Organizational Structure Chart for a 9/10 Real Estate Joint Venture (LLC)

PRACTICAL LAW REAL ESTATE

Search the Resource ID numbers in blue on Practical Law for more.

This Chart provides a visual overview of the organizational structure of a real estate joint venture structured as a limited liability company. It illustrates the relationships between equity investors and sponsors, the joint venture and its subsidiaries, the borrower entities and lenders and the property owner and third parties or affiliate property-level managers.

In this example of a real estate joint venture, the equity investors form Investor Member, LLC and the principals of the sponsor form Operating Member, LLC. Those limited liability companies serve as the joint venture members.

In a typical real estate joint venture structure, the investor member contributes the majority of the capital needed for the project. The operating member contributes a smaller percentage of the required capital (typically 10% to 20%) plus real estate expertise, such as experience managing, developing or constructing commercial real estate projects. In this joint venture, Investor Member, LLC contributes 90% of the capital and Operating Member, LLC contributes 10% of the capital to Special SPE JV, LLC, a special purpose entity joint venture.

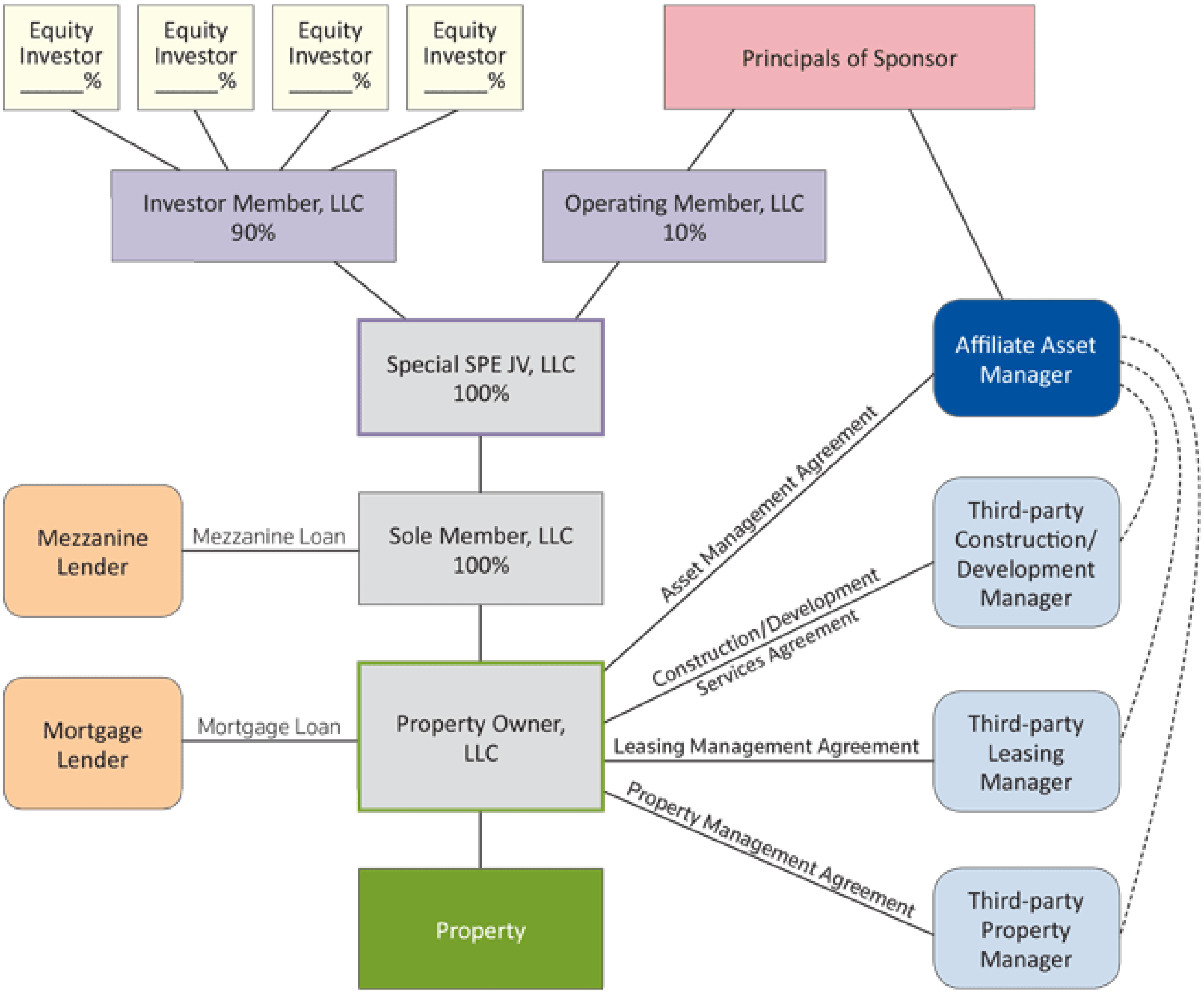
Special SPE JV, LLC forms a wholly owned subsidiary, Sole Member, LLC, which forms below it another wholly owned subsidiary, Property Owner, LLC, to hold fee title to the property.

The joint venture obtains a commercial real estate mezzanine loan and a mortgage loan to finance its acquisition and development of the project. The loans are structured so that:

- Sole Member, LLC pledges 100% of its ownership interest in Property Owner, LLC as collateral for a mezzanine loan (see Real Estate Mezzanine Lending Chart (2-539-3505)).
- Property Owner, LLC grants the mortgage lender a mortgage on the property as collateral for the mortgage loan.

One of the ways the operating member is compensated for contributing its real estate expertise to the joint venture is by having a right to a promote or carried interest. Another common method of compensation is through the payment of fees to affiliated entities. In this joint venture, the principals of the sponsor have an asset manager affiliate that enters into an affiliate asset management agreement with the property owner. The property owner pays the affiliate asset manager a fee for its services.

The affiliate asset management agreement grants the asset manager the authority to act as agent for the property owner and engage third-party providers in a construction/development services agreement, a leasing management agreement and a property management agreement. The property owner is also a party to these agreements. Depending on the structure of the joint venture, the property-level management services are provided by an affiliate of the operating member or by third parties.



ABOUT PRACTICAL LAW

Practical Law provides legal know-how that gives lawyers a better starting point. Our expert team of attorney editors creates and maintains thousands of up-to-date, practical resources across all major practice areas. We go beyond primary law and traditional legal research to give you the resources needed to practice more efficiently, improve client service and add more value.

If you are not currently a subscriber, we invite you to take a trial of our online services at **legalsolutions.com/practical-law**. For more information or to schedule training, call **1-800-733-2889** or e-mail **referenceattorneys@tr.com.**

03-17