

PROMOTE STRUCTURE EXPLAINED



WHAT IS PROMOTE STRUCTURE?

A **Promote** is an incentive that **General Partners (GPs)** can receive when a project performs positively. GPs receive a disproportionate share of profits generated above a certain threshold. This can also be called **Carried Interest**.

WHEN DOES THE GENERAL PARTNER TYPICALLY EARN THEIR PROMOTE?

A GP usually begins to earn their promote during a capital event — most often the promote is earned when the property is sold.

HOW IS PROMOTE CALCULATED?

In a typical real estate transaction, the **Limited Partner (LP)** receives limited profits and has their debts legally limited to the extent of their investment. An LP receives a Preferred Return tied to a specific **Internal Rate of Return (IRR)**. When an LP receives this threshold IRR, this is when GPs will start receiving profits disproportionately.

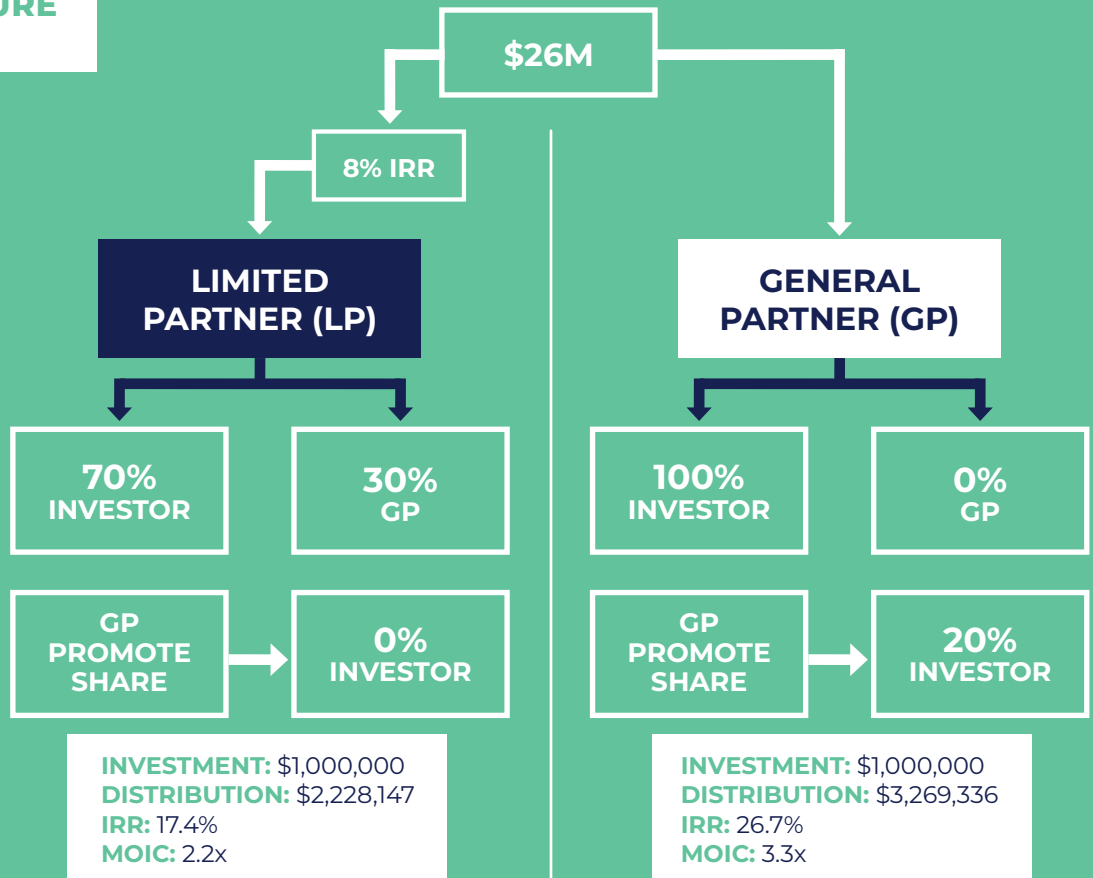
For example, the GP may start receiving 30% of the LPs profits once the LP receives an 8% IRR.

The IRR and profit splits negotiated between the GP and the LP are collectively known as the **Equity Waterfall**.

PROMOTE STRUCTURE EXAMPLE

In this example, the GP position invests \$1M and the LP position invests \$9M. After 5 years, the project is sold, and \$26M is available to distribute to investors.

The LP's preferred return is an 8% IRR. Profits thereafter are split 70% to the LP and 30% to the GP.



Project-level returns for a \$1,000,000 investment are a 21.1% IRR and 2.6x MOIC.

To learn more, our team at Tax Alpha Title can help you explore private real estate investment options that may be right for your current goals and circumstances.

**To schedule a consultation,
call us at 469-827-0TAX.**

Tax Alpha Title does not offer legal or tax advice. Please consult the appropriate professional regarding your individual circumstance.

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