present the deal as a stable retail development requiring improved structuring, not as an underperforming property. That framing is both more accurate and more persuasive.**

This positioning statement helps guide how the opportunity should be described on a website or in a client memo. The goal is to frame the deal as improvable and structured-incomplete rather than inherently unattractive.

3. Market Context and Retail Positioning

The current report supports a modest-income neighborhood retail positioning rather than a premium-growth retail thesis. The starting income base of **$72,000** indicates the project is designed for stability and predictable occupancy rather than outsized revenue velocity.

The rent growth assumption of **2.5%** annually is sensible for a conservative underwriting narrative. It implies gradual rental improvement without relying on speculative step-change leasing assumptions. Because expense growth is modeled at **2.0%**, the spread between revenue growth and expense growth supports slow but steady margin improvement.

The **4.0%** annual appreciation assumption used for optional exit analysis is not aggressive in a memo context, provided it is presented as an illustrative reference path rather than a guaranteed realization outcome. It is directionally useful because it demonstrates how a sale event can convert a low-current-yield profile into a more complete return profile by combining operating cash flow with terminal value realization.

Table 8- translates the core market assumptions into an institutional reading of the retail concept, income strength, and value-growth narrative.

Market Context Item	Current Data Point	Memo Interpretation
Retail positioning	$72,000 Year 1 gross income	Income profile suggests steady neighborhood retail rather than high-growth merchandising
Income strength	$46,200 Year 1 NOI	The asset is cash-flow positive from inception
Rent growth	2.5% annually	Supports gradual top-line growth without relying on aggressive re-leasing assumptions
Value growth	4.0% annually for optional exits	Reasonable as an illustrative exit bridge; should be framed as directional

This market-context table links the current income profile to an appropriate retail narrative. It shows that the underwriting supports a conservative neighborhood-retail case, which strengthens credibility even though it does not on its own solve the return problem.

Table 9- isolates the key takeaway from the market context section so the reader understands the gap between stable operations and investable returns.

> **Key Takeaway** **The operating assumptions are conservative enough to support credibility, but they do not on their own create a compelling institutional return story. Exit realization remains the missing bridge.**

This takeaway is critical because it prevents the reader from over-reading stable operating assumptions as proof of investability. The table reinforces that steady operations and investable capital structure are related but not identical concepts.

4. Project Profile and Model Basis

This memorandum is built directly from the Retail Commercial Development – Investor/Sponsor Profit Share Model (workbook). The financial figures remain unchanged; the focus here is on presenting them more clearly, with stronger narrative flow and better decision context.

The project itself is a **6,000-**square-foot retail development structured on a fully equity-funded basis. There is no debt, no refinancing risk, and no lender-imposed timelines. Because of that, the investment story is driven less by financing mechanics and more by how the asset performs over time—its operating income, how reserves are treated, how returns are shared between sponsor and investors, and ultimately when and how the asset is sold.

The model currently looks at a **15-year** operating horizon, with flexibility around the actual hold period. That flexibility is useful in practice, but from an investor perspective it can make the return profile feel less defined. Most U.S. market investors prefer to see both sides clearly: a long-term hold narrative, and a clean, reference exit scenario that anchors the IRR and makes the opportunity easier to evaluate.

5. Capital Structure and Reserve Breakdown

Total equity raised exceeds the stated project cost by **$283,000**. That difference should be explained clearly rather than left implicit. In real-world development and lease-up execution, this amount could represent a prudent mix of contingency, soft costs, leasing reserve, and working capital.

The figures below provide a decision-ready reserve allocation framework. This is not a change to financial data; it is a memo presentation of how the existing reserve can be interpreted for investor communication.

Table 10- breaks the reserve into practical execution buckets so the surplus above project cost is explained rather than left implicit.

Reserve Component	Illustrative Allocation	Why It Matters
Contingency Reserve	$90,000	Construction overrun buffer and execution uncertainty coverage

Reserve Component	Illustrative Allocation	Why It Matters
Soft Costs	$108,000	Legal, structuring, design, consultant, and pre-development support
Leasing Reserve	$45,000	Tenanting support, commissions, concessions, and stabilization buffer
Working Capital	$40,000	Operating liquidity and early-period cash management
Total Reserve	$283,000	Matches current surplus above stated project cost

This reserve table is one of the most important explanatory additions in the report because it gives purpose to the capital raised above stated project cost. In U.S. practice, reserves are more acceptable when clearly tied to contingency, leasing, and liquidity needs.

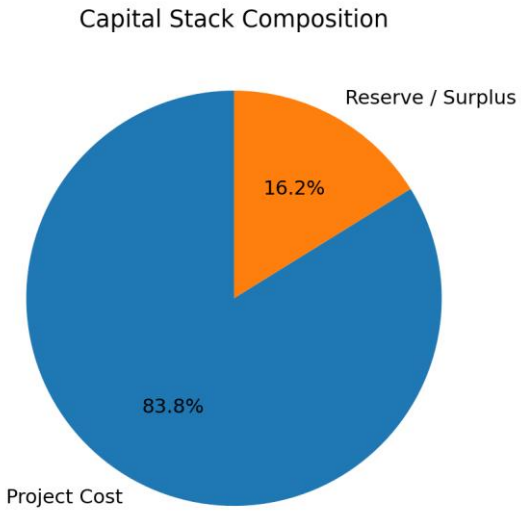

Figure 1. Relationship between stated project cost and reserve / surplus capital.

Return impact: if all **$1.75** million is treated as fully invested from inception, investor return metrics are diluted because the denominator is larger than the immediately productive asset base. If part of the reserve is staged, released, or treated as contingent capital rather than deployed Day **0** capital, the economic presentation improves even though the operating cash flow line does not change.

This reserve discussion is essential because it helps explain why the current negative IRR is not evidence of asset distress. It is partly a result of how capital is loaded into the model.

Table 11- distills the reserve interpretation into a single decision point for investor communication and fairness of return presentation.

Reserve Interpretation **The reserve itself is not the problem. The problem is treating reserve capital as fully burdened without explaining what it funds, when it is deployed, and whether any portion remains undeployed.**

This interpretation clarifies the real issue for investors: not the existence of reserve capital, but the way reserve capital is treated in return presentation. That distinction can materially affect how fair or unfair the current IRR appears.

6. Operating Performance Review

The operating story is the strongest part of the memo. Gross income, effective income, and NOI all rise over time. This is a stable income profile with visible margin expansion rather than a volatile or distressed one.

Year **1** NOI is **$46,200**. By Year **5** it reaches **$52,113.78**, by Year **10** it reaches **$60,412.89**, and by Year **15** it reaches **$69,846.92**. This confirms that the asset can generate cash and improve organically under the current assumptions.

What it does not do, by itself, is deliver a strong time-weighted return against the full upfront equity load. That distinction should remain central throughout the memo.

Table 12- shows the operating performance milestones across the hold period and demonstrates that NOI growth is present even though headline returns remain weak.

Year	Gross Income	Effective Income	NOI
1	$72,000	$68,400	$46,200
5	$79,474.53	$75,500.80	$52,113.78
10	$89,918.13	$85,422.23	$60,412.89
15	$101,734.12	$96,647.41	$69,846.92

This operating-performance table confirms that income growth is present across the hold period and that NOI is moving in the right direction. It helps demonstrate that the asset has a functioning operating engine even if the investor-level outcome remains weak.

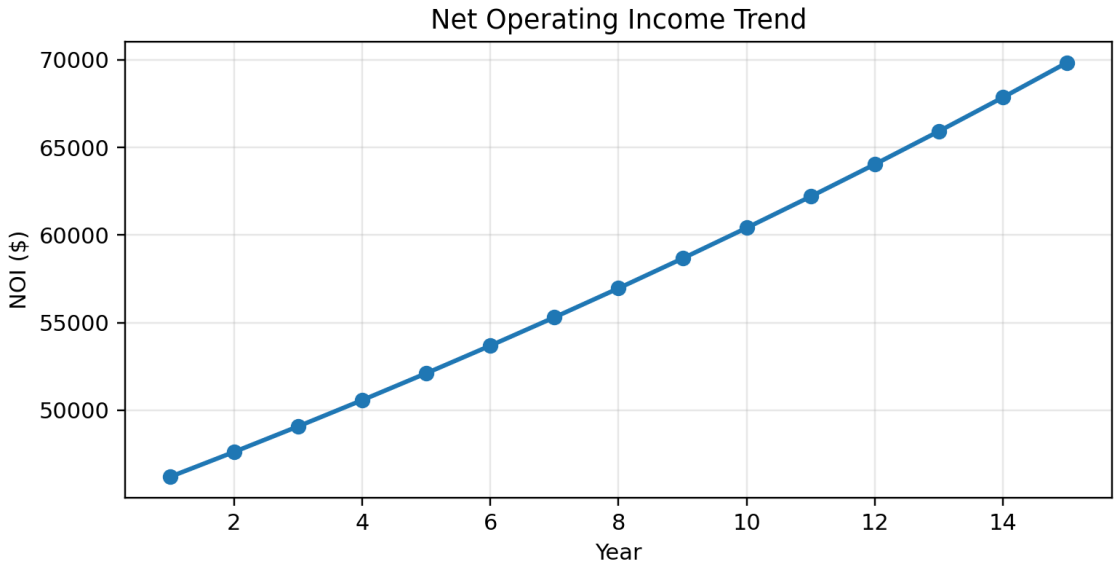

Figure 2. NOI increases steadily across the fifteen-year projection horizon.

Table 13- summarizes the strongest operating qualities of the asset in a short interpretive callout.

> **What Works** **The asset has a clean operating narrative: positive cash flow, controlled expense growth, and gradual NOI expansion. This is the foundation on which a better structure can be built.**

This strengths callout summarizes the best part of the current case: predictable operations with improving NOI. In practical terms, it suggests that the asset can support a better deal structure if the capital and distribution mechanics are redesigned.

7. Structural Return Diagnosis

Negative investor IRR in the current model should be interpreted carefully. It does not mean the project loses money at the operating level. It means capital is not returned fast enough, under the current timing assumptions, to produce a positive time-weighted return measure.

Three factors drive that result. First, all investor capital is placed at inception. Second, sponsor profit sharing reduces the investor's claim on operating cash flow. Third, the base dynamic view does not force a sale event, so one of the largest possible sources of capital recovery is absent.

For this reason, the memo should explicitly say that the issue is structural rather than asset-level. **That sentence matters because investors often misread negative IRR as a failure of the property itself.**

Table 14- diagnoses the specific structural drivers responsible for depressing investor returns in the present model configuration.

Structural Driver	Effect on Model	Investor Read
No defined base exit	No terminal capital recovery in base dynamic view	IRR remains depressed even with positive NOI

Structural Driver	Effect on Model	Investor Read
Full upfront equity burden	Yield is low relative to total capital committed	Capital efficiency appears weak
Sponsor share	Redistributes the same project cash flow	Investor IRR becomes more negative as sponsor share rises
Reserve included in burdened capital	Larger denominator at inception	Returns appear weaker than if deployment were staged

This diagnosis table should be read as the central explanation for the weak return outcome. Each factor listed here is structural and negotiable, which means the current weakness is not necessarily permanent if the deal is rebalanced.

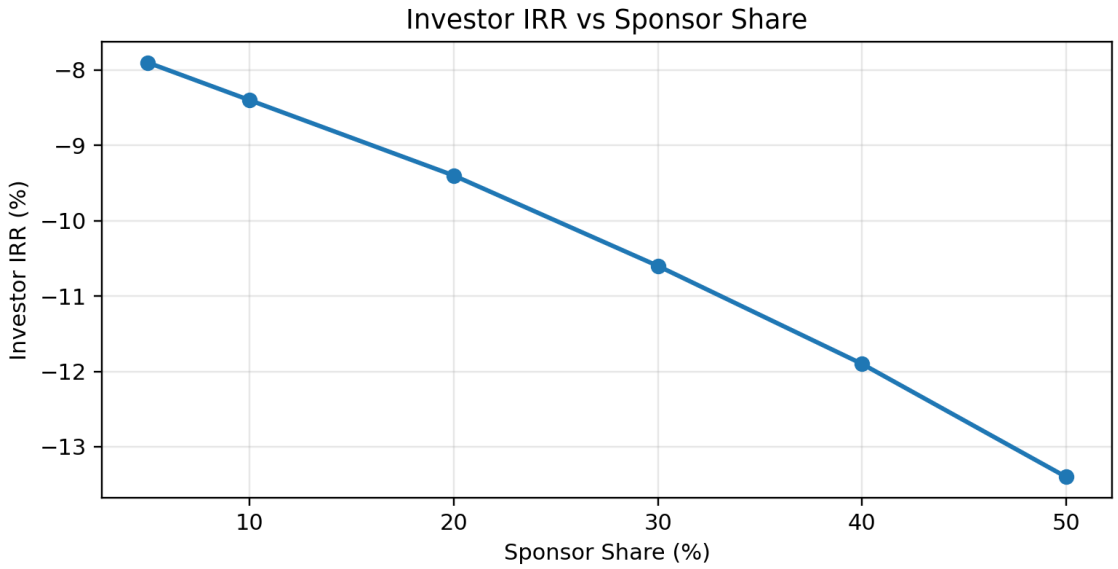

Figure 3. Investor IRR weakens as sponsor participation increases.

Table 15- provides the plain-language explanation that negative IRR in this case reflects structure and timing, not operating failure.

Negative IRR Explained Clearly **The current report shows a structurally incomplete monetization path. It does not prove the real estate is flawed; it proves the capital recovery plan is under-defined.**

This plain-language explanation is especially important for non-technical readers. It reassures investors that negative IRR is being driven by timing, burdened capital, and monetization assumptions rather than by an operating loss at the property level.

8. Exit Analysis and Return Repair

A benchmark exit framework is the single most important addition for decision readiness. A reference sale case does not force a sale strategy; it simply shows how operating value plus capital appreciation can repair return optics.

Using the existing **4.0%** annual appreciation assumption, the following exit values can be shown as illustrative reference cases. These values are directional outputs based on the stated growth path and should be presented as scenario analysis rather than guaranteed outcomes.

Table 16- presents benchmark exit cases using the stated appreciation path so the reader can see how terminal value improves the capital recovery profile.

Illustrative Exit	Implied Value at 4% Growth	Directional Effect on Returns
Year 10	$2,171,518.37	Would likely move the deal from structurally weak to materially more defensible.
Year 12	$2,348,714.26	Further improves capital recovery and supports stronger equity realization.
Year 15	$2,641,984.12	Maximizes appreciation capture, though later timing may moderate IRR efficiency versus a balanced exit year.

This benchmark exit table demonstrates how terminal value changes the economic story. In U.S. underwriting practice, showing a reference sale case is often necessary because it helps investors evaluate both capital recycling and the realism of the hold strategy.

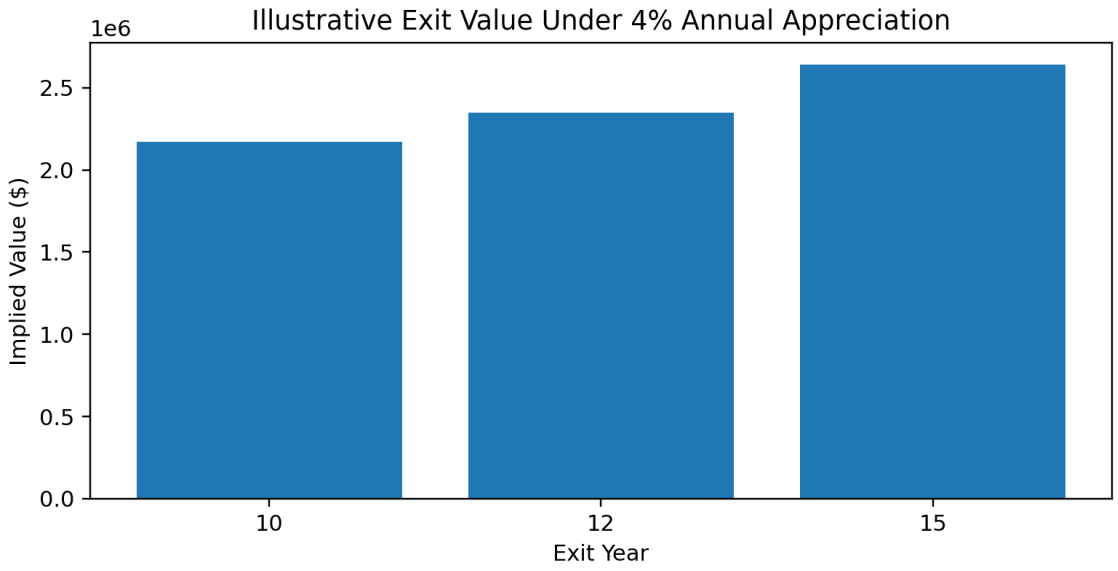

Figure 4. Optional exit values derived from the stated 4% annual growth assumption.

How exit fixes return: the current operating cash flow stream is positive but modest relative to the burdened equity base. A sale event adds a large terminal inflow, which materially improves equity recovery and makes IRR more representative of the asset's full economic potential.

Institutionally, Year **10** often reads as the cleanest benchmark because it balances operational seasoning with capital recycling discipline. Year **12** and Year **15** remain useful sensitivity cases to show downside-to-upside holding flexibility.

Table 17- states the preferred exit framing for publication and investor discussion.

> **Recommended Exit Framing** **Use Year 10 as the primary benchmark exit case, with Year 12 and Year 15 as supporting cases. This creates a credible decision framework without forcing the sponsor into a rigid disposition promise.**

This exit framing gives the report a more decision-ready structure. A Year **10** benchmark is often easiest to defend because it balances seasoning, appreciation capture, and investor preference for a visible liquidity path.

9. Scenario Ranking: 95/5 through 50/50

The scenario grid represents negotiation outcomes rather than different real estate cases. Project cash flow is unchanged across scenarios; only the distribution split changes. This distinction should be stated explicitly in any investor-facing version.

The most defensible structures are the more investor-protective ones because the investor funds all modeled equity while the sponsor contributes no initial capital in the current framework.

Table 18- ranks the sponsor-sharing scenarios from the most investor-defensible to the least defensible under the current facts.

Scenario	Investor Share	Sponsor Share	Investor IRR	Sponsor Distributions	Rank	Assessment
95/5	95%	5%	-7.9%	$43,025.93	Strong	Best current base case
90/10	90%	10%	-8.4%	$86,051.86	Strong	Strong alternative
80/20	80%	20%	-9.4%	$172,103.72	Acceptable	Negotiable if sponsor role is meaningful
70/30	70%	30%	-10.6%	$258,155.57	Aggressive	Requires strong execution justification
60/40	60%	40%	-11.9%	$344,207.43	Not defensible	Difficult to defend institutionally
50/50	50%	50%	-13.4%	$430,259.29	Not defensible	Not recommended under current facts

This scenario-ranking table is best understood as a fairness test rather than as a change in property performance. The project cash flow is the same in each case; what changes is how much of that cash the investor is asked to give away to the sponsor.

Table 19- identifies the recommended sharing structure based on the current operating and capital setup.

> **Recommended Structure** **The best current structure is 95/5, with 90/10 as the outer edge of a still-defensible sponsor allocation. 80/20 may be marketable only if the sponsor role is materially broader than passive participation.**

This recommendation narrows the negotiation range to structures that are easier to defend in a U.S. investor conversation. It makes clear that **95/5** and, at most, **90/10** are the more commercially credible starting points under the current facts.

Scenario Detail Tables

95/5 Scenario

Table 20- gives the detailed read on the 95/5 scenario, the most investor-protective case in the current scenario set.

Metric	Value	Interpretation
Investor capital	$1,750,000	All modeled equity funded by investor
Sponsor capital	$0	No initial capital contribution shown
Project cost	$1,467,000	Underlying cost base is unchanged
Reserve / surplus	$283,000	Needs explicit deployment disclosure
Investor IRR	-7.9%	Current dynamic no-forced-exit output
Sponsor distributions	$43,025.93	Cumulative sponsor participation under current split
Rating	Strong	Commercial defensibility under current facts

The 95/5 table represents the strongest investor-protection case in the current model. It shows that even the most conservative sharing split still struggles to produce attractive IRR without a clearer exit and more refined capital deployment logic.

90/10 Scenario

Table 21- gives the detailed read on the 90/10 scenario, which remains broadly defensible if sponsor contribution is clearly articulated.

Metric	Value	Interpretation
Investor capital	$1,750,000	All modeled equity funded by investor
Sponsor capital	$0	No initial capital contribution shown
Project cost	$1,467,000	Underlying cost base is unchanged
Reserve / surplus	$283,000	Needs explicit deployment disclosure
Investor IRR	-8.4%	Current dynamic no-forced-exit output
Sponsor distributions	$86,051.86	Cumulative sponsor participation under current split
Rating	Strong	Commercial defensibility under current facts

The 90/10 table remains within a potentially marketable range if the sponsor can demonstrate meaningful execution value. Even so, it still relies on stronger structural support than the current memo provides on a standalone basis.

80/20 Scenario

Table 22- gives the detailed read on the 80/20 scenario, a middle case that may be workable only with stronger sponsor justification.

Metric	Value	Interpretation
Investor capital	$1,750,000	All modeled equity funded by investor
Sponsor capital	$0	No initial capital contribution shown
Project cost	$1,467,000	Underlying cost base is unchanged
Reserve / surplus	$283,000	Needs explicit deployment disclosure
Investor IRR	-9.4%	Current dynamic no-forced-exit output
Sponsor distributions	$172,103.72	Cumulative sponsor participation under current split
Rating	Acceptable	Commercial defensibility under current facts

The 80/20 case becomes harder to justify unless the sponsor is clearly contributing sourcing advantage, execution oversight, leasing support, and exit capability. At this level, narrative justification becomes almost as important as the economics themselves.

70/30 Scenario

Table 23- gives the detailed read on the 70/30 scenario, where sponsor economics begin to read as aggressive relative to investor capital at risk.

Metric	Value	Interpretation
Investor capital	$1,750,000	All modeled equity funded by investor
Sponsor capital	$0	No initial capital contribution shown
Project cost	$1,467,000	Underlying cost base is unchanged
Reserve / surplus	$283,000	Needs explicit deployment disclosure
Investor IRR	-10.6%	Current dynamic no-forced-exit output
Sponsor distributions	$258,155.57	Cumulative sponsor participation under current split
Rating	Aggressive	Commercial defensibility under current facts

The 70/30 case reads aggressively in an all-equity, investor-funded structure because sponsor participation rises materially while investor return quality continues to weaken. It would likely require a much more developed sponsor-value case to be credible.

60/40 Scenario

Table 24- gives the detailed read on the 60/40 scenario, which becomes difficult to support institutionally under the current assumptions.

Metric	Value	Interpretation
Investor capital	$1,750,000	All modeled equity funded by investor
Sponsor capital	$0	No initial capital contribution shown
Project cost	$1,467,000	Underlying cost base is unchanged
Reserve / surplus	$283,000	Needs explicit deployment disclosure
Investor IRR	-11.9%	Current dynamic no-forced-exit output
Sponsor distributions	$344,207.43	Cumulative sponsor participation under current split
Rating	Not defensible	Commercial defensibility under current facts

The 60/40 case is difficult to support under typical investor expectations because the sponsor receives substantial economics without corresponding capital-at-risk in the base structure. Most U.S. investors would expect either lower base sharing or stronger performance hurdles.

50/50 Scenario

Table 25- gives the detailed read on the 50/50 scenario, the least defensible allocation in the present all-equity structure.

Metric	Value	Interpretation
Investor capital	$1,750,000	All modeled equity funded by investor
Sponsor capital	$0	No initial capital contribution shown
Project cost	$1,467,000	Underlying cost base is unchanged
Reserve / surplus	$283,000	Needs explicit deployment disclosure
Investor IRR	-13.4%	Current dynamic no-forced-exit output
Sponsor distributions	$430,259.29	Cumulative sponsor participation under current split
Rating	Not defensible	Commercial defensibility under current facts

The 50/50 case is the least defensible because it places equal economic participation on unequal capital contribution. Unless the sponsor is contributing extraordinary value or guarantees, this allocation is likely to be rejected in most market-facing discussions.

10. Sponsor Justification Framework

Sponsor participation can still be justified without direct capital if the sponsor is genuinely originating, executing, stabilizing, and monetizing the project. The strength of that justification should determine how far sponsor economics can reasonably extend.

The table below shows when a higher share becomes more commercially supportable. This section is important because it converts sponsor economics from an arbitrary split into a service-and-performance logic.

Table 26- sets out the sponsor-justification framework and explains which execution functions can support higher sponsor participation.

Sponsor Function	What It Includes	Why It Matters	When Higher Share Is Justified
Sourcing	Deal origination, site access, local relationships	Creates pipeline advantage and proprietary entry	Only if sourcing is differentiated and replicable
Development	Permitting, design coordination, construction oversight	Reduces execution risk and protects budget/time	Yes, if sponsor is actively leading delivery
Leasing	Tenant outreach, negotiations, stabilization support	Directly affects occupancy and rent realization	Yes, if sponsor materially improves lease-up certainty
Asset Management	Operating oversight, reporting, vendor control	Maintains performance after delivery	Moderately, especially if sponsor bears accountability

Sponsor Function	What It Includes	Why It Matters	When Higher Share Is Justified
Exit Execution	Sale timing, buyer access, disposition process	Monetizes value creation and compresses execution risk	Yes, if sponsor demonstrably controls exit realization

This sponsor-justification table is useful because it converts sponsor economics from a percentage negotiation into an earned-role framework. In the U.S. market, investors are generally more receptive when sponsor upside is tied to real execution responsibilities.

Table 27- states the rule-of-thumb that should govern sponsor economics when capital is entirely investor-funded.

Institutional Rule of Thumb **Higher sponsor share is easiest to justify when it is tied to sourcing, development execution, leasing success, and exit delivery - not merely to passive entitlement to cash flow.**

This rule-of-thumb is important because it points toward performance-based alignment rather than passive entitlement. That approach typically reads as more professional and more institutionally acceptable in sponsor-investor negotiations.

11. Return Optimization Options

The objective of optimization is not to change the reported numbers artificially. It is to redesign how economics are allocated so that investors can see a clearer path to fair capital recovery while the sponsor still earns credible upside.

The options below are the most relevant based on the current report.

Table 28- compares the principal return-optimization levers available if the deal is restructured for stronger institutional acceptance.

Optimization Lever	How It Works	Likely Effect	Best Use
Preferred Return (8%)	Investor receives an 8% preferred return before sponsor back-end participation	Improves investor protection and fairness perception	Best for institutional credibility
Promote	Sponsor upside activates after investor return hurdles are met	Aligns sponsor reward with performance	Best when sponsor wants meaningful upside without high base share

Optimization Lever	How It Works	Likely Effect	Best Use
Lower Sponsor Share	Reduce base split from higher cases toward 95/5 or 90/10	Directly improves investor IRR retention	Best immediate fix under current facts
Fee + Backend	Use modest development/asset fees plus smaller residual share	Separates execution compensation from long-term promote	Best if sponsor is highly active operationally
Staged Capital	Deploy reserve only as needed instead of burdening full equity on Day 0	Improves capital efficiency optics	Best when reserve is not immediately productive

This optimization table compares the main structuring tools available to improve investor perception without changing the base operating facts. It shows that better alignment can be achieved through sequencing, hurdles, and sponsor design rather than through cosmetic narrative changes.

The strongest combined recommendation is: keep a lower base sponsor share, add an 8% investor preferred return, and allow sponsor upside primarily through a promote or modest back-end participation after capital protection thresholds are met.

That structure is more persuasive because it preserves sponsor motivation while making the deal easier to defend to outside capital.

Table 29- states the preferred optimization path in concise form for investor and client discussion.

Best Option Recommended framework: lower sponsor shares plus 8% preferred return plus performance-based promote. This is the most balanced way to improve fairness, readability, and institutional marketability.

This preferred-option table points toward the most balanced path forward: protect investor capital first, then allow sponsor upside to grow through performance. That approach is widely more acceptable in U.S. private real estate structures.

12. Risk Assessment and Decision Considerations

Table 30- summarizes the principal risks, their current status, and the recommended treatment for each one.

Risk Area	Current Condition	Potential Effect	Recommended Treatment
Exit visibility	No benchmark base sale case	Suppresses IRR and clouds liquidity story	Add Year 10, 12, and 15 reference exits
Reserve treatment	$283,000 sits above project cost	May overburden investor return denominator	Break reserve into disclosed buckets and note staged deployment logic
Sponsor alignment	Higher splits can appear aggressive	Weakens investor fairness perception	Tie sponsor upside to execution and performance
Return communicati on	Negative IRR can be misread as asset failure	Can damage investor confidence if unexplained	State clearly that the issue is structural, not operational
Underwriting depth	Current assumptions are intentionally streamlined	Can read as preliminary rather than fully institutional	Support with sponsor role, reserve, and exit narrative

This risk table organizes the current weaknesses into actionable categories rather than abstract concerns. It allows the reader to see that most of the present issues can be addressed through clearer structuring and communication choices.

Table 31- provides the decision lens that should accompany the memo when it is used for website or investor communication.

Decision Lens	**This should be marketed as a deal-structuring memorandum, not as a fully de-risked institutional acquisition book. Its credibility comes from showing exactly what works, what is weak, and how the structure can be fixed.**

This decision lens is useful because it sets the correct expectation for the report. The memo is strongest when used as a structuring and negotiation document, not as a finished institutional offering memorandum for fully de-risked capital.

13. Conclusion

The uploaded report already demonstrates that the property can generate positive and rising operating cash flow. That is a real strength and should remain central to the narrative.

The reason the deal currently reads weak is not because the property lacks income capacity. It is because the capital stack is fully burdened at inception, sponsor sharing reduces investor retention, and the base return view lacks a benchmark sale event. Those are structural design issues.

Accordingly, the project should be positioned as an operationally stable retail development that requires structuring refinement to become institutionally credible. With a clear reserve breakdown, a Year 10 reference exit, and a more disciplined sponsor economics framework, the deal can be presented as materially more investable without changing the underlying financial data.

Table 32- states the final verdict in concise form and ties the narrative back to the required structural remedies.

Final Verdict **Operationally sound. Structurally under-optimized. Best path forward: retain the asset story, improve capital efficiency framing, and align sponsor economics with investor protection and value creation.**

This final verdict ties the report back to its core message: the asset has usable operating strength, but the deal design needs refinement. It prepares the reader for the practical recommendations that should follow.

Practical U.S.-Market Suggestions to Improve Investor and Sponsor Attractiveness

The current model can become materially more attractive in a United States real estate context if the operating story is preserved but the capital, distribution, and monetization logic are made more investor-readable. The suggestions below are intended to improve both investor generosity and sponsor acceptability without changing the underlying property narrative.

- Add a true preferred return to investors, such as an **8%** annual preference, so outside capital sees a first layer of protection before sponsor back-end upside begins.
- Reduce the base sponsor share in the opening structure and let additional sponsor economics be earned through performance hurdles, leasing success, budget discipline, or exit execution.
- Introduce a return-of-capital-first sequence so investors recover invested equity before the residual split becomes more sponsor-favorable.
- Use a promote framework instead of a high flat split. In U.S. practice, investors usually view promote structures as fairer because sponsor upside is tied to actual outperformance.
- Clarify reserve deployment and, where appropriate, stage unused reserve capital rather than burdening the full equity amount on Day **0**. This can materially improve return optics and fairness.
- Present at least one benchmark sale case, preferably around Year **10**, so the transaction has a visible liquidity path. Many U.S. investors are reluctant to underwrite indefinite-hold economics without a reference disposition case.
- Separate sponsor compensation into modest fees plus backend participation. A combination of development fee, asset-management fee, and smaller promote often reads as more acceptable than a large permanent share of all cash flow.
- Strengthen the sponsor-justification narrative by documenting sourcing, entitlement, development management, leasing support, and exit execution responsibilities. U.S. investors are more willing to accept sponsor participation when it is visibly earned.
- Show downside and upside cases side by side. A base case, downside case, and repaired case with improved structure would make the memorandum more aligned with how U.S. private real estate opportunities are commonly reviewed.
- Consider a staged-capital or milestone-based funding plan. Releasing capital against milestones can improve trust, reduce the appearance of idle investor money, and make the structure feel more institutional.

In summary, the present model becomes more U.S.-market acceptable when investor protection is improved first and sponsor generosity is earned second. The strongest path is not to overstate the current structure, but to show how disciplined reserve treatment, a preferred return, a realistic exit case, and a performance-based promote can convert a stable operating asset into a more investable and more sponsor-credible opportunity.

Appendix A. Core Assumptions

Table 33- consolidates the core assumptions that support the memorandum so the reader can verify the underwriting basis in one place.

Category	Item	Value	Note
Project	Project name	Investor / Sponsor Profit Share Model	Prepared for Paul Bornemann
Project	Total project cost	$1,467,000	Land plus construction
Project	Total investor capital	$1,750,000	100% equity; no debt
Project	Hold structure	Optional indefinite hold	No forced sale in base dynamic case
Income	Year 1 gross income	$72,000	Base rental income
Income	Vacancy rate	5.0%	Base case vacancy
Expenses	Year 1 operating expenses	$14,400	Operating expense base
Expenses	Property tax	$7,800	Fixed annual tax
Growth	Rent growth rate	2.5%	Annual
Growth	Operating expense growth rate	2.0%	Annual
Exit	Property value growth rate	4.0%	Used for optional exit illustrations

This assumptions table gives the underwriting base in one location so the reader can verify the model logic quickly. In an investor setting, transparent assumptions improve trust even when the projected returns are still under refinement.

Appendix B. Annual Operating Cash Flow

Table 34- presents the first half of the annual operating cash flow schedule, covering Years 1 through 8.

Metric	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8
Gross Income	$72,000	$73,800	$75,645	$77,536.12	$79,474.53	$81,461.39	$83,497.93	$85,585.37
Vacancy	$3,600	$3,690	$3,782.25	$3,876.81	$3,973.73	$4,073.07	$4,174.90	$4,279.27
Effective Income	$68,400	$70,110	$71,862.75	$73,659.32	$75,500.80	$77,388.32	$79,323.03	$81,306.11
Operating Expenses	$14,400	$14,688	$14,981.76	$15,281.40	$15,587.02	$15,898.76	$16,216.74	$16,541.07
Property Tax	$7,800	$7,800	$7,800	$7,800	$7,800	$7,800	$7,800	$7,800
NOI	$46,200	$47,622	$49,080.99	$50,577.92	$52,113.78	$53,689.56	$55,306.29	$56,965.03

This first-half operating cash flow schedule shows that the asset begins with modest but positive economics and then compounds gradually. It is helpful for demonstrating that the model is driven by operating progression rather than by one isolated terminal event alone.

Table 35- continues the annual operating cash flow schedule for Years 9 through 15 and completes the operating track record used in this memo.

Metric	Y9	Y10	Y11	Y12	Y13	Y14	Y15
Gross Income	$87,725.01	$89,918.13	$92,166.09	$94,470.24	$96,832.00	$99,252.80	$101,734.12
Vacancy	$4,386.25	$4,495.91	$4,608.30	$4,723.51	$4,841.60	$4,962.64	$5,086.71
Effective Income	$83,338.76	$85,422.23	$87,557.78	$89,746.73	$91,990.40	$94,290.16	$96,647.41
Operating Expenses	$16,871.90	$17,209.33	$17,553.52	$17,904.59	$18,262.68	$18,627.94	$19,000.49
Property Tax	$7,800	$7,800	$7,800	$7,800	$7,800	$7,800	$7,800
NOI	$58,666.86	$60,412.89	$62,204.26	$64,042.14	$65,927.71	$67,862.22	$69,846.92

This continuation table completes the operating track and shows that growth persists into later years. It also supports the argument that the project becomes more intelligible as an investment once a benchmark monetization event is layered onto the operating cash flow stream.

Appendix C. Scenario Detail Tables

95/5 Scenario

Table 36- provides the appendix-level scenario detail for the 95/5 structure.

Scenario Metric	Value
Investor share	95.0%
Sponsor share	5.0%
Investor capital	$1,750,000
Sponsor capital	$0
Project cost	$1,467,000
Funding surplus / reserve	$283,000
Investor IRR	-7.9%
Sponsor distributions	$43,025.93
Institutional reading	Strong

This appendix detail confirms why the 95/5 case remains the strongest scenario in the set. It is still structurally imperfect, but it preserves the greatest share of value for the capital provider and is therefore the most defensible starting point.

90/10 Scenario

Table 37- provides the appendix-level scenario detail for the 90/10 structure.

Scenario Metric	Value
Investor share	90.0%
Sponsor share	10.0%
Investor capital	$1,750,000
Sponsor capital	$0
Project cost	$1,467,000
Funding surplus / reserve	$283,000
Investor IRR	-8.4%

Scenario Metric	Value
Sponsor distributions	$86,051.86
Institutional reading	Strong

This appendix detail shows that 90/10 remains close to a commercially reasonable range if sponsor responsibilities are well documented. It is a useful comparison case for negotiations because it still retains most of the economics with the investor.

80/20 Scenario

Table 38- provides the appendix-level scenario detail for the 80/20 structure.

Scenario Metric	Value
Investor share	80.0%
Sponsor share	20.0%
Investor capital	$1,750,000
Sponsor capital	$0
Project cost	$1,467,000
Funding surplus / reserve	$283,000
Investor IRR	-9.4%
Sponsor distributions	$172,103.72
Institutional reading	Acceptable

This appendix detail highlights that 80/20 begins to stretch fairness unless the sponsor contribution goes well beyond passive participation. It is best presented only alongside a stronger sponsor-role explanation or preferred-return framework.

70/30 Scenario

Table 39- provides the appendix-level scenario detail for the 70/30 structure.

Scenario Metric	Value
Investor share	70.0%
Sponsor share	30.0%
Investor capital	$1,750,000
Sponsor capital	$0
Project cost	$1,467,000

Scenario Metric	Value
Funding surplus / reserve	$283,000
Investor IRR	-10.6%
Sponsor distributions	$258,155.57
Institutional reading	Aggressive

This appendix detail reinforces that 70/30 is aggressive in the present structure. It may still have strategic use as a negotiation boundary, but it is unlikely to be the preferred marketed case without further structural safeguards.

60/40 Scenario

Table 40- provides the appendix-level scenario detail for the 60/40 structure.

Scenario Metric	Value
Investor share	60.0%
Sponsor share	40.0%
Investor capital	$1,750,000
Sponsor capital	$0
Project cost	$1,467,000
Funding surplus / reserve	$283,000
Investor IRR	-11.9%
Sponsor distributions	$344,207.43
Institutional reading	Not defensible

This appendix detail makes clear that 60/40 is difficult to justify under current facts. In practical U.S. deal discussions, investors would usually expect stronger downside protection before accepting this level of sponsor participation.

50/50 Scenario

Table 41- provides the appendix-level scenario detail for the 50/50 structure.

Scenario Metric	Value
Investor share	50.0%
Sponsor share	50.0%
Investor capital	$1,750,000

Scenario Metric	Value
Sponsor capital	$0
Project cost	$1,467,000
Funding surplus / reserve	$283,000
Investor IRR	-13.4%
Sponsor distributions	$430,259.29
Institutional reading	Not defensible

This appendix detail confirms that 50/50 is the weakest institutional fit in the current all-equity arrangement. It is best treated as a theoretical boundary case rather than as a recommended commercial structure.