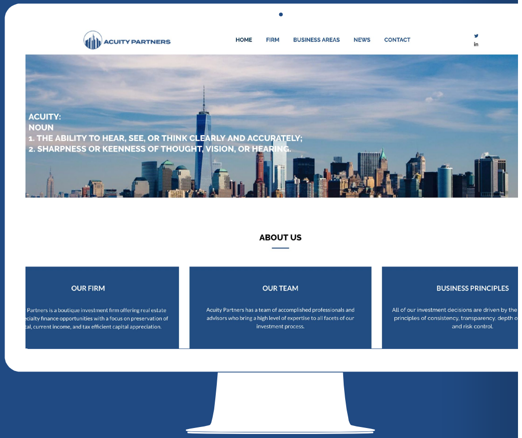
ACUITY PARTNERS, LLC

INTRODUCTION TO CRE:

COMMERCIAL REAL ESTATE INVESTING

WHO ARE WE?

Acuity Partners is a boutique investment firm offering commercial real estate and specialty finance opportunities with a focus on preservation of capital, current income, and tax efficient capital appreciation.



INTRODUCTION TO COMMERCIAL REAL ESTATE INVESTING

Intro to CRE is an essential primer on the world of commercial real estate investing, answering basic questions investors commonly have, as well as furnishing key terms and definitions, for example:

- What is “net operating income”?
- How does real estate compare to other asset classes?
- What is the difference between direct and indirect real estate investing?
- Is there an easy way to determine my investment strategy?
- What are the benefits of investing in commercial real estate?

THE BEST ASSET CLASS

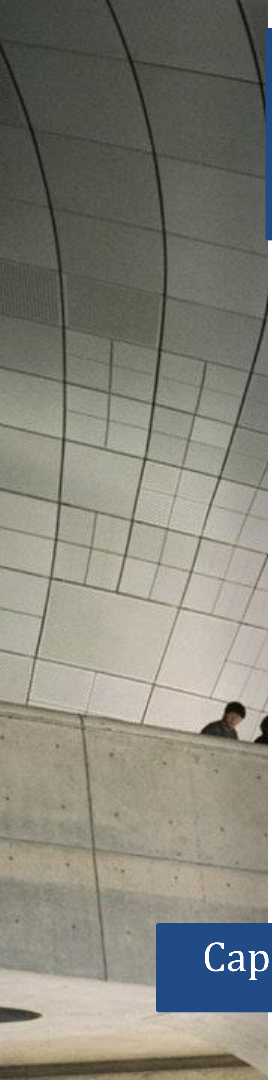
Why Commercial Real Estate?

Commercial real estate is one of the most dynamic investment classes in the world. Commercial real estate is the only major asset class that produces high yields, significant equity buildup, can be efficiently leveraged for massive gains, has the security of a hard asset that you can see and touch (intrinsic value regardless of an income stream), and provides some of the best tax advantages.

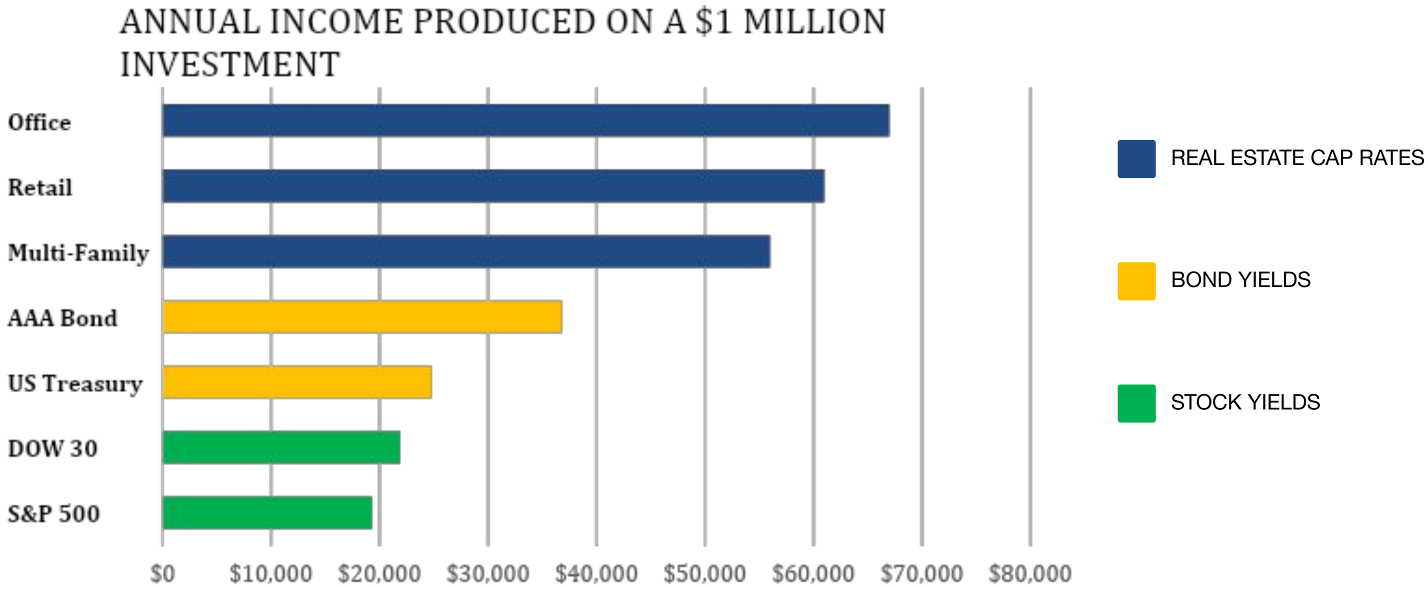
"The major fortunes in America have been made in land."

- John D. Rockefeller

	REAL ESTATE	STOCKS	BONDS	CASH & SAVINGS
HIGH CASH RETURN	✓			✗
EQUITY BUILDUP	✓	✓	✗	✗
LEVERAGE	✓		✗	✗
HARD ASSET	✓	✗	✗	✗
TAX ADVANTAGE	✓	✗		✗



One of the biggest advantages of commercial real estate is the high annual cash return that it produces. In fact, commercial real estate income stream can produce three times the average stock dividend yield and four times the average bond yield. The chart below demonstrates the income each asset class produces based on a $1 million investment.



Cap Rate: The cap rate is the net operating income divided by the purchase price.

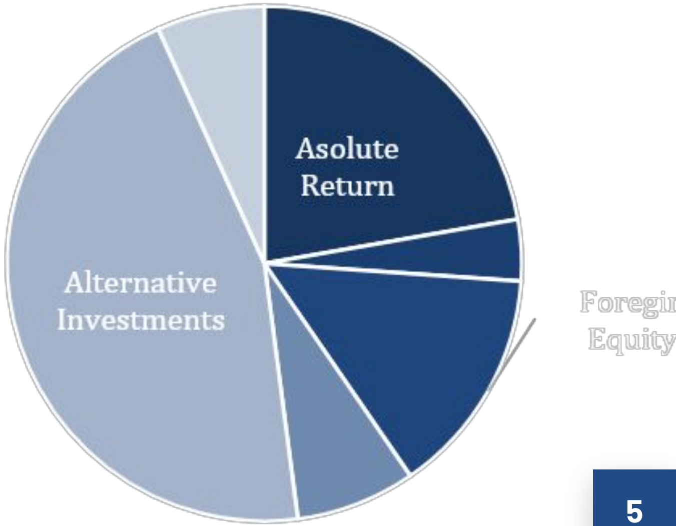
THE IMPORTANCE OF ASSET ALLOCATION

It is recommended by leading experts that investors have a meaningful portion of their investment portfolio in alternative investments, with a focus on commercial real estate. David Swenson, Chief Investment Officer of the Yale Endowment, a trustee of TIAA-CREF (a Fortune 100 financial services organization), and the author of Unconventional Success:

A Fundamental Approach to Personal Investment created what is known as the Yale Model which has produced staggering returns of nearly 14% annually, consistently outperforming the major averages. The portfolio has had up to 43% allocated to alternatives such as real estate, venture capital, and private equity, with the income producing real estate portion having exceeded 20%.

"Asset allocation decisions play a central role in determining investor results. Approximately 90% of the variability of returns stems from asset allocation, leaving approximately 10 percent of the variability to be determined by security selection and market timing. Careful investors play close attention to determination of asset class targets."
- David Swenson, CIO of Yale Endowment

YALE ENDOWMENT ASSET ALLOCATION



A VERY SIMPLE INVESTMENT VEHICLE

Tenants pay rent

Tenants pay rent, usually monthly. Revenue can also come from parking, signage, etc.

Building expenses are paid

The property manager pays building expenses from the rental income.

Investors are paid

After expenses are paid, the remaining income is distributed to investors.

UPON SALE OF THE PROPERTY, EQUITY IS DISTRIBUTED BACK TO INVESTORS ALONG WITH ANY PROFITS FROM THE SALE.

"If you don't find a way to make money while you sleep, you will work until you die."

- Warren Buffett

Real Estate's Amazing Long Term Income Benefit

Unlike other asset classes, commercial real estate is typically leveraged with financing.

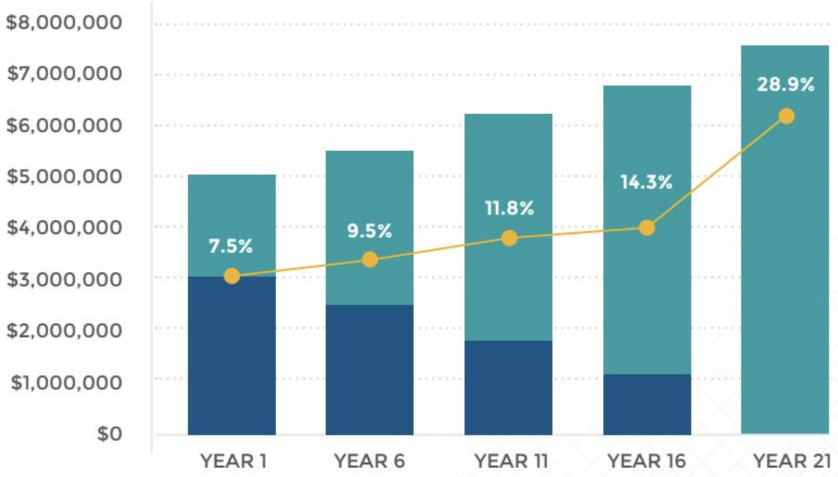
Although stocks can be purchased on a margin account or commodities at a fraction of their price, but only commercial real estate provides rental income that covers debt payments.

This makes commercial real estate an outstanding long-term investment class because as your tenants pay down the financing for you, equity is built up in the asset.

Once the debt payments have been made, your cash return instantly increases, multiplying your cash flow multiple times over.

HOLDING AN ASSET THROUGH LOAN PAYOFF CAN PRODUCE MASSIVE RETURNS

Annual cash return in year 1	7.5%
Annual cash return **AFTER** loan is paid off	28.9%
Increase in Annual Cash Return from Year 1	285%
Increase in Total Equity **AFTER** loan is Paid Off	273%



Although this is a very simplified analysis, this shows the dramatic effect leverage can have on returns. Assumes a 20 year fully amortizing loan, a conservative 2% annual Net Operating Income increase, and 65% LTV.

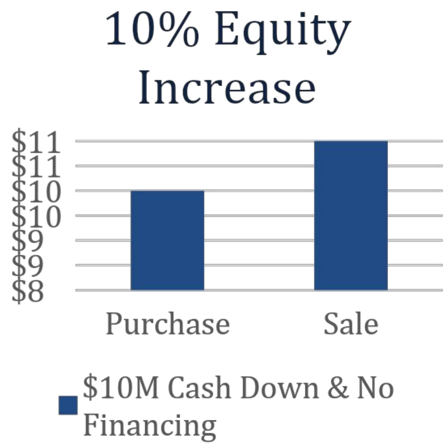
“Ninety percent of all millionaires become so through owning real estate. More money has been made in real estate than in all industrial investments combined. The wise young man or wage earner of today invests his money in real estate.”

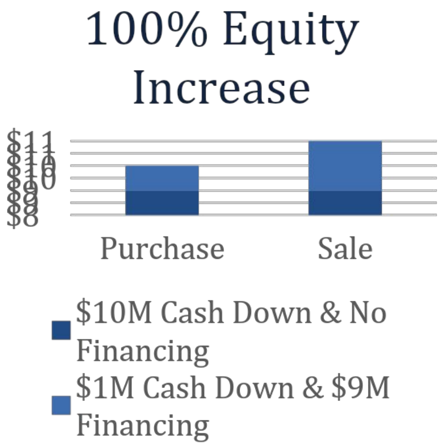
- Andrew Carnegie

INCREASE EQUITY RETURN USING LEVERAGE

Real estate allows for magnified equity buildup on a shorter-term basis by using financing, which is illustrated below. If you purchase a $10 million asset, all cash, and sell the asset in the future at $11 million, you have made $1 million profit, or a 10% return.

However, if you purchase a $10 million asset, utilizing only $1 million of your own money and financing the remaining (allowing the rental income to make the debt payments), then sell the asset, you have also made $1 million profit, however achieved a 100% return.





REITS VS DIRECT REAL ESTATE OWNERSHIP

Investing in a Real Estate Investment Trust (REIT) is a popular way to “diversify” into real estate. However, when investing in a REIT you do not actually own real estate, you own a share of stock in a company. The following are notable attributes of REIT investing:

High Fees A private REIT can charge up to 17% up front before your investment even touches the real estate. A recent REIT prospectus disclosed the following fees: 6.5% sales commissions, 3.5% dealer manager fee, 2.42% organization and offering expenses, 1.75% acquisition fees, and 0.96% acquisition expenses. For every $100 invested, less than $85 actually goes towards the real estate! Additionally, a REIT is only required to distribute 90% of the income generated by its properties back to investors, significantly lowering overall returns.

Lower Average Returns The average publicly traded REIT dividend is 3.4%, significantly lower than average returns from direct commercial real estate ownership. Many individual properties can distribute an cash return ranging from 6% to 12% annually.

High Volatility Given that REIT shares are stocks traded in the stock exchange, they are subject to the high volatility and market shifts of the stock market as a whole.

Less Transparency Although REITs have strict reporting guidelines, most investors know very little about the properties in a REIT portfolio. Direct real estate ownership increases the overall transparency of the investments.

WHAT ASSET CLASS SHOULD I BUY?

MULTI-FAMILY (Apartment Complex)

As long as there are people, there is a need for housing. As the population grows, demand for housing increases as well. Adjustments for inflation can be made annually through rental rate increases (except in rent controlled areas). The current generation prefers mobility and are not as apt to purchase a home or settle down,, therefore will continue to rent

OFFICE BUILDINGS

The United States economy will continually be moving away from manufacturing and agriculture to a service focused economy. The tech world thrives in offices and collaboration is key. More companies are opting to bring their workforce back into the offices versus letting them work from home (e.g. Yahoo).

INDUSTRIAL BUILDINGS

As eCommerce continues to grow, so will demand for industrial distribution buildings. Amazon.com, Zappos, and other online retailers are joined by smaller businesses that will drive demand for industrial buildings.

RETAIL PROPERTIES

People will always have a need and desire to go to “bricks and mortar” retail establishments despite the advent of eCommerce. There is a social and even therapeutic aspect to shopping that will never be replaced by online shopping. Generally, as the economy improves, the retail sector can see the increase in demand immediately.

Demographic Trends Driving Multi-Family Growth

Trend #1: **Baby Boomers are Flocking to Rental Housing**	**Trend #2:** **Largest Demographic Flocks to Rental Housing**	**Trend #3:** **U.S. Immigration Continues to Grow**
The U.S. home ownership rate is at its lowest level in 25 years and is expected to go even lower. Renter growth is now at the highest level in 30 years. Interestingly, families or married couples ages 45-64 accounted for about twice the share of renter growth as households under age 35. This is according to a study by the Joint Center for Housing Studies at Harvard University.	Millennials now top the Baby Boomers at about 73 million. Due to poor credit scores, many millennials cannot obtain a mortgage, and if they can, then tend to shy away from increasing their debt. Renting makes it much easier for Millennials to make ends meet every month, does not increase their debt, and allows them the flexibility of moving whenever they choose.	As a group, U.S. immigrants, regardless of socioeconomic status, rent more often than they own, and rent for longer periods of time. About 15% of Americans are foreign-born as of 2019, a number that has only continued to increase since the 1970s.

WHY ACUITY PARTNERS?

Experience and Access to Deal Flow: Our founders met early in their Wall Street careers and reunited in 2016 to form Acuity Partners. We believe our 60+ years of collective experience and the industry relationships we have built allows us the ability to see a multitude of opportunities and vet them properly.

Business Principals: We are dedicated to providing access to proprietary commercial real estate deals, which are all put through a strict due diligence process to determine if they meet our core principles:

- **Consistency** – We aim to deliver stable, current income and/or tax-efficient capital appreciation with low volatility over a medium to long term duration.
- **Transparency** – Our commitment to open communication is evident throughout the entire investment process.
- **Depth of Knowledge** – Due to the fact that we limit our investment scope to commercial real estate, we are able to dedicate all of our time and resources to becoming experts the asset class.
- **Risk Control** – The investments are in our hands and typically under our control. Our focus on superior risk adjusted returns involves our ability to identify, measure, and manage risk.

Diversification: Our goal is to provide you with the top-notch commercial real estate investments you need to diversify and strengthen your portfolio. Portfolio diversity is important as 90% of the variability of investment returns stems from asset allocation. With all of the various investments available, choosing the best ones requires professional help. We diversify our investments across various types of real estate and across geographies.

We Listen: We are not interested in being a one-stop-shop for your investing needs and as a privately owned firm, we do not have any “house” products we are forced to sell. We spend time getting to know you and your needs, objectives, risk tolerance, and goals. Only when our offerings match those needs do we move forward.

KEY TERMS

Absorption

Absorption is the way commercial real estate investors gauge tenant demand and is measured in square footage. Total absorption is the total new square footage leased by tenants. For example, if a building had 20,000 square feet of new leases in 2013, its total absorption is simply 20,000. The more relevant metric to view is net absorption which is the total new square footage leased minus the total square footage of tenants that no longer occupy their suites in a given time period. If a building had 20,000 square feet of new leases in 2013 and 5,000 square feet of tenants leaving, its positive net absorption is simply 15,000 square feet. Absorption can be measured by building or by entire markets.

Cash-on-Cash Return

The cash-on-cash return is the percentage of funds you invested in the building that comes back to you annually after making financing payments. Your cash-on-cash return is often higher than your cap rate if favorable financing is put in place.

Net Operating Income

The net operating income is the total rental income from all of the tenants, parking revenue, and other revenues minus operating expenses (taxes, insurance, management, maintenance, utilities). The net operating income is one of the first metrics and investor will review/verify because the cash return to investors is paid from the net operating income. Net operating income does not take into consideration financing nor does it include capital improvement costs.

Contract Rent

Contract rent is the current rent being paid by the tenant according to their lease. Contract rents are measured by square footage in commercial real estate. For example, if an office tenant is paying $21,000 a year for 1,000 square feet of space, their contract rent is $21.00 per square foot per year. Contract rents may also be quoted monthly.

Capitalization Rate

The cap rate is the percentage of funds you paid for the building that comes back to you annually (not taking financing into consideration). As an example, if you purchased a building for $1,000,000 that returned $60,000 annually, your cap rate is simply 6%. The calculation is $ NOI ÷ $ Price = Cap Rate %

Market Rent

Market rent is the rental rate that a specific location could achieve if it were available to lease today. Like the contract rent, market rent is quoted per square foot. Investors compare market rent to contract rent to see if there is an opportunity to increase rental rates once a suite becomes available.

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