FUND FORMATION ROADMAP

Building a multifamily value-add fund

A general layout for sponsors considering a closed-end fund that acquires Class B and C apartment communities, renovates units and common areas, raises rents toward market, and sells or refinances on stabilization. It covers strategy, structure, team, legal, capital and exit, in the order investors will diligence them.

Multifamily investors underwrite the operator. Expect detailed questions on your renovation track record, rent premiums actually achieved, property management, and how you handle debt maturities and rate risk.

Illustrative Fund I profile

HYPOTHETICAL · FOR DISCUSSION

TARGET RAISE **$75M** Equity for 4–6 communities	FOCUS **Sunbelt** Growth metros, Class B/C	ASSET SIZE **150–400 units** Per community	TARGET HOLD **3–5 years** Per asset
LEVERAGE **60–65% LTV** Agency or bridge debt	STRUCTURE **Closed-end LP** 7-year term + two 1-year extensions	INVESTORS **Accredited** Family offices, RIAs, HNW	TARGET NET IRR **13–17%** 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 see exactly where the value comes from.

- Target metros and submarkets
- Vintage and class, e.g. 1980s–2000s Class B
- Unit count range
- Renovation scope per unit
- Target rent premium
- Hold period
- Debt 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 that owns each community through its own property-level SPV. Typical economics are a 1.5%–2% management fee, a 1%–2% acquisition fee and about 20% carried interest.

SPONSOR · FUND & TAX COUNSEL

03

Size the capital raise

Size the raise to the deals you can realistically close. At 60–65% leverage, $75M of equity supports roughly $190M–$210M of total purchases.

- $40M → 2–3 communities
- $75M → 4–6 communities
- $150M → 8–12 communities

SPONSOR · PLACEMENT AGENT: INVESTOR-DEMAND READ

04

Build the financial model

Model each community on rent roll, trailing-12 operations, renovation cost and timing, rent premium, expenses, debt terms and exit cap rate. Show a downside case.

SPONSOR · CFO / MODEL REVIEWER

PHASE II

Team & legal

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

05

Assemble the team

- Acquisitions lead
- Asset manager
- Property management firm
- Construction / renovation manager
- Insurance broker
- 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
- SPV operating agreements

FUND COUNSEL

PHASE III

Capital & operations

Debt, investor materials and the back office.

08

Establish lending relationships

Agency lenders offer long-term fixed or floating debt on stabilized assets; bridge lenders fund heavier renovations. Rate caps and maturity dates matter as much as leverage.

- Fannie Mae / Freddie Mac lenders
- Bridge and debt funds
- Regional banks
- Rate-cap providers

SPONSOR · LENDERS · MORTGAGE BROKER

09

Prepare investor materials

- Pitch deck
- Fund one-pager
- Track record with achieved rent premiums
- Financial model
- Due diligence questionnaire
- Virtual data room

Investors will ask for rent comps, renovation photos and property-level results from prior deals.

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

10

Set up fund operations

Fund administrator · Property management reporting · Banking and reserves · Investor portal · Capital call process · Distribution process · Quarterly reporting

SPONSOR · ADMINISTRATOR · AUDITOR · PROPERTY MANAGER

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

Many multifamily investors value quarterly cash distributions alongside the back-end gain, so be clear about both.

PLACEMENT AGENT · SPONSOR

12

Define the exit strategy

Sale on stabilization · Refinance and return capital · Hold for cash flow if markets soften · Fund liquidation timeline · Distribution waterfall

SPONSOR · COUNSEL: LPA TERMS

INVESTOR DILIGENCE

What multifamily investors scrutinize

REVENUE

Loss-to-lease and rent comps

How far in-place rents sit below renovated comparables.

EXECUTION

Renovation premium vs. cost

Rent lift per unit against cost per unit, and payback period.

OPERATIONS

Trailing-12 and rent roll

Occupancy, concessions, bad debt and delinquency.

EXPENSES

Taxes and insurance

Reassessment after sale and insurance renewals, especially in Florida.

DEBT

Rate and maturity risk

Fixed vs. floating, rate caps, and DSCR at stabilization.

EXIT

Exit cap rate

Exit assumed at or above the entry cap rate.

TYPICAL STRUCTURE

Who sits where

GENERAL PARTNER / MANAGER

[Sponsor] Multifamily Management LLC

Earns management and acquisition fees and ~20% carried interest

→ manages

FUND ENTITY

[Sponsor] Multifamily Fund I, LP

Owns each community through a property-level SPV

← commit capital

LIMITED PARTNERS

Accredited investors

Family offices, RIAs, HNW individuals

UNIT ECONOMICS · ILLUSTRATIVE

One 200-unit community

LINE ITEM	AMOUNT
Purchase (200 units × $150,000)	$30,000,000
Renovation ($15,000 per unit)	$3,000,000
Closing, carry & reserves	$1,200,000
Total cost	**$34,200,000**
In-place NOI (5.5% entry cap)	$1,650,000
Rent premium: $200/unit/month	+$480,000
Stabilized NOI	$2,130,000
Exit value at 5.5% cap	$38,727,300
Selling costs (2%)	$774,500
Profit	**$3,752,800**



Profit is 11.0% of total cost, unlevered. This excludes operating cash flow during the hold, which is often a large share of multifamily returns, and is before debt costs and fund fees.

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, often paid partly from operating cash flow.

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, raise 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

Stapleton Frost does not form or structure entities, prepare or file legal documents, or manage or administer funds or properties.

What your counsel and providers do

- Choose the entity structure and securities exemption
- Draft the PPM, LPA, subscription documents and questionnaires
- Advise on fees, promote, waterfall and sponsor obligations
- Handle Form D and state notice filings
- Fund administrators, auditors and property managers run operations and reporting

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