

Eastern Europe Real Estate Fund

Narrative to Chart

Outlined below is the narrative that accompanies the Eastern Europe Real Estate Fund flow chart. For an initial seed capital investment of \$600,000, a \$75 - \$100 million privately capitalized Eastern European Real Estate Fund will be left as a legacy of USAID private sector engagement in Eastern Europe. Moreover, the for-profit Fund will be able to create and support a self-sustaining Fund Sponsor NGO that will henceforth be self supported in carrying out an economic development and digital media mission in the region. These goals are accomplished because the initial seed capital of \$600,000 is reimbursed to the Fund Sponsor NGO ("Fund Sponsor") once the Fund is capitalized. Moreover, the Fund Sponsor continues to earn a 20% to 25% annual fee (\$400,000 to \$500,000 per year) from the Fund Manager for value received in developing deal flow. These fees enable the Fund Sponsor to become sustainable and grow its economic development efforts throughout the region.

1. Fund Development Team

The Fund Development Team (the "Team") is comprised of the consultants: Economic Innovation International and Strategic Development Solutions. They assist with all aspects of creating the Fund. The Fund Development Team has been directly involved with building nearly \$1 billion of "Double-Bottom Line" Funds in the United States, now a \$3 billion industry from \$0 just seven years ago. These Double-Bottom Line Funds provide upper quartile, risk-adjusted, market rates-of-return for investors (the first bottom line), and measurable jobs, wealth and community revitalization for the Fund Sponsor (the second bottom line). As the chart shows, there are three phases to the team's efforts:

Phase I: Feasibility: This phase, which costs \$250,000 is a comprehensive assessment of the region's real estate development needs, challenges and opportunities. This feasibility guides how the fund is created and to what ends the fund should focus. Fund managers, from around the world, with an expertise within the region, are identified as potential managers. Phase I concludes with a proposed formal structure for the Fund Sponsor, which will be responsible for overseeing Phases II and III.

Phase II: Fund Building: This phase involves a competitive bid process (Request for Proposals, or "RFP"), interviewing and selecting a Fund Manager. Lastly, a contract is negotiated between the Fund Manger and Fund Sponsor. This contract outlines the relationship between the Sponsor and Fund Manager, all fees, what types of investments the Fund Manager may undertake and all relevant aspects of the Fund's operations.

Phase III: Capitalizing the Fund: This phase involves raising the money from institutional and international investors (e.g. banks, insurance companies, pension funds, etc). The Fund Development Team and Fund Sponsor work very closely with the Fund Managers on this activity. Importantly, from the time of commencing Phase I to obtaining a first capitalization amount can be less than 18 months if the Sponsor is actively engaged.

2. Fund Sponsor NGO

The Fund Sponsor is a group of stakeholders that come together to create a Double-Bottom Line Fund--or a fund that "makes money" and "makes a difference" (e.g. creates much needed jobs). They would be representatives from the region with a varied background in economic development, finance, real estate, government and community. Their first order of business is to raise the \$350,000 in seed capital for Phases II and III from foundations, government and aid agencies in order to create the fund. Once the seed capital is raised, the Fund Development Team begins Phases II and III and the Fund Sponsor begin to institutionalize a formal and structured NGO: selecting Board Members, articulating its mission and making decisions relative to the establishment of the Fund. Once the Fund has raised its capital, the Fund Sponsor NGO is reimbursed the original \$600,000 seed capital. The Fund Sponsor will also begin receiving 20% to 25% of the Fund Manager's Fee or \$400,000 to \$500,000 per year. This covers the cost of the regional staff that would be hired (and a director) to conduct the following types of ongoing economic development activities:

- ✓ Finding economic development projects in the region
- ✓ Assisting with government relations

- ✓ Working with the Fund Manager to ensure enough projects are found
- ✓ Holding economic development forums for developers and government representatives
- ✓ Bringing economic development best practices to the region
- ✓ Creating additional funds for the region – a Family of Funds

3. Eastern Europe Real Estate Fund I (the “Fund”)

The Fund is a market-rate investment fund with a highly skilled management team. The staff for this fund would be fully dedicated to the real estate projects in which the fund invests. This team is extremely well versed in real estate development and all the various challenges confronting projects in Eastern Europe (e.g. site control/title, permits, approvals, government process, etc). They have very strong financial controls and provide expertise on how projects can be financially structured so as to make them profitable ventures. They provide the developer of a project with additional expertise and essentially act as partner in the project, bringing resources, insight, assistance and expertise.

Developers in the region are currently required to put 50% to 65% equity into a project. This extremely high threshold is often difficult for developers to obtain. Importantly, the Fund is able to provide up to 100% of this equity to a developer. This enables the project to obtain the lower-cost debt (35% to 50% of development costs) to complete the project and it enables the developer to undertake more projects. The Fund Manager, given its expertise, has complete control over all investment decisions. It should be further noted that the Fund Sponsor, while responsible for creating the Fund, has absolutely no authority in these investment decisions. The Fund Manager is expected to have all money invested within five years, with most of the projects having the fund invest for a 2-3 year period.

4. Investors

The investors are responsible for providing the \$75 million to \$100 million in capital commitments to the fund. Investors will likely include banks, pension funds, insurance companies, aid agencies, financial institutions and corporate investors. Importantly, these investors are making a risk-adjusted market rate return. *In other words, this is not a donation it is an investment.* They fully expect to receive a market-rate profit on their investment. Typically, the net profit range to the investors is 12% to 18%. Their investment in the fund would be anticipated to be between \$3 million to \$20 million per investor. The investors make an upfront and binding contractual agreement with the money being invested on a deal-by-deal basis as the Fund Manager invests the money in projects. Then, the as projects are completed, the Fund Manager closes out the specific investment with the investors receiving a distribution of their capital from the specific project and their profits.

5. Real Estate Projects

The real estate projects will be throughout Eastern Europe and vary in type. Old abandoned factories or contaminated military sites would be cleaned and rebuilt with modern business parks or office buildings replacing them. Old buildings would be repositioned into new, attractive apartments or commercial space. Fund investments would range from \$1 million to \$20 million with the following uses being built:

- Office Space
- Industrial/Manufacturing facilities
- Digital Media Parks
- Business Parks
- Apartments/Housing