FUND FORMATION ROADMAP

Building a luxury value-add home fund

A general layout for sponsors considering a closed-end fund that acquires luxury residences, renovates them, and resells at a margin. It covers strategy, structure, team, legal, capital and exit, in the order investors will diligence them.

> **Investors underwrite the team first**, then the strategy, then the terms. Institutional allocators and family offices expect institutional-grade reporting, governance and a complete data room from day one.

Illustrative Fund I profile

HYPOTHETICAL · FOR DISCUSSION

TARGET RAISE **$50M** Room to diversify across 8–12 homes	FOCUS **South Florida** Luxury single-family	ACQUISITION RANGE **$2M–$6M** Per property	TARGET HOLD **9–15 mo** Per project
LEVERAGE **60% LTC** Loan-to-cost	STRUCTURE **Closed-end LP** 5-year term + two 1-year extensions	INVESTORS **Accredited** Family offices, RIAs, HNW	TARGET NET IRR **18–25%** Sponsor target, not a projection

THE TWELVE STEPS

From thesis to final distribution

SPONSOR · COUNSEL · PLACEMENT AGENT · SERVICE PROVIDERS

PHASE I

Strategy & structure

What the fund buys, how it is organized, and how big it needs to be.

01

Define the investment strategy

Investors will want to know exactly how returns are generated.

- Target markets: Palm Beach, Boca Raton, Naples, Aspen, Scottsdale
- Price band, e.g. $2M–$10M
- Target gross and net margins
- Hold period, 6–18 months
- Renovation scope and budget
- Projects per year
- Leverage strategy

SPONSOR · PLACEMENT AGENT: MARKET POSITIONING

02

Create the fund structure

A management company acts as GP and manager; the fund is a limited partnership; investors are limited partners. The manager typically earns a 1%–2% management fee and roughly 20% carried interest.

SPONSOR · FUND & TAX COUNSEL

03

Size the capital raise

Small luxury funds struggle to diversify. For a first-time sponsor with deal flow to support it, $50M–$100M is often the credible range.

- $25M → 3–6 homes
- $50M → 8–12 homes
- $100M → 15–25 homes

SPONSOR · PLACEMENT AGENT: INVESTOR-DEMAND READ

04

Build the financial model

Model every property on purchase price, renovation, carry, financing, selling costs and expected resale. See the deal example below.

SPONSOR · CFO / MODEL REVIEWER

PHASE II

Team & legal

The people investors underwrite and the documents that make the offering lawful.

05

Assemble the team

- Acquisition lead
- Construction manager
- Interior design partner
- Realtor / broker partner
- Asset manager
- CFO / fund administrator
- Securities counsel
- Tax counsel

SPONSOR

06

Select the securities exemption

Most real estate funds rely on Regulation D. Rule 506(b) prohibits general solicitation; Rule 506(c) permits public marketing if every investor is accredited and that status is verified. The choice is counsel's call.

SECURITIES COUNSEL · PLACEMENT AGENT: INPUT ON RAISE STRATEGY

07

Engage fund counsel

Do not skip experienced securities counsel. They draft:

- Private Placement Memorandum
- Limited Partnership Agreement
- Subscription Agreement
- Investor Questionnaire
- Operating documents

FUND COUNSEL

PHASE III

Capital & operations

Debt, investor materials and the back office.

08

Establish lending relationships

Most successful luxury renovation funds use leverage, commonly 50%–70% loan-to-cost.

- Private debt funds
- Construction lenders
- Family offices
- Regional banks

SPONSOR · LENDERS

09

Prepare investor materials

Pitch deck · Fund one-pager · Track record presentation · Financial model · Due diligence questionnaire · Virtual data room

Institutional investors will almost always ask for a robust data room.

SPONSOR · PLACEMENT AGENT: REVIEW & POSITIONING · COUNSEL: CONSISTENCY WITH PPM

10

Set up fund operations

Fund administrator · Banking · Investor portal · Accounting system · Capital call process · Distribution process · Quarterly reporting

SPONSOR · ADMINISTRATOR · AUDITOR

PHASE IV

Raise & exit

Who invests, and how capital comes back.

11

Raise capital

Family offices · Multifamily offices · Real estate-focused RIAs · Private wealth advisors · High-net-worth individuals

For an institutional and family-office audience, build the fund with institutional governance and reporting rather than a retail-oriented structure.

PLACEMENT AGENT · SPONSOR

12

Define the exit strategy

Sale on completion · Refinance option if markets shift · Fund liquidation timeline · Distribution waterfall

SPONSOR · COUNSEL: LPA TERMS

TYPICAL STRUCTURE

Who sits where

GENERAL PARTNER / MANAGER

[Sponsor] Real Estate Management LLC

Earns 1%–2% management fee and ~20% carried interest

→ manages

FUND ENTITY

[Sponsor] Luxury Home Fund I, LP

Owns properties through project-level SPVs as counsel advises

← commit capital

LIMITED PARTNERS

Accredited investors

Family offices, RIAs, HNW individuals

UNIT ECONOMICS · ILLUSTRATIVE

One property, start to sale

LINE ITEM	AMOUNT
Purchase	$4,000,000
Renovation	$600,000
Carry & interest	$250,000
Selling costs	$300,000
Total cost	**$5,150,000**
Resale	$6,500,000
Profit	**$1,350,000**



Profit is 26.2% of total cost and 20.8% of resale price. Before fund fees, carry and leverage effects.

DISTRIBUTION WATERFALL · COMMON FORM

How proceeds flow back

1 **Return of capital** — 100% LP

LPs receive their contributed capital back first.

2 **Preferred return** — 8%

LPs receive an 8% preferred return on contributed capital.

3 **GP catch-up** — to GP

The GP receives distributions until it has caught up to its share of profits.

4 **Carried interest split** — 80 / 20

Remaining proceeds split 80% to LPs and 20% to the GP.

Final terms, including catch-up percentage and clawback, are set in the LPA by fund counsel.

ROLES AT A GLANCE

What your placement agent does

- Advises on market positioning, fund size and investor appetite
- Reviews pitch deck, one-pager and DDQ for investor readiness
- Introduces the offering to suitable accredited and institutional investors
- Coordinates the raise timeline and investor diligence
- Refers sponsors to experienced fund, securities and tax counsel

What your counsel does

- Chooses the entity structure and securities exemption
- Drafts the PPM, LPA, subscription documents and questionnaires
- Advises on fees, carry, waterfall and GP obligations
- Handles Form D and state blue-sky filings
- Advises on tax structure and investment-adviser registration

Important information. This material is a general educational overview for prospective fund sponsors. It is not an offer to sell or a solicitation of an offer to buy any security, and it is not legal, tax or accounting advice. All figures, including fund size, leverage, hold periods, margins, waterfall terms and target IRR, are hypothetical illustrations, not projections or guarantees of any result. Any offering will be made only through definitive offering documents prepared by the sponsor's counsel. Sponsors should consult their own securities, tax and legal advisors.

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