**Financial Model Introduction**

This financial model is a 20-year projection of the financial performance of the We The People Community Investment Vehicle. Ove the 20-year period it projects the growth of the CIV’s portfolio of properties and the income generated by those properties, how cash generated by those properties (either income that they generate through rents or proceeds from refinancing) is distributed among the different lenders and investors that will capitalize the CIV, and the balances over time and financial returns of those different investors.

These projections are based on assumptions about the CIV’s operations and capitalization, which are described in the “Assumptions” section below. The model is designed to be dynamic, which means that users can see how changing any assumption changes the model outputs. For example, a model user who wanted to see how the CIV’s growth and financial returns change if it has to pay a higher or lower price for properties, gets worse or better debt terms from lenders, or raises more or less equity capital can easily use the model to answer those questions. In the model, assumptions are written in blue text rather than black; any number in blue can be changed by a user and the model will update to reflect the changed assumption.

**Key Model Outputs**

**Key Model Assumptions**

Properties

* The CIV will purchase fully-renovated, stabilized properties.
  + We have assumed that the CIV buys properties at an 9% capitalization rate on stabilized net operating income, which is consistent with market pricing that we have observed.
* The CIV will purchase a mix of mixed-use and residential properties.
  + We have assumed that 25 percent of the CIV’s owned square footage is commercial. This implies that roughly half of the CIV’s properties will by mixed-use properties of the type typical on 71st Street (which are often ~50% commercial), and the other half will be residential properties with no commercial square footage.
* The CIV or a third-party manager that it hires will manage the properties; we have assumed three percent annual increases in rents and operating expenses, and market vacancy rates.
* We assume that the properties continue to be valued at a 9% capitalization rate in the future, so their value increases linearly as their net operating income increases

CIV General and Administrative (G&A) Costs

* We assume that the CIV has significant operating costs beyond the operating expenses of the properties it holds
  + These costs cover activities such as managing records of and payments to community shareholders, raising PRI capital, and sourcing and reviewing property acquisitions
  + [JJP TO FILL IN MORE DETAIL]

Capital Sources

* **Community Equity:**
  + We have assumed that the common equity in the CIV’s property acquisitions (which makes up 8% of total acquisition costs) is sourced from South Shore community residents and allies.
  + This community equity will have two classes:
    - Class A: Intended for low-middle income community residents
      * $500/year investment commitment
      * Potential for philanthropic match (we assume 3-1 match on Class A investments)
      * Preferential liquidity terms (see below)
    - Class B: Intended for higher-income community residents and supporters who do not currently live in the community
      * $1,500/year investment commitment
  + We assume 100 total investors in the community equity tranche, 20% of whom are in Class A and 80% of whom are in Class B.
  + We assume five years of community capital fundraising
    - As a practical matter, this will likely be split into two or three separate capital raises rather than five, but for financial modeling purposes we have spread it equally over five years.
  + Including philanthropic match, these assumptions result in $160,000/year of community equity, and $800,000 total over the five-year period.
  + All property cash flows and value appreciation above what is owed to the PRI investor and senior lenders (see below) accrues to the benefit of the community equity.
  + Community equity investors will earn returns in the following structure:
    - Dividends: 3% per annum, beginning in year 10
    - Share liquidity:
      * Class A investors can liquidate their investment by reselling to the CIV at any time
      * Class B investors can liquidate their investment by reselling to the CIV starting in year 6
      * We assume that in any given year, 5% of the shareholders by value choose to liquidate (prior to year 6, 5% of Class A shareholders by value choose to liquidate in any given year)
      * Note that the CIV does not generate sufficient cash flow to cover assumed share liquidations for some time, so the CIV would have to find a capital source to cover these (possibly a philanthropic investor)
* **Outside PRI Capital:**
  + We assume that the CIV raises program-related investment capital from sympathetic foundations and family offices.
    - This capital will be structured as preferred equity and provide the remainder of the CIV’s required junior capital
    - The PRI will invest in a 60-40 ratio with the community equity, so for every dollar of capital required in excess of the senior debt, $0.60 will come from the PRI and $0.40 will come from community equity
      * So, the total amount of the PRI (assuming $800,000 total in community equity) will be $1.2mm
    - The PRI will have an interest rate of 2% per annum, which will accrue to the principal and compound
    - The PRI will receive 25% of portfolio net cash flow after senior debt service until it is fully repaid with respect to principal and interest
* **Senior Debt:**
  + We assume that the CIV will raise senior debt (likely from a CDFI or other mission-oriented lender) on the following terms:
    - Loan-to-Value ratio:
      * 80% for new acquisitions
      * 65% on a stabilized basis
    - Interest rate: 6.5% per annum
    - Amortization: 1.5% per annum until the portfolio reaches 65% loan-to-value, then none
      * It is unlikely that this would be the terms of any individual loan; the CIV could achieve this on a portfolio basis by refinancing property-level mortgages when they go below 65% loan-to-value
  + Initially, the CIV will likely borrow on a property-by-property basis; once it achieves sufficient scale, it might achieve a better execution with a cross-collateralized loan against its entire portfolio.

Financial Strategy/Management

The CIV will seek to maximize the amount of real estate it owns subject to repaying investors and lenders based on the terms of their securities. In the first five years, when it is actively raising capital from the community, it will invest community equity into new acquisitions as quickly as possible, subject to the pace of that fundraising and the availability of appropriate acquisition opportunities. We assume that the minimum total acquisition amount that the CIV will consider is $800,000, so the CIV will make an acquisition whenever it has more than $800,000 in acquisition capacity. Based on our assumptions, the CIV will be able to acquire $2mm in real estate per year during the first five years when it is actively raising capital.

After the initial investment period ends, we assume that the CIV will cease acquisitions until it has raised enough capital organically to re-invest into new acquisitions. This will take some time, as initially the CIV will not be covering its G&A costs, and once dividends and redemptions start, the CIV will need to dedicate cash to these payouts. We assume that any cash flow to equity in excess of dividends and redemptions is held in an account for reinvestment, and then is reinvested into new property acquisitions once it is sufficient to finance an acquisition of $800,000 or more. We also assume that any potential refinance proceeds (if the LTV ratio of the CIV’s debt dips below 65%) are available to be equity for new acquisitions.