

# How to Invest in Real Estate Debt With Private Funds



Featuring:  ADVISORS





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## Agenda

- 1 About Entrust
- 2 What Private Real Estate Debt Funds Are
- 3 How to Evaluate Real Estate Debt Funds
- 4 Risk Management Tools Available to Investors
- 5 The Pros & Cons of Real Estate Debt Investing
- 6 Q&A Time

## Meet Your Host

Tony Unkel

Business Development Manager at The Entrust Group



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Years in retirement industry administration



Educating investors and professionals  
on tax-preferred retirement accounts

## About Entrust



**\$4B**

Assets Under  
Administration



**45k**

Investors  
Empowered



**40+**

Years in  
Business



**1**

Point of  
Contact

## About Entrust



- Self-Directed IRA administrators
- Knowledgeable staff with CISP designations
- Nationwide offices
- In-person events and virtual webinars
- National Continuing Education program for other credentials
- Bi-annual IRA Academy

## What is a Self-Directed IRA?



A retirement account in which the individual investor is in charge of making all investment decisions



Greater opportunity for asset diversification outside of traditional stocks, bonds, and mutual funds



All securities and investments are held in a retirement account administered by a regulated custodian or trustee





# Private Real Estate Debt Funds

MARCH 2022





# Disclaimer

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RD Advisors is a manager of various pooled investment vehicles and joint ventures. This presentation is a general presentation for purposes of education and is not intended to encourage you to invest in any of our funds or to serve as marketing or offering materials for any particular fund. None of the information in this presentation is intended to constitute specific investment advice. If you are interested in investing in particular funds, contact an investment professional for advice.

## About Sean Kelly-Rand

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Managing Partner of RD Advisors, a real estate private debt firm

Previously member of the investment teams at Real Estate Capital Partners, Monday Capital Partners, Madison International Realty, and Lehman Brothers (Real Estate)

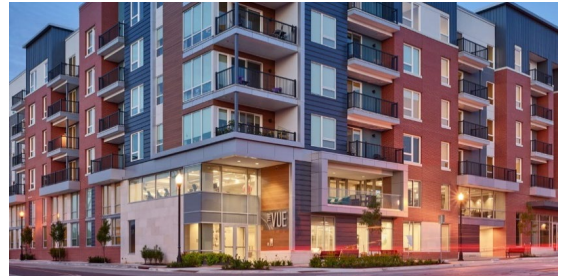
Holds an MBA from Columbia University, and an MA and BA in Economics from Boston University



# What is a Real Estate Debt Fund?

A real estate private debt fund is a pool of private capital dedicated to investing in loans that are collateralized by real estate.

Debt funds either issue or purchase performing or non-performing loans.



# What is a Real Estate Debt Fund?

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End borrowers may use them for a variety of purposes, including:

- acquiring the property
- construction / rehabilitation
- refinancings
- ground-up developments
- bridge capital



Fix & Flip



New Construction

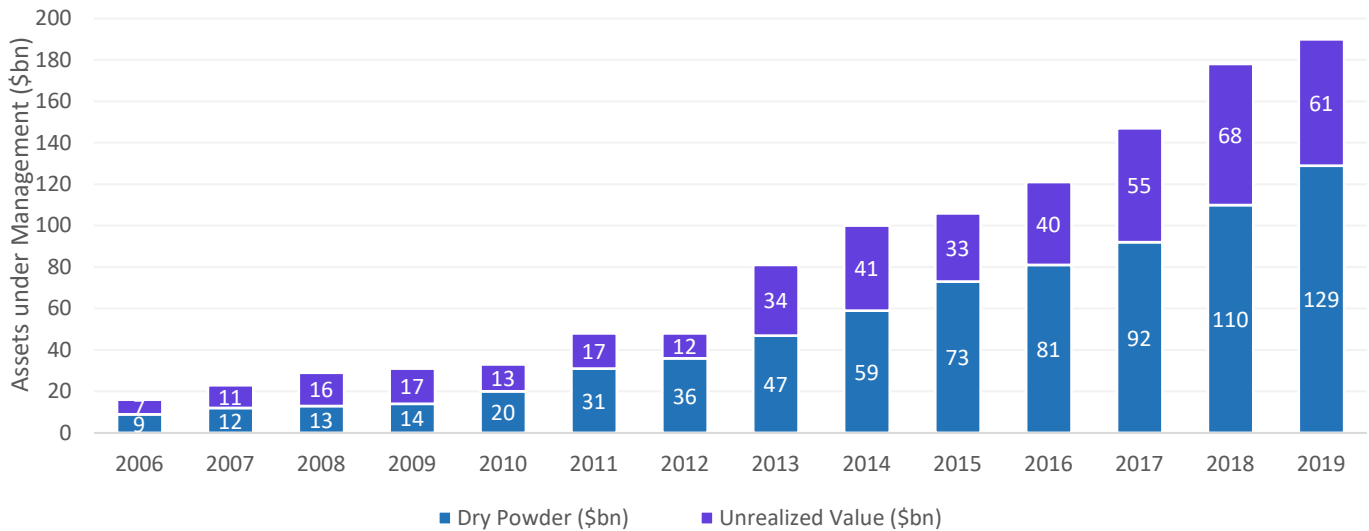


Refinancing

# Background

As growing real estate firms had a difficult time obtaining traditional financing, non-bank lenders had an opportunity to enter the market.

Private Real Estate Debt Assets Under Management, 2006 - 2019



Source: Preqin Pro.



# How Funds Differentiate Themselves

Fund return targets are dependent on a number of characteristics.



Position in the Capital Stack



Fund / Loan Size



Loan-to-Value Ratio



Loan Documents



Diversification



Leverage



Performing / Non-Performing



Development / Stable Assets

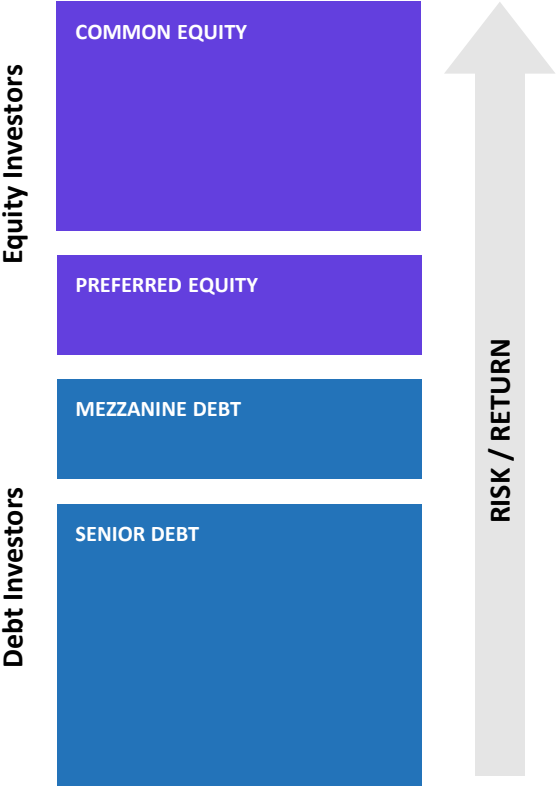


Debt Duration

# Capital Structure

A property’s capital structure is the combination of the different sources of capital used to fund the purchase and / or improvement of a real estate asset.

Debt funds may focus on one or more tranches of debt.



## Fund / Loan Size

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All funds have a focus in terms of deal size.

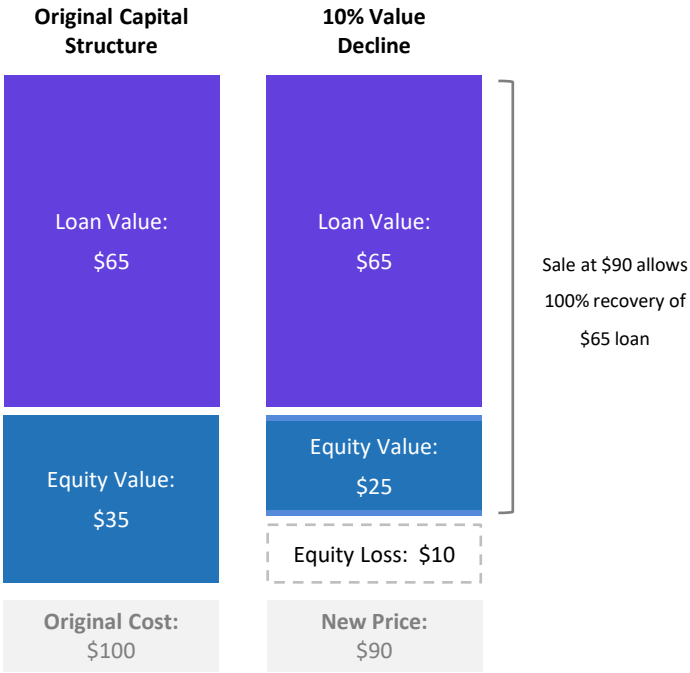


# Loan-to-Value (LTV) Ratio

The LTV of a property expresses the ratio of a loan to the value of an asset.

All else equal, as the amount of equity decreases, the lender’s risk increases.

## Hypothetical \$100 Investment



# Loan Documents

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Mortgages and security agreements give the lender a security interest in the specified asset or property that the borrower pledges as collateral, and ensures that the lender receives appropriate compensation if the borrower lapses into default.

Each loan may have a different security package based on specific circumstances.

## May Contain Provisions for Additional Collateral or Guarantees Such As:

- insurance requirements
- the conditions for disbursement of proceeds through the term of the loan
- periodic title searches on the property to ensure that there are no new liens
- collateral assignment of contracts, plans, permits, and approvals
- commercial mortgage, security agreement, fixture filing, and assignment of leases and rents
- commercial promissory note
- personal or corporate guaranty
- share pledges



# Diversification

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Diversification minimizes the risk of loss from default of any single loan.

Many funds set guidelines to avoid excessive concentration with a single loan or borrower.

## Ways to Diversify

- geography
- real estate type
- real estate asset class
- position in capital structure
- borrowers
- loan sizes
- asset business plan

# Leverage

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Some debt funds may have one or more sources of capital, often a credit facility from a bank, to allow the fund to lever its portfolio.

Generally, additional sources of capital increase a fund's lending or purchasing capability.

While leverage provides an opportunity to enhance returns, it also increases the fund's equity risk.

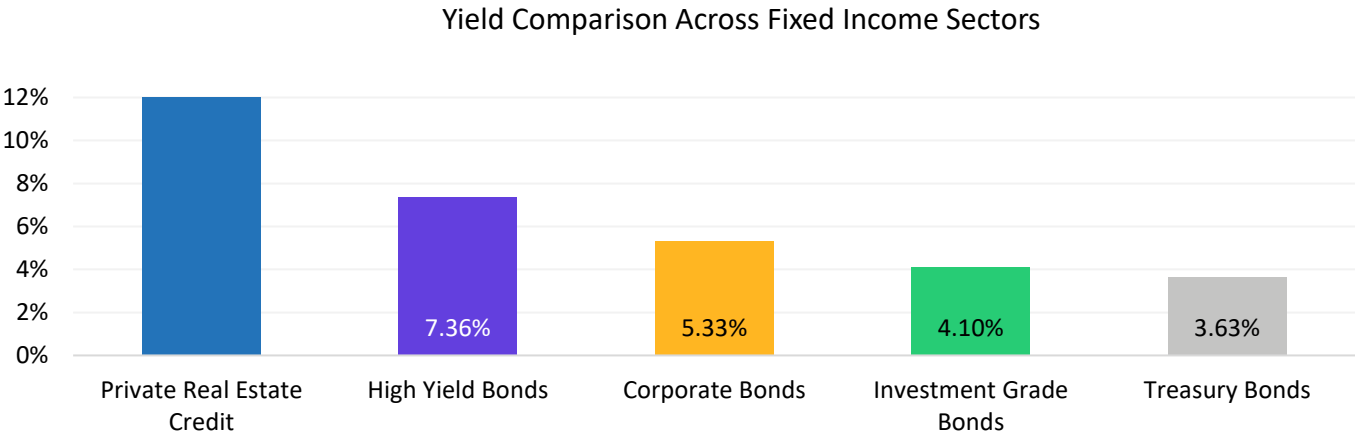
## Leverage May Be Structured:

- across an entire fund
- for a subset of a portfolio
- on individual assets

## Terms Vary With Respect To:

- term / mark-to-market
- revocable vs. irrevocable
- advance facilities
- draw periods

# Why Real Estate Debt



All annualized net returns from January 2005 – December 2021. Private Real Estate Credit represents a general good faith estimate based on RD Advisors’ general experience and does not necessarily represent the returns of any actual fund, “High Yield Bonds” represented by the Bloomberg Barclays High Yield Index, “Corporate Bonds” represented by the Bloomberg Barclays U.S. Corporate Bond Index, “Investment Grade Bonds” represented by the Bloomberg Barclays U.S. Aggregate Bond Index, “Treasury Bonds” represented by the Bloomberg Barclays U.S. Treasury Index.

# Pros of Investing in Private Real Estate Funds

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## Risk

- Relatively lower risk to equity investments due to position in the capital stack
  - Foreclosures have been declining on a national level since the Global Financial Crisis<sup>1</sup>
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## Returns

- Relatively higher returns to most other fixed income investments
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## Correlation

- Low to stocks and bonds, and therefore a solid component of a diversified portfolio
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## Diversification

- Access to a diversified pool of loans
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## Stability

- Most real estate debt funds provide consistent returns to investors

<sup>1</sup> Source: [Attom Data](#).

# Cons of Investing in Private Real Estate Funds

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## Liquidity

- Relatively illiquid investment compared to other asset classes

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## Barriers to Entry

- Many funds are not accessible to retail investors, but only accredited investors or qualified purchasers

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## Potential For Loss

- Like any other private investment, there is the potential for loss of your principal investment

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## Risk

- A fund may use leverage to enhance returns for investors, adding some risk to the investment
- The fund may be lending to borrowers who cannot access bank financing, which is in some cases due to a riskier credit profile

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## Scalability

- May be difficult to scale quickly as funds need proprietary deal flow and active management in order to succeed

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## Valuation / Reporting

- Difficult to assess mark-to-market values due to the illiquid nature of the asset class



# Contact

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# Time for Questions



## Stay Connected



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Learning gives CREATIVITY

Creativity leads to THINKING

Thinking provides KNOWLEDGE

Knowledge makes you **GREAT**

*- Abdul Kalam*

