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Real Estate Debt Funds Offer Strong Returns with Lower Volatility

Finding opportunity in a low yield environment

With the Federal Reserve expected to keep interest rates near zero through at least 2023, retirees and others seeking investment income search, largely in vain, for safe, liquid investments with a higher rate of return.

A nationwide housing shortage has created a seller's market, if buyers can locate a suitable property at all.

Over 50 percent of houses are 38 years old or older and many are in need of extensive rehab. This creates an opportunity for developers.

Banks, in a heavily regulated environment, are **unwilling or unable to lend** the funds developers need in order to take advantage.

The **Advest Short Duration Real Estate Investment Fund** for accredited investors solves this problem.

For accredited investors, the Fund:

- Provides predictable, stable, monthly income.
- Delivers a high annual return, with a 10-percent target.
- Assures that builders and properties are vetted thoroughly.
- Protects the investment with the property as collateral and the borrower's full personal guaranty.
- Diversifies investments over a number of properties, further reducing risk.

For borrowers, the Fund:

- Offers loans for rehab, ground up and bridge purposes.
- Closes construction and rehab loans more quickly than banks can.
- Loans funds for a short duration, 3-18 months, for dwellings that are not owner-occupied.

And for homebuyers?

Advest's loan solution supplies more viable homes to the market.

"Advest's philosophy for debt investments in real estate resembles that of a private equity investment. Our process evaluates the fundamentals of the property and the sponsor seeking the funding. Our goal is to be the best solution available for accredited investors and borrowers in the Northeast."

– Griffin Haviken
Advest Managing Partner

Interest rates are expected to remain low

Central Banks have indicated they expect to keep interest rates low for the foreseeable future. U.S. Federal Reserve Chairman Jay Powell has said he expects the Federal Reserve to **keep interest rates near zero** through at least 2023. In early March 2021, the annual yield on the benchmark 10-year U.S. treasury note was around 1.5%.

The upshot is simple: Today, certificate of deposit and money market funds generate yields close to zero. Diversification in fixed-income investment such as bonds, used to reduce risk over time, is scarcely more effective than putting money under your mattress.

That dynamic pushed many investors into higher, riskier allocations of stocks in their portfolios, even among retirees who need fixed-income securities to preserve capital and provide a stable income stream.

Real estate debt funds offer an attractive, viable alternative. They offer the best of both worlds, generating **high annual yields**—in the 8% to 11% range—with **collateralized protection.**

Their popularity has grown. Private real estate debt funds have doubled in size since 2014 to about $190 billion in assets under management.

Managers of this type of real estate investment entered the market when increased regulation after the 2008 recession forced banks to pull back. Developers found it more difficult to secure short-term loans on commercial real estate from traditional banks.

Private equity style debt funds can fill the void.

Real estate debt fund opportunity in 2021

The housing market is seeing an influx of millennials, who for years delayed the purchase of their first home but now are expected to flood into the market. A persistent lack of inventory impedes them — and others looking to buy. This situation is driving demand for construction and rehab funding.

Realtor.com predicts the following for the coming year:

- Existing home sales are **expected to be up 7%**
- Single family housing starts are forecasted to **grow by 9%**
- Median sales price of existing single-family homes is **expected to rise by 5.7%**
- Mortgage rates are expected to **remain low in 2021 at 3.2%**

The current market offers an opportunity to real estate investors and homebuilders — if they can find funding for their projects.

That's where Advest, specializing in the Pennsylvania, New Jersey and New York markets, comes in. As a direct-to-borrower lender that is a fiduciary to investors, **Advest connects projects with funding**.

The Fund is attractive to experienced borrowers, too. Exceptional "white glove" service, rapid turnaround on approved projects, in-house loan servicing and surety of execution make for an excellent lending experience.

> "Investors can expect a Fund that specializes in our three-state market. Investment properties are secured as collateral and vetted by an extensive local network of appraisers and inspectors."
>
> **- Griffin Haviken**

How do real estate debt funds work?

Short-term debt funds offer real estate borrowers **quick access to capital**, typically for under one year, that traditional lenders cannot, or will not, provide. In the current regulatory environment, most banks will not provide the kind of financing used to develop, renovate or improve a residential or commercial building.

Most real estate investors and homebuilders who borrow from real estate debt funds are **experienced, have good credit and a proven track record**. And they know a good opportunity when they see it, searching for properties where the 9% to 12% interest rate they'll pay to fund a project is small relative to the anticipated profit. Real estate debt funds generate their income through interest paid on those borrowed funds.

Real estate borrowers are willing to pay higher interest rates because real estate debt funds can usually close a transaction in two weeks or less. Opportunities are often lost if the borrower cannot close fast, and traditional banks generally take 45-60 days to close.

Typically, a real estate debt fund will lend up to 70% loan-to-value (LTV) of a property's appraised market value. For example, if a debt fund made a loan to a real estate developer whose property is valued at $1 million, the debt fund would lend up to $700,000. Thus, there is an equity cushion of $300,000 to provide a margin of safety.

This feature is extremely popular with accredited investors because their investment is **collateralized in a way similar to most bonds**. The return, though, is much higher.

> "Bridge loans, construction loans, rehab loans -- those kinds of funding can be harder to come by. Advest and other real estate debt funds fill that void."
>
> **- Griffin Haviken**

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Assessing risk in a real estate debt fund

Most real estate debt funds, including Advest's Fund, only lend when the fund has collateral protection and is repaid first in the event of a default. That minimizes any risk involved. There is always the possibility that a borrower defaults on one of the loans in the fund. Even that situation, though, doesn't mean the fund would lose money.

The only way Advest's Fund could incur a loss of principal would be in the event of multiple foreclosures, combined with a large drop in home prices, in a short period of time. Having properties as collateral creates a safety net, and the Fund's diversification across properties, builders and locations further limits the risk.

Illiquidity is another risk. Because real estate cannot be sold quickly and readily converted into cash, it is by nature illiquid. Advest's structure mitigates that issue.

Advest's loans are short-term in nature (usually one year or less). The Fund also has an open structure that gives investors flexibility as to when they enter and exit, with a one-year lockup for new investors.

"The best way investors can mitigate the risk in a real estate debt fund is to look for funds that effectively diversify their portfolio across real estate borrowers, submarkets, and regions. Advest does all that."

- Griffin Haviken

Benefits of Advest's real estate debt Fund

So, let's take a quick look at the **advantages of Advest's Fund**. Besides mitigating risks posed by market volatility and illiquidity, Advest's Fund offers:

- **High annual returns:** Investors generally earn yields of 8% to 11% annually with a target return of 10%
- **Relatively predictable and stable income:** Fund investors are credited with interest income every month, making the Fund a good income vehicle.
- **Secured by real estate:** Advest holds first-position liens on all properties in the Fund.
- **Qualified borrowers:** Advest requires a proven track record, a credit review, and full personal guaranties by borrowers.
- **Borrower equity required:** Advest typically targets loans with a loan-to-value ratio of 70% or lower.
- **Diversification:** Risk is spread over multiple loans, a variety of property types, and different borrowers and locations.
- **Geographic focus:** Most properties are concentrated in established metropolitan areas, where price volatility is relatively low. Physical inspection, independent appraisal and title insurance are required.
- **Short-duration loans:** Advest's loans are short-duration, generally 3-18 months, with an average maturity of one year.
- **Transparency:** Investors in the Fund have access to all executed loan documents. Advest holds a mortgage on each property which is a publicly recorded instrument. An annual audit is performed by a top-25 PCAOB Public Accounting firm.

Interested in learning more, or becoming an Advest investor?

Real estate debt funds have become a popular and growing asset class, thanks to compelling fundamentals. Want to learn more about Advest's Fund?

Email **jeff@advestfinancialgroup.com** or visit **AdvestFinancialGroup.com**.

The statements contained herein do not constitute an offer or sale of securities. Prospective investors are advised to carefully review the Company's private placement memorandum, operating agreement and subscription document. Prospective investors are advised to consult their legal, financial and tax advisers prior to considering any investments in a real estate debt fund. All forward-looking statements address matters that involve risks and uncertainties. Investing involves risk and numerous factors could cause actual results to be materially different from any future results. Actual results may vary materially from those described in this white paper.