

# COMPARISON OF DISTRIBUTABLE CASH FOR 3 COMMON WATERFALL MODELS

Phase of Operation	Straight Split	Split With an 8% Preferred Return	Split with an 8% Preferred Return and Class B Catchup
Investor/Management Split	70/30	70/30	70/30
Hold Period	5 Years	5 Years	5 Years
Annual Distributions from Cash Flow	Class A: \$700k/year = \$3.5M Class B: \$300k/year = \$1.5M	Class A: \$940k/year = \$4.7M Class B: \$60k/year = \$300k	Class A: \$800k/year = \$4M Class B: \$343k/year = \$1.715M* (some deferred)
Distributions from Sale	Class A: \$3.5M Class B: \$1.5M	Class A: \$3.5M Class B: \$1.5M	Class A: \$2,999,500 Class B: \$1,285,500
Capital Contributions of Class A Members	\$10M	\$10M	\$10M
Total Cash Returns Over 5 Years	\$20M	\$20M	\$20M
Annualized % Return- Overall	20%	20%	20%
Total Cash to Class A (Cash Flow plus Sales Proceeds)	\$3.5M from cash flow + \$3.5M from sale = \$7M total	\$4.7M from cash flow + \$3.5M from sale = \$8.2M total	\$4M from cash flow + \$2,999,500 from sale = \$6,999,500 total
Annualized % Return to Class A	14%	16.4%	13.9%
Total Cash to Class B	\$1.5M from cash flow + \$1.5M from sale = \$3M total or \$600k/year over 5 years	\$300k from cash flow + \$1.5M from sale = \$1.8M total or \$360k/year over 5 years	\$1,715,000 from cash flow + \$1,285,500 from sale = \$3M total or \$600k/year over 5 years
Was it worth it?	Yes	Maybe; maybe not	Yes
Will investors accept this model?	Only if you can show that the 70% paid to them is near an 8% return annually, or within the first couple of years.	Yes	Yes. The benefit here is that Class B is likely to earn more than it would in the 70/30 Split with Preferred Return Scenario, where it only gets 30% of what's left (if any) after Class A's preferred return

To show each of the 3 waterfall scenarios would look in numbers, we have made the following assumptions:

- Class A contributed \$10M
- The property generated \$1M/year from cash flow (\$5M total)
- The property generated \$5M of additional distributable cash on sale (after paying all closing expenses, loans, and returning capital to investors)
- Adding this all together, the property generated a total return of \$10M over 5 years; equaling an annualized cash on cash return of 2M/year
- A \$2M annualized return /\$10M total capital contributions = a 20% overall annualized cash on cash return
- The table below shows a 70/30 split. If the returns aren't sufficient to entice investors (the target is mid to high teens); try changing the split and adjusting the numbers to a 75/25 split.

The three models shown here are the most common scenarios we have seen over hundreds of real estate securities offerings. Not all are 70/30, but the Straight Split, Split with Preferred Return, and Split with Preferred Return and Class B Catchup are the most common. We advocate for using the Split with Preferred Return and Class B Catchup, as that one is safest for asset managers and also viewed favorably by investors.