CKLDP SESSION #3

Understanding Project Financing

December 7, 2018

Jessika Nelson, Assoc. AIA and Eric Balogh, AIA organized the session at the office of Portman Holidngs. The session was divided into five segments:

1. Introduction by Grace Tan, John Portman & Associates CEO
2. Crash Course on Private Real Estate Project Financing by M. Lance Patterson
3. Office Tour of Portman & Associates
4. Introduction to Public-Private Partnerships by Don Bolia
5. Public Project Financing Panel Discussion moderated by Don Bolia

Grace Tan gave a quick introduction to her career at John Portman & Associates and welcomed the CKLDP class to Portman Holdings office.

Lance Patterson of Patterson Real Estate Advisory Group presented the basics of private project financing. His firm helps companies raise capital to acquire properties or develop properties.

Figure 1 Lance Patterson and How Private Projects are Financed

Some of the concepts he explained were:

- Debt – it's the safest money in the transaction and first money to be returned. If things go south, debt has a lien on the property. It is also the largest % of $ in a deal.

- Equity – it's basically your down payment. It's the most at-risk. Equity is paid after debt. There are opportunities to get a big return but also opportunities to lose everything.
- Bridge Loan – used to take an existing project, fix it up and then sell it or get a traditional (permanent) loan. A typical permanent loan lender is Life Insurance.
- Loans are assets for banks. 10 years is considered a long-term loan
- Construction Loans – Best for a short-term asset lender, 3-4 years typically works for banks
- The Spread – difference between treasury bond and any other return
- Mezzanine Loan – Less risky than equity, riskier than lending.

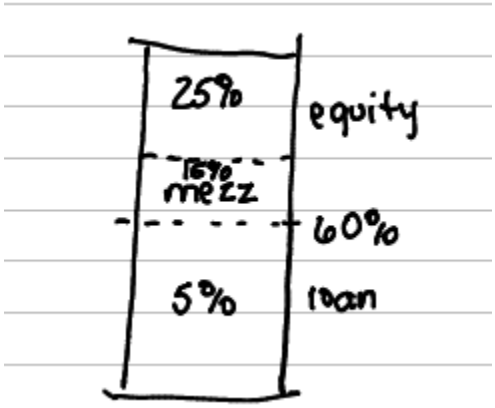

Figure 2 Mezzanine Loan

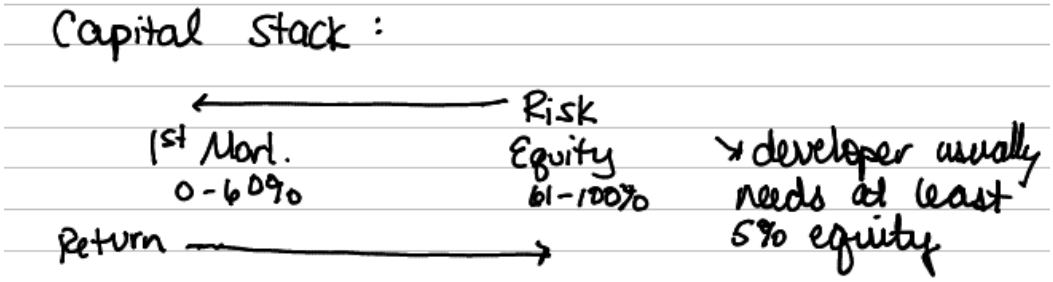

Figure 3 Capital Stack

- Guarantees:
  - Completion – developer guarantees to bank to complete the project. Some require the guarantor to sign
  - Repayment – guarantor promises to pay no matter the economic outturn
  - Carve-Out Guaranty (Bad Boy Acts) – promise to pay bills, not do anything bad
- The Waterfall – The mechanism by which cash flow is distributed between developer & equity partners. Both developer and equity partner will receive their pro rata share of profits until a preferred return is met (typ 8-12%). After that, the developer will earn a promote interest ("promote") in future distributions as a reward.
- It is possible to roll your architecture fee into equity but you have to pay taxes the first year.

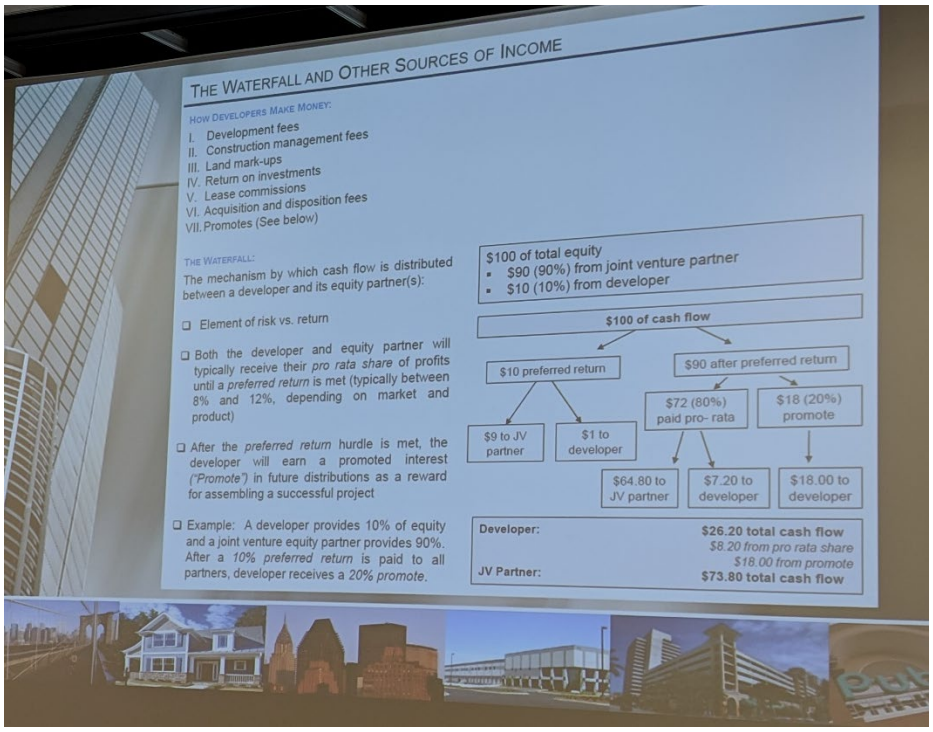

Figure 4 Waterfall Slide from Lance Patterson

The class was split into groups and given a tour of the offices of Portman Holdings and John Portman & Associates.

Figure 5 Tour of Portman & Associates

Don Bolia from Peachtree Government Relations gave a presentation on public/private partnerships. He spoke about P3 for Horizontal Construction which mainly relates to GDOT projects initially. It allows for solicited & unsolicited proposal to complete otherwise cumbersome projects. It's a way for private entities to enter contracts. Previously, only other methods were design-bid-build. Recently SB 59 allows for P3 for Vertical Construction. https://bit.ly/2SuVxoA is a link to guidelines for unsolicited bids. Then if it is accepted, it must go out to bid to everyone.

Figure 6 Don Bolia and Public Private Partnerships

The session concluded with a panel discussion led by Don Bolia and featuring John Portman IV of Portman Holdings, Dale Royal of Invest Atlanta, Marven Woodward of the Georgia Building Authority, and Ed Bernard of Marx Okubo.

Q. What do you base decisions on for which projects to do?

A. John Portman IV: It depends on where in the risk spectrum the project is, where in the cycle, how does equity view the risk? Minimum for ground up is $100m or more and an 18% return

Q. What is available through Invest Atlanta?

A. Dale Royal: Funding is available to users and developers through Tax Allocation Districts, tax benefits for low-income housing, down payment assistance, soft services like site selection, and tax abatements.

Q. How can architects differentiate themselves?

A. Submit complete drawings ON TIME. Respond to RFIs timely, CA is weak in the industry. Provide virtual reality modeling and more in-depth 3d modeling. A discussion ensued between scholars and panelists about being compensated properly to provide more detailed modeling.

Figure 7 Public & Private Project Funding Discussion

Q. What are spending trends you're seeing?

A. Marvin Woodward: Georgia has been spending most money in higher education with most spending on technical colleges. For every 10 jobs needing a degree, 7 of them need a 2-year degree.

Q. What are qualities of a leader?

- Servant leadership,
- Don't brush problems under the rug
- Give vision and excitement
- Sharing knowledge about the company
- Openness and direct-ness
- Honesty & confidence

The session concluded and a happy hour was held at Pacific Rim Bistro downtown.