AssureLease

Balance Sheet Protection Strategy

Residential Owners/Landlords

 2018v1

AssureLease Overview

- AssureLease replaces traditional security deposits which for large portfolios are a failed instrument and can only create a negative impact to NOI (net operating income)
- AssureLease can help increase retention and reduce damages by tenants
- AssureLease removes the need to ask for tenant deposits (tenant barrier to entry)
- AssureLease general “cost” structure is in the 1.5% range of gross annual rent and .75% on a net basis (after dividend is received)
- The AssureLease structure allows for 100% of funding that is not used to pay expected losses RETURNED to the owner/landlord/operator
- AssureLease utilizes insurance as capital on a third party basis without ANY requirement of collateral
- Owners/Landlords self adjudicate their losses thereby eliminating “claim denials”

Loss Scenario(s)

When a traditional security deposit is taken by the landlord/owner from a specific tenant, only three scenarios can occur:

1) Upon disposition of the lease, the tenant has NO losses – a non occurrence

2) Upon disposition of the lease, the tenant has a partial loss (minor damage to unit)

3) Upon disposition the tenant has a loss in exceedance of the security deposit. These losses when aggregated annually across a large portfolio create a non recoverable deficit that negatively impacts NOI

Impact of Aggregated “Uncovered” Losses

- Because real estate companies “leverage” their capital, any negative financial impact hurts not just the net operating income (NOI) but also their ability to expand/acquire, receive more favorable lending terms and in the case of public companies, negatively effect their share price.

- In the case of traditional security deposits – which can only fail financially there is no way to offset the uncovered losses during a fiscal year. Essentially this becomes a “cost” of doing business that is NOT taken into account by rent pricing models etc.

- In many cases RE companies use a FICO/Credit score table that in essence, levies a higher charge on those with lower credit scores. This puts potential tenants who are potentially more compromised financially in a weaker position by giving them a larger financial barrier to entry. This is the battle of Rate Vs. Occupancy and can lead to bad debt.

How Did We Get Here?

For almost a century owners/landlords across the country have done one thing almost perfectly consistent in utilizing, administering and setting security deposits standards:

“ ***What every other Owner/Landlord does “***

This has traditionally been the extent of the financial analysis effort to understanding a better way of protecting a RE company balance sheet against the failed instrument of security deposits.

Utilizing A Third Party Balance Sheet To Indemnify Known Or Expected Losses/Claims

For more than a century large corporations have utilized insurance to protect their balance sheet in the event of; property, casualty, catastrophic/fortuitous losses. The real estate industry which is generally subject to strict lending terms, is no exception in their use of insurance. In most cases the expected risk is categorized into four quadrants:

- Operational
- Financial
- Strategic
- Insurable

When we focus on insurable risks we see that risk exposures across multiple quadrants can be mitigated by purchasing insurance. The ultimate purpose of the insurance is to allow for finite financial planning, knowing that “ultimate” exposures/losses have been limited to a specific financial impact.

In cases where a company could afford to “budget” for paying known or expected losses they do so but still purchase insurance to step in and mitigate should those losses exceed expectations/budget. These programs known as Large Deductible or Self Insured Retention’s (SIR) are a commonplace tool used for the most efficient payment of losses. In almost every case – these programs also require collateral or posting a deposit with the Insurance company at the inception of the program.

The AssureLease Difference

- AssureLease has created a structure that allows for the owner/landlord to utilize a traditional SIR program WITHOUT the posting of any collateral.

- This frees up capital to be better used in the core disciplines of the company. In addition, AssureLease uses an owner controlled captive that receives 100% of all of the unused funding AFTER losses traditionally NOT covered have been paid.

- This allows the owner/landlord the highest level of capital efficiency while still mitigated ALL expected losses on a forward – calendar year – basis.

Sample Case Study:

10,000 unit multi family portfolio with AssureLease - Implementation at maturity

	Before	After	Change
Occupancy	95%	96%	+1.00%
Rent Per Month	$2,000	$2,030	+1.50%
Total Annual Rent	$228,000,000	$233,856,000	+2.51%
Security Deposits[1]	$19,000,000	$0	N/A
Insurance Premium[2]	$0	$1,753,920	N/A
Total Annual Rent After Premium	$228,000,000	$232,102,080	+1.76%
Bad Debt Impact[3]	$(400,000)	$0	+$400,000
Increase in NOI	$(400,000)	$4,102,080	+$4,502,080
Increase in NOI @7X (Value Creation)	N/A	$31,514,560	

(1) @1.5% rate with 50% dividend
(2) @1 month per unit
(3) @ .20% net unpaid

AssureLease Results

FINANCIAL

- Increases portfolio valuation through elimination of negative impact to NOI
- Eliminates potential “bad claims”/scenarios
- Eliminates a known cost center

STRATEGIC

- Increases occupancy
- Increases roll over rate
- Creates a “Differentiation” to competitors
- No tenant “Privity” to contract (Removal of suits related to Security Deposit Adjudication)

OPERATIONAL

- Reduces administrative costs
- Reduces tenant litigation and recovery actions
- Reduces “Negative” tenant interaction

INSURABLE

- Transfers known risk
- Protects balance sheet
- Allows for expense smoothing
- Owners/Landlord keeps 100% of unused funds – NOT the insurance company

Opinions

Real Estate Finance & Investments - VOL. XIX, NO 50

Selected Quotes

- “The security deposit in its current form represents a wasted asset as an unnecessary utilization of cash liquidity for both multifamily and commercial tenants and a major barrier for many otherwise acceptable residential and commercial tenants”

- “An increase in operating income leads to an increase in property value as well as an enhancement in the underwriting in the event of debt financing”

- “The owner is free to make this part of the typical lease agreement without privity of contract to the tenant. This mitigates any potential malfeasance on the part of the owner”

- “ A market rate based facility is not constrained by a voluntary system”

Opinions/Testimonials

- ”With a portfolio of more than 22,000 units, security deposits have always been a losing game for us, but with AssureLease we can eliminate our losses and give our tenants a benefit as well. This is smart progressive thinking towards creating a solution to eliminate a negative impact to our balance sheet, increasing our occupancy rate and reducing the financial burden on our prospective tenants.”

General Counsel Cammeby’s International

- “AssureLease™ pushes beyond the limits of basic risk management, where the goal is protecting assets, by leveraging those same assets in a way that improves financial outcomes (financial performance metrics). It does this through an innovative insurance profit center structure that converts annual known and expected tenant default losses to increases in net operating income (NOI). This is something that traditional security default programs have never been able to accomplish. Simply put, AssureLease sets the framework for a significant win, in the place of what otherwise would be a certain loss.”

Senior Vice President IOA Insurance Services

Disclaimer

<u>*Legal Disclaimer*</u>

The information contained herein is subject to a mutual confidentiality agreement, general in nature and is not intended to address all of the aspects of Federal income taxation that may be applicable to privately held real estate properties, REIT's or UPREIT's in structuring the AssureLease Deposit Insurance Program. This information is not intended to constitute legal or tax advice to any person or entity.

AssureLease relies on information provided by the property owner or manager and makes no warranties of revenue projections, claims or expenses.

<u>Qualifications:</u>

- Losses paid by the insured should be tax deductible and premium deposits returned to the insured should not be taxable as income. However, you are strongly urged to confirm accounting requirements associated with this transaction with your legal and tax consultants.
- Coverage for all properties sold, transferred, bequeathed or involved in a Section 1031 Exchange will be allowed to run-off for the balance of the lease term as long as the monthly premiums are paid by the new owner. The new owner would be named as a Loss Payee on the policy to protect its financial interests. Coverage would cease if the payment of the monthly premiums are discontinued at any time.

This presentation subject to review and binding authorization by StarStone

Product Sponsorship

The AssureLease product is patent protected by AssureLease LLC. AssureLease LLC was formed to design, develop and patent the AssureLease™ business process as it relates to commercial, multifamily and student housing lease tenant default insurance coverages. AssureLease then secured an exclusive agreement for the underwriting of this type of risk with one of the major underwriters of property and casualty insurance in the world. The management of AssureLease comprises seasoned insurance, real estate, legal and risk management executives who have combined their various skills in the development and design of the AssureLease™ product.

AssureLease

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