



AD Capital

Business Plan

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Executive Summary

AD Capital was established with the sole purpose of providing everyone the opportunity to be able to invest in great real estate usually reserved for large institutions. Our mission is to provide alternative investments for families and individuals so that they may better protect their liquid capital, hard earned retirement dollars, and opportunities to build generational wealth. We are offering investment opportunities that are de-risked by acquiring already cash flowing assets.

Wall Street has pillaged the hard-working American for far too long and we are carving a path to change that. AD Capital is seeking strategic partnership with individuals to fund acquisitions. Our partnership allows us to pool money and use it to purchase large properties that provide greater financial returns and protections. We are confident that we will be able to change the financial landscape for all involved while giving them significant peace of mind and financial security. We look forward to partnering with you.

Company Description

Currently there are two major, yet unspoken problems that are plaguing the average hardworking American. Inflation and stock market volatility. My family has suffered from both, which brought the formation of AD Capital to fruition. Inflation has taken away tremendous amounts of buying power in an extremely short amount of time. In fact, a \$5,000 expense in 2021 has jumped to \$5,383. This may not seem impactful now, but this same expense is expected to cost \$6,785 in 2033. For many working Americans this is a cost that is easily absorbed. But what of the Americans who are retiring in the next 10 years? Those who will transition to a fixed income. How will this harm them, and are you in this boat?

Now let's look at another factor, market volatility. In Nov. 2022 Fidelity reported the average 401k balance fell 23%. For some it was more and for some it was less. My family, myself included, lost close to \$150,000 in hard earned wealth. What then, if you had worked to save \$1,250,000? Your wealth would have decreased \$287,500. And let's say this happened just six months before your retirement. Or six months after. The average return over the last three years has been -14%. This means the average person has realistically lost some 42%. Take the same example of the \$1,250,000. In this scenario you have now sustained a loss of \$525,000. Your total retirement balance then is \$725,000. Spread this out over the course of 25 years and we see you are living on \$29,000, or \$2,417 a month. Combined

with social security in the amount of \$2,500 a month and your income is \$4,917 a month. Let's hope you don't get sick.

All of this has happened while the average American has been paying a management fee for their retirement accounts, and almost none received a call just to say, "Mr./Mrs. Customer we know things are unsettling right now, but we are working on your behalf." The average fee collected by a custodian is 1%. In this example we'll use Fidelity. Say they have 10,000 customers with the above \$1,250,000. Doing the math equates to Fidelity earning \$125,000,000 in management fees while you sustained a loss of up to \$525,000. What then if you or a family member needed long term care?

It is the above scenarios that led to the decision to start AD Capital. I knew there had to be a better way and, in part, we needed a better way as a family. The asset class of real estate has appreciated as much as 81% in some markets over the last 10 years. The same \$1,250,000 would have appreciate at a rate of \$101,250 per year. Depending on the type of real estate, it also would have distributed monthly, quarterly, or annual dividends.

AD Capital aims to offer these advantages to all who are willing and able to partner with us. This is a proven business model that has created wealth for generations for many. Creating wealth in real estate doesn't care about formal education,

socioeconomic standing, race, creed, or politics, only work ethic. We aim to set ourselves apart from competitors through our business/fee structures, less restrictive governing and portfolio mix requirements, and ability to act with speed in deal making and market shifts.

Business Goals

The following are the business goals for AD Capital and will serve as the roadmap for growth.

1. The first business goal for AD Capital is to raise funds and acquire our first property. We are anticipating an acquisition of between 100 and 150 units by the end of 2023.
2. After close we will begin to seek opportunities to raise rents and increase the income.
3. AD Capital anticipates acquiring new assets as recently acquired assets stabilize and offer equity to draw for new acquisitions. Our goal is to acquire 750 units in 5 years through calculated and methodical growth.
4. AD Capital strives to be one of the best syndicators in the market. We are targeting the launch of our public fund after the acquisition of our first 5 properties. In creating this fund, we are giving more and more people access to and alternative way to invest, protect, and grow their retirement and generational wealth.
5. There will be several other divisions opened from the parent company AD Capital. These will include, but are not limited to, AD Development. A subsidiary that specialized in ground up development of raw land in both the US and overseas. As well as an unnamed division that specializes in small business growth.
6. We will position the company to be one of the largest owners of multifamily real estate over the next 25 years.

Our ultimate goal is to build a portfolio that will either have the power to disrupt Wall Street or be acquired by a large firm on Wall Street. Preferably the former.

Leadership Team



Austin Downey is the founding director and driving force behind AD Capital. He brings with him well over half a decade of real estate and finance experience. At 20 he became the youngest broker in Indiana's largest real estate company.

Studying under Grant Cardone, a real estate investor with over \$4 billion in assets, Austin learned the nuts and bolts of investing in multifamily real estate. Combined with his time as a business banker in the 6th largest bank in America, Austin has been able to build a strong foundation of business finance. From operating and capital investment cycles to protecting cashflow and leveraging debt Austin is throwing the full weight of his knowledge into AD Capital. He is also adept at identifying and building mutual partnerships in the business world, serving to grow his professional team and further hedge against future risks.



Antony Mberia joined AD Capital as Executive Vice President in 2022. Born and raised in Kenya, Antony had access to some of the best education on the African continent. In the late 1990's Antony proved himself a tremendous athlete and arrived in the US to pursue his college education at Syracuse University in New York. He graduated in 2001 with his degree in biology in finance.

Antony brings with him over 10 years of banking and finance experience. Like Austin, Antony also holds a tremendous amount of knowledge in the real of business banking. Coupled with his longstanding relationships and his ability to effectively network with business owners, Antony brings an unparalleled ability to identify and recruit key individuals.

Antony's life experiences and world view make him an invaluable part of AD Capital's leadership family, and will serve to position the company for growth, success, and an international presence.

AD Capital will also enlist the help of several key business partners. At this time we are targeting key commercial real estate brokers to help with transaction navigation as well as deal flow.

In addition to a commercial broker, we will also bring on professional legal and accounting representation. AD Capital will employ the services of an attorney that specializes in commercial real estate transaction and contracts. This will ensure that AD Capital is compliant with both state and federal laws, as well as structure investor partnerships to give adequate legal protecting for all parties involved.

Accounting representation will help in the financial aspects of the transactions that AD Capital pursues. We will use our accounting specialist to assist in the underwriting and due diligence process. Checking existing numbers against numbers that have been presented to us will be a key role. As well as keeping track of financial operations of the property after acquisition.

AD Capital will also maintain key individuals in the realm of attaining deal financing so that we may stay abreast of changing trends in the market, which will play a key role in an environment where interest rates are changing daily.

Target Investments

As established in earlier parts of this business plan, AD Capital will focus solely on the acquisition of multifamily real estate assets for the time being. This is for several reasons. Multifamily real estate is a proven and time-tested vehicle for creating and preserving long term wealth. Everyone needs a place to live. Combine this with an economic environment where purchasing a single family home is becoming more unattainable, and you have the perfect storm. Multifamily is a great option for several reasons that include the following:

1. Time-tested asset
2. De-risked because of property size
3. Tangible
4. Leverageable
5. Produce cashflow
6. Ability to force appreciation
7. Highly recession and inflation resistant
8. Potential tax advantages
9. Scalable
10. Attractive to large institutions
11. Simple

Our target properties must meet the following requirements with an option for slight deviation. The property must:

1. Have a minimum of 75 units

2. Be cash flow positive
3. Have a rating of A- to C+
4. Possess the ability to raise rents minimum \$50/unit
5. Have a DSCR of 1.3 or more
6. Be in a major or tertiary market in the Midwest or South/Southeast
7. Support monthly distribution
8. Potential value add
9. Favor a long-term hold/never sell strategy

Management Strategy

Ask anyone who owns real estate what the 3 T's are and they will most likely respond with "tenants, toilets, and termites". These are the three most common issues with owning real estate. Management can make or break a property and this is something that AD Capital is well aware of. However, the sole purpose of AD Capital is to be a real estate investment company, not a landlord. For this reason, the leadership team at AD Capital has agreed to engage in partnership with an experience multifamily management company.

Most target acquisition properties have existing management in place. If this management is running the property well and is received well by current tenants, then this in place management will be kept. In the event that this is an area of opportunity to improve then AD Capital will bring in new management to add new life to the acquired property. Partnering with an experienced management company bring with it several benefits. The first of which is ensuring smooth operations.

Smooth and efficient operations translate into maximum cash flow for the property. They also translate into stable and high occupancy for the property, which reduces cost of turning over units, advertising, and other costs incurred by placing new tenants. Efficiency also serves in the area of releasing units. The longer the unit sits empty the more cash return that AD Capital

suffers. Smooth processes with likeable managers and leasing agents translates into quick leasing processes.

The second benefit is greater ease to qualify for deal financing. Much like you want an experienced surgeon, banks and financiers want a company in place that can care for their investment. Employing an experienced management company is how almost all real estate investment companies run their deals. This brings greater comfort and confidence to the business financing the deal. It also brings greater comfort and confidence to AD Capital's leadership team to know that the day to day operations of the property are running smoothly. Several property management companies had already been identified to work with. The company must have a national presence as we will be investing in deals throughout many major markets in the country.

Finally, partnering with a management company allows the leadership team of AD Capital to focus on the highest and best use of collected rents as well as maximizing company growth. A pilot can't fly the jet if they are worried about handing out drinks and pretzels. This is the same philosophy that AD Capital carries regarding running the financial piece of the business. Receiving periodic updates from the property manager allows AD Capital leadership to know that the property is functioning smoothly, and frees up time to focus on long term growth strategy and new deal acquisition activities.

Investment Strategy

Every investment is made with two things in mind: protecting capital and invested return. This is the common goal for AD Capital to provide to all investors. The beautiful thing about real estate is the fact that there are things to do to greatly increase the chances of strong financial returns and growth. The first strategy that AD Capital will employ are periodic rent increases.

In today's world prices go up in everything. We have seen inflation run rampant, and this is no different in the world of apartments. It is important to note that AD Capital in no way be predatory in raising rents. However, it is our job to identify communities where rents are below fair market value and, in some places, be raised significantly. Our target is to raise rents at least \$50 per month per unit annually to cover the cost of rising operating costs and taxes. Periodic rent raises can increase property income significantly and allow for more favorable returns.

Let's look at a scenario. Let's say we have 125 units and we raise the rents just \$50 a month. Very reasonable. $125 \times 50 = 6,250 \times 12 = \$75,000$ in new income for the property. It is important to note that this new income will not be added in a just a year, as rents can only be moved as old leases come due and new leases are signed. There are some properties currently on market where rents are \$325 below fair market value. Let's look at this scenario. $125 \times \$325 = \$40,625 \times 12 = \$487,500$ in

new income. While these deal are rare to find at our target property size, they are out there and can be acquired, though AD Capital won't spend time hunting snipes.

The second component to our investment strategy is that of value add. Sometimes called cap ex or capital expenditure value add, this is the process of taking cash flow produced by the property and improving the property. Many properties that qualify as our target assets were built in the late 80's and 1990's. This serves as an advantage because they haven't been improved. Common upgrades include:

1. Upgrading unit flooring
2. Upgrading kitchens (countertops, appliances)
3. Updating paint schemes
4. Upgrading bathrooms (vanities, showers)
5. Upgrading lighting fixtures
6. Adding a dog park
7. Upgrading community amenities
8. Repainting buildings
9. Resurfacing parking lots
10. Adding or improving landscaping
11. Upgrading fitness facilities

These improvements will allow AD Capital to bump rents and achieve a greater ROI, while simultaneously creating a better

community for tenants to live. As a former long time renter, Austin understands the things that tenants look for in improved property and the aspects that command higher rents.

AD Capital's final strategy for increasing income and thus increasing ROI on properties is the addition of services and fees that may not already be in place at the target property. These services and fees can include but are not limited to the following:

1. Application fees
2. Monthly pet fees
3. Valet trash services
4. Contracted services such as cable or internet
5. Renters insurance
6. Assigned or covered parking
7. Utilities being paid by tenants
8. Rentable clubhouse
9. Community and food truck events

While this isn't a complete list of all that could be offered within our communities, it is a comprehensive look at the additions that can be implemented to increase property income and boost returns for AD Capital partners.

Debt Strategy

One thing that makes the multifamily investment so successful is the ability to use leverage. This is precisely what AD Capital plans to do. Leverage, however, can be a double-edged sword. If used improperly leverage can be the death of any deal. For this reason AD Capital plans to set the maximum leverage for any deal at 80%. Though it is preferred to be lower.

An example of this would be a property purchased at \$1,000,000 with a \$200,000 down payment and a loan for \$800,000. Maintaining a leverage position of 80% or less will insulate AD Capital from overborrowing and potentially defaulting on any loan received.

We plan to partner with a bank at the local, regional, or super-regional level. There are several reasons for doing so. Smaller banks typically have an appetite for and more favorable deal terms for purchasing investment real estate. Working with a smaller bank also allows us to engage in mutually beneficial business which supports local jobs and growth in the financial sector. Relationships in the world of lending are extremely important, and working with a smaller institution grants easier access to deal and decision makers.

AD Capital will also explore financing options that are brought forth by the commercial brokers. Large brokerages typically have a debt arm that can help finance deals. In doing so there is a possibility that we can get more favorable deal terms. Using a broker recommended financier can also serve as favorable when negotiating price of acquisitions. Employing a broker's financier can also help to strengthen the relationship and improve odds of winning future deals.

Regardless of the choice made for financing, AD Capital will seek to partner with institutions and finance companies that maintain strong insulation from current market conditions. AD Capital will also seek non floating money. This means that, for the time being, we are seeking fixed rate loans. Leadership is willing to sacrifice a few points on interest rates to secure a long term and fixed rate. In doing so, AD Capital can eliminate many variables in the realm of finances and provide peace of mind that debt won't skyrocket on any existing financed deals.

Our last piece of the financing puzzle is to make sure and partner with lenders that are well capitalized. Strong capitalizations helps to protect against lender failure. Many times when lenders fail, as we have seen recently, assets and liabilities are swallowed up by new companies. Usually in this circumstance, any existing loans that the failed institution have are called. Calling a loan means that the loan is due to be paid in full in the terms outlined by the acquiring company. This term is

usually 60 days or less. Going with financial stable lenders will help protect AD Capital from having to unexpectedly liquidate otherwise strong assets in an effort to satisfy an agreed upon loan.

Partnership Structure

At AD Capital you aren't an investor, you are a partner. We are giving the opportunity to partner to people who know and have helped us in one way or another. Our business structure is the same as most companies who are on similar journeys. Currently AD Capital has made the decision to structure and move forward as a Real Estate Limited Partnership or RELP. We will maintain this structure unless we receive other guidance from our legal partners.

Under the structure of a RELP there are two parties involved in the business. The first is the General Partner or GP. The general partner is the individual or entity that organizes the deal, secures financing, performs due diligence, closes on the property and manages the day to day operations of the partnership and business. In this instance, AD Capital will be the GP. The general partner will also assume full liability in the event that there are any legal actions against the company.

The second party involved will be Limited Partners or LPs. Each individual or family that invests with AD Capital will do so as limited partners. There are several advantages in being a limited partner. The first is that you are protected against any liability above and beyond your investment in the company. Also, as an LP you won't be burdened with the decision make and day to day operations of the business. It's the perfect

opportunity for those looking for a passive investment with passive income. Limited partners could also potentially benefit from certain tax advantages of the business such as depreciation. However, leadership of AD Capital are real estate investors and not tax professionals. **We strongly encourage you to consult with a tax professional regarding potential tax advantages/tax implications.** AD Capital will provide necessary tax documents in the event that there are tax advantages to be had.

Investor Returns

It is important to understand that **all investing has a degree of risk** and that AD Capital in **no way guarantees the investor returns outlined below**. This section gives a comprehensive look at potential returns for AD Capital and each individual investor. Multifamily real estate is one of the most de-risked investments that can be made. This is due to there being many individuals at one location paying for a place to live. As with any asset class there is risk to investing. However, there are very few factors that could hinder AD Capital's ability to collect rents. These include but are not limited to the following:

1. Natural disaster
2. Government interference

There are several situations that would cause AD Capital to delay monthly distributions to investors, and AD Capital leadership reserves the right to do so if it's beneficial to the business and investor returns in the long run. What would constitute a delay?

1. Replenishing capital reserves. Typically, banks require that the property have a certain amount of money set aside per unit to cover the costs of things like replacing water heaters, fixing leaks, etc.
2. Ahead of a value-add project. If leadership deems it worthy of starting a project to improve property value and increase rents, then we may forgo monthly distributions in the short term to

prepare for the project. Once the project has been completed there will be an inevitable rent raise that will more than make up for the one or two months of withheld distributions.

3. Loan principal paydown. AD Capital leadership is tasked with managing the finances and debt of each deal. With the ever-changing financial landscape, it will be imperative to maintain a sound position on our property loans. For this reason, leadership may delay distributions to make a sizable loan principal paydown. This strategy could be used ahead of an expiring loan term or to increase the overall cashflow of the property, thus increasing long-term investor returns.

In the event AD Capital leadership decides to delay distributions, it will be communicated among deal partners no later than 1 month before the distribution delay. These steps outlined above will serve to keep AD Capital's investment risk low and maintain a sound financial position.

Most risk factors can be mitigated by keeping sufficient capital reserves for the property. Now let's dig into investor returns.

AD Capital's primary goal is to provide passive income on a monthly basis to its investors. Our goal is to provide an annual return of between 6% and 8% depending on asset performance. We are expected to deliver a 7% annual return on our first asset. This will be distributed on a monthly basis. In addition to the

monthly distributions, AD Capital is also offering 1% equity ownership in the deal per \$100,000 invested. Let's look at a real-world example of an investment of \$300,000.

$\$300,000 \times 7\% = \$21,000/12\text{mos} = \$1,750$ per month in passive income. In addition, there is the equity position. For this example, we have purchased an asset worth \$16,250,000. Since our partner invested \$300,000 they assumed a 3% equity ownership stake.

$$\$16,250,000 \times 3\% = \$487,500.$$

Of course, the value of the property will fluctuate throughout our time of owning it. However, these investments are long term holds and leadership at AD Capital won't exit unless there has been appreciation. What makes this a beautiful thing is the fact that real estate normally doubles in value every 10 years. Let's assume that we have appreciated the value of the asset to \$22,500,000 within a 10 year term and our partner has a 3% equity ownership stake. What will their return be?

$\$22,500,000 \times 3\% = \$675,000$. Let's add another \$210,000 for the income that was received every month over that 10-year holding period for the 7% annual return. The total return for the investor in this example is \$885,000 or \$88,500 per year. A 295% return. Not too bad for investing \$300,000.

Anything above the 7% return on investor money will be split between the investor group and AD Capital at a 40/60 ratio, with the 40% going to AD Capital.

Deal Exits

It is said that every real estate transaction should be entered with the exit in mind. For many syndicators such as AD Capital, the fees earned on an exit are the way that those who own and run the company make money to eat. This is a stark difference as AD Capital doesn't rely on exit fees. For this reason, AD Capital will hold assets for much longer terms than most companies engaging in the same type of business. Our average expected hold period is approximately 10 years. Some investments may mature as early as 3 years, but this is unlikely. We will also retain the option to extend our holding another 10 years. It is important for partners to understand this time constraint when investing. That being said, there are several exit strategies that AD Capital will employ when the timing is correct.

The first strategy is known as the “exit no exit” method. It's a fancy term for a cash out refinance. Much like a conventional mortgage, there is equity that builds up in commercial properties over the lifetime of ownership. Equity buildup comes from not only paying the loan down, but also from the increased value of the property due to market conditions and raising rents. This strategy is extremely favorable because it allows the investors to pull money out of the deal, effectively reimbursing themselves of the initial cash invested. It also allows to general partner and limited partners to restructure the investment in the event this is needed. An example of this would be that some investment

partners are needing to cash out. The exit no exit allows AD Capital to retain ownership of the asset which poses many advantages. A strategy such as this will also allow us to springboard the growth of our portfolio without having to relinquish any assets. Great care would be taken when considering the exit no exit option as this is where there is the most room to overleverage a deal, causing bad debt on the property. AD Capital's first and foremost goal is fiscal responsibility and for this reason we would take great care in working with the refinance team. Leadership of AD Capital has agreed at this time that we will not leverage an asset above 72.5% LTV during the deployment of an exit no exit strategy.

The second strategy would be a traditional exit. In a traditional exit AD Capital would sell the asset and disburse any profits according to the percentage splits outlined in the partnership agreement. Though all investors would receive their initial capital back before AD Capital was paid any profits. Once the traditional exit was complete, all limited partners would be released from their agreement with the general partner, and the legal entity that had been formed to hold and manage the property would be dissolved. This is a less desirable route because it takes assets from the AD Capital portfolio.

Our third exit strategy would be a 1031 tax exchange. Just like residential real estate, there is the possibility to perform a 1031 tax exchange. In a 1031, AD Capital would trade an asset,

the commercial property, for a like asset. 1031 tax exchanges are popular because of the fact that the company selling an asset is able to trade for a like asset and defer taxes on the sale of the property. This strategy would be employed if AD Capital found a more desirable asset that was in a better location or offered more attractive financial gains/returns. A 1031 would also allow AD Capital to improve the value of its portfolio by acquiring a deal that is larger in size, such as more acreage or more units. Due to the time limit to reinvest the funds, however, AD Capital would first consider the options laid out above.

Business Plan Summary

This is the conclusion of the AD Capital business plan. It is a comprehensive plan that will morph and grow over time, much like the business will morph and change over time.

Austin and any individual that serves within a leadership capacity at AD Capital will carry forth under one united mission: To give every individual the opportunity to invest in great real estate, and to work with the focus on protecting and improving the financial well being of every person and family invested with AD Capital. This is a duty that I take very seriously as I have worked to preserve the wealth that my parents have worked over 40 years to create. It is this wealth that will carry them to the end of their lives, and it is this wealth that I will proudly and diligently work to protect and grow. I owe them that much and more.

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Austin M. Downey
Founding Director