Collaborative Real Estate - Tom Braegelmann
Kensington Fund & Secured Real Estate Income Fund

Investment Overview

Learn About a Hidden World…

We recently conducted a survey of dozens of busy professionals and found that their number one fear when it came to retirement planning was not having enough money. We weren't surprised. Although Americans hold nearly nine trillion dollars in various forms of retirement accounts[1] – the sad truth is that the majority of those assets will never generate the kinds of returns necessary to provide a comfortable retirement for their owners.

One of the biggest reasons is that the traditional investment options typically available in these accounts have some significant limitations:

- They are confusing
- It's hard to know if you are getting good information about the risks
- It's hard to know what your actual returns really are

You're left to choose between lower-return with lower-risk options such as CDs or higher volatility (and higher risk) options such as stocks. Stock and bond mutual funds can provide some relief, but many have fees that eat away at your overall investment return, and often have market-lagging return performance.

Could there be a better way to invest? We believe that there is, in the hidden world of alternative investments.

Private Lending – A Well-Established Investment Approach

Private Lending is one type of investment available in this hidden world. In this approach, private investors make loans to borrowers to purchase and/or improve real estate. The loans are secured by liens against the real estate, just as with a traditional bank mortgage. The borrower pays interest to the lender, completes the property project, and then sells the property. Upon sale of the property, the borrower repays the loan and then the lender releases the lien(s) against the property. All of the transactions are managed through third-party escrow services – just as they would be in a more traditional home sale.

Private Lending has been going on for decades. There is a well-established set of laws in place, as well as a professional network of real estate brokers, escrow and title service providers, and loan servicers. The fact that the loans are secured by real estate provides a degree of safety not available with many other types of investments.

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[1] Employee Benefit Research Institute (EBRI) Notes, May 2010 • Vol. 31, No. 5

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While much of the private lending activity is single or multiple investors supporting a single borrower, there is another model based on an investment fund. In this approach, a fund manager organizes a collection of investments from multiple investors, and then uses the pool of money in the fund to make loans to borrowers. This type of fund has existed for decades as well. Currently there are a variety of real estate mortgage funds available to investors, with a range of investment strategies.

Our Model – Higher Returns with Investments Secured by Real Estate

Our Kensington Fund and our Secured Real Estate Income Fund extend the tried-and-true model of lending funds. These Funds specialize in making secured, short-term loans to investors who buy, improve and resell properties. The fund collects interest on the loans, as well as a percentage of the appreciation in the property. This investing approach typically gives us higher returns than interest-only investment approaches while retaining the security of real estate as collateral.

- **Earn High Yields**
- **Secured by Real Estate**
- **Stay in Control of your Money**
- **Receiving Monthly Payments**

As a lender you are protected. You have collateral to secure your money. That collateral is worth 35% to 40% more than what you put out. A deed of trust is recorded to protect your claim. If the borrower defaults on the loan or fails to pay back the principle balance of the loan upon the maturity date, you have recourse against the borrower by foreclosing on the property and selling it to recoup the investment. Our model provides healthy returns with a consistent monthly cash flow. It is a secure way to diversify into real estate.

By investing in private lending, you could substantially increase your cash flow as well as your net worth by the time you retire. You finally have the opportunity to take control of your investments.

This model works well for everyone. Vacant and often run-down properties get bought and dramatically improved, making neighborhoods nicer. These properties are often sold at the higher end of a neighborhood's price range, improving values for the other homeowners in the area. Construction workers are kept employed and are able to take care of themselves and their families, re-injecting their earned incomes into the local economy. And our investors get a great investment option with good returns and their principal secured by equity in the real estate the loans are made against.

This model is a win for the neighborhoods that are invested in, a win for the borrowers and construction workers improving the properties, and a win for investors.

What If? – Managing the Key Risks

Of course there are risks inherent in every investment[2]. The key is to anticipate as many of the key risks as possible and to have pro-active risk management plans in place to mitigate them. For example, here are three of our top risks, along with a brief explanation of our management strategy for each:

1) Borrower stops making loan payments – We, as fund managers, reserve the total amount of anticipated interest for the loan in an escrow account managed by a third-party company. Then the escrow company, rather than the borrower, pays the monthly interest while the project is underway. This approach makes it very difficult for the borrower to default during the normal term of the loan.

2) Rehab project not completed on time or never completed – We use a 3rd party management company, which inspects the project at regular intervals and dispenses funds as key milestones are met. The management company stands ready to take over a project should that prove necessary.

3) Must reduce price to sell property – We typically have independent appraisers estimate the value of the completed project before we invest and usually loan only up to 70% of the anticipated after-repair value (ARV) of the property. Then, if the property is not able to be sold for the estimated ARV, we still have a 30% buffer before our loan principal is at risk.

In general, we make our loan decisions based on the value of the asset should we end up having to own it – a capital preservation strategy which provides a high degree of protection for your hard-earned investment dollars.

The Right Team, The Right Investments, The Right Results

Kensington Fund and The Secured Real Estate Income Fund managers have a combined total of over 110 years of real estate investment experience. Together they've seen multiple real estate cycles and have learned that the art of successful investing is having the right strategy at the right time in the market.

Let us put our knowledge and expertise to work for you. Unlike big Wall Street institutions, we want you to be well-informed, to have clear information and complete transparency into the operations of the fund, and to make money. In fact, our fund is designed to pay investors an 8% annualized preferred return before the managers receive a single dollar of interest or shared appreciation income, with potential upside to low double digit total returns. With the right investments, your portfolio can enjoy the benefits of higher returns, lower volatility, greater diversification, and reduced risk – and you can position yourself for the retirement of your dreams. Come join us!

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[2] For a more complete list of risks, please contact info@collaborativerealestate.com