

SPONSOR VETTING QUESTIONNAIRE

Advanced Sponsor Due Diligence Interview Guide

50+ Questions to Assess Sponsor Track Record, Operational Capability, and Alignment

Framework developed by AltStreet Research | altstreet.investments

Purpose: This questionnaire provides comprehensive interview framework for vetting fractional real estate sponsors during initial due diligence. Use these questions to assess organizational stability, track record accuracy, fee transparency, and operational capability before committing capital.

How to Use: Schedule dedicated calls to cover each section. Record responses and request supporting documentation. Red flags include evasive answers, refusal to provide specifics, or inconsistencies between verbal claims and written materials.

■ **When to Use This:** Best used after a deal passes initial screening using AltStreet's *10-Question Fractional Real Estate Due Diligence Checklist*. This advanced questionnaire provides comprehensive sponsor vetting for deals that warrant deeper investigation.

SECTION 1: ORGANIZATIONAL STRUCTURE & LEADERSHIP

1. What is the legal structure of your sponsoring entity?

- Can you provide articles of incorporation and certificate of good standing?
- Who are the legal owners and what are their ownership percentages?
- Are there any pending legal actions against the entity or principals?

2. Describe your senior management team structure.

- What are the specific titles and responsibilities of each principal?
- How long has each team member been in their current role?
- What happens if a key person becomes incapacitated or leaves the firm?

3. How are acquisition decisions made within your organization?

- Who has final approval authority on new investments?
- What is your investment committee structure?
- How do you handle disagreements among decision-makers?

4. What is your organizational philosophy and core values?

- How do these values translate into operational decisions?
- Can you provide examples of deals you rejected based on values alignment?

SECTION 2: TRACK RECORD & PERFORMANCE HISTORY

5. How many full-cycle deals have you completed in this specific asset class?

- Please provide a complete list including acquisition date, sale date, and IRR for each
- Which deals met, exceeded, or fell short of original projections?
- What was your average hold period versus projected hold period?

6. Are your track record returns shown gross or net to limited partners?

- Can you provide both gross and net-to-LP returns for comparison?
- What is the typical delta between gross property performance and LP returns?
- How do your fees and promote impact investor profitability?

7. How did your portfolio perform during the 2008 financial crisis and 2020 pandemic?

- Did you have any foreclosures, capital calls, or forced sales?
- How did you manage tenant defaults and occupancy challenges?
- What operational changes did you implement during these periods?

8. Can you discuss a deal that didn't go as planned?

- What were the root causes of underperformance?
- How did you communicate challenges to investors?
- What lessons did you learn and apply to subsequent deals?

9. What percentage of prior investors have invested with you multiple times?

- Can you provide references from at least three LP investors from different deals?
- What feedback have you received about communication and transparency?

SECTION 3: FINANCIAL ALIGNMENT & SKIN IN THE GAME

10. How much personal capital are you and your team investing in this deal?

- What is the exact dollar amount and percentage of total equity?
- Is this capital contributed as cash upfront or deferred?
- Can you distinguish between cash equity and deferred fees or sweat equity?

11. Are you personally guaranteeing the debt on this property?

- If yes, what is your personal liability amount?
- If no, why have you structured the debt as non-recourse?
- Have you ever been called on a personal guarantee in past deals?

12. How are GP compensation and fees structured?

- Are there restrictions on fees if the project underperforms?
- What percentage of your compensation comes from upfront fees versus back-end performance?
- Do you take fees if investors haven't achieved their preferred return?

SECTION 4: FEE STRUCTURE & TRANSPARENCY

13. Please detail every fee you charge on this investment.

- What is the acquisition fee percentage and dollar amount?
- What is the asset management fee calculation and frequency?
- Are there any loan origination, guarantor, or refinance fees?
- What is the disposition fee at exit?

14. How does your waterfall structure work?

- What is the preferred return hurdle and how is it calculated?
- What are the profit splits at each tier (hurdle 1, 2, 3)?
- Is the waterfall based on IRR or cash-on-cash returns?

15. Do you have any related-party fee arrangements?

- Do you own the property management company?
- Do you own the construction or contracting companies?
- How do related-party fees compare to third-party market rates?

16. Can you provide a complete fee schedule showing total fee burden across hold period?

- What is the cumulative fee percentage over a typical 5-year hold?
- How much in total fees do you project to earn from this deal?

SECTION 5: DEBT STRUCTURE & FINANCING STRATEGY

17. What are the specific terms of your debt financing?

- What is the Loan-to-Value ratio?
- Is the interest rate fixed or floating? If floating, have you purchased a rate cap?
- What is the loan term and is there a balloon payment?
- What is the current Debt Service Coverage Ratio?

18. What lender are you working with and why did you choose them?

- How many deals have you completed with this lender?
- What is your relationship with their underwriting team?
- Have you ever had a loan called or been in technical default?

19. What is your refinancing strategy?

- Do you plan to refinance during the hold period?
- What conditions would trigger a refinance decision?
- How would refinance proceeds be distributed to investors?

SECTION 6: PROPERTY-SPECIFIC & MARKET ANALYSIS

20. Why did you select this specific property and submarket?

- What demographic or economic trends support your thesis?
- How many properties did you evaluate before selecting this one?
- What are the unique advantages of this location?

21. What is the current zoning and are there any non-conforming issues?

- Does your business plan require any variances or permits?
- Are there pending zoning changes in the area?
- What is your contingency if permits are denied?

22. What did the Phase I Environmental Site Assessment reveal?

- Were there any Recognized Environmental Conditions (RECs)?
- If RECs exist, was a Phase II ESA conducted?
- What is the cost estimate for any required remediation?

23. What is the physical condition of the property?

- What is the age and condition of major systems (HVAC, roof, plumbing)?
- What capital expenditures are budgeted for year one?
- What is your property inspection firm and can we review their report?

24. How do you account for shadow supply and absorption dynamics?

- What is the current vacancy rate versus availability rate in the submarket?
- What new supply is coming online in the next 24 months?
- How long do you project for stabilization?

SECTION 7: OPERATIONAL EXECUTION & MANAGEMENT

25. Who will manage this property day-to-day?

- Do you use in-house property management or third-party?
- What is the property manager's track record in this submarket?
- What are the property management fees and contract terms?

26. What is your value-add business plan specifically?

- What renovations or improvements are planned?
- What is the budgeted cost and timeline for each initiative?
- Who is your general contractor and what is their track record?

27. What is the breakeven occupancy for this property?

- At what occupancy level can you cover debt service and operating expenses?
- What is your contingency plan if occupancy falls below breakeven?
- What are your leasing assumptions for absorption?

28. How do you handle tenant defaults and evictions?

- What is your policy on rent collection and late payments?
- What has been your historical eviction rate?
- How are legal costs for evictions handled?

SECTION 8: EXIT STRATEGY & DISPOSITION PLANNING

29. What is your projected exit cap rate and how did you determine it?

- How does it compare to your entry cap rate?
- What market conditions would need to exist to achieve this cap rate?
- What happens if cap rates are higher at exit than projected?

30. What is your target hold period and what would trigger earlier or later sale?

- Are you committed to a specific exit timeline or is it flexible?
- What market conditions would cause you to hold longer?
- How do you balance investor liquidity needs with opportunistic timing?

31. How will you market the property for sale?

- Will you use a broker or sell directly?
- What is the anticipated marketing period?
- What is your minimum acceptable sale price?

SECTION 9: INVESTOR RELATIONS & REPORTING

32. How frequently will you provide financial updates to investors?

- What is included in quarterly/monthly reports (P&L, balance sheet, narrative)?
- Can you provide a sample investor report from a prior deal?
- How do you communicate unexpected challenges or changes to the business plan?

33. What is your distribution schedule?

- When do distributions occur (monthly, quarterly, annually)?
- What is the typical delay between property cash flow and investor distributions?
- Have you ever delayed or suspended distributions in prior deals?

34. When will K-1 tax forms be delivered?

- Do you typically deliver K-1s by March 15th or file extensions?
- Who prepares your tax returns (firm name)?
- Can you provide a sample K-1 from a prior investment?

35. What voting rights do limited partners have?

- What decisions require LP approval or vote?
- How can LPs remove the GP for cause?
- What protections exist against GP conflicts of interest?

SECTION 10: LEGAL STRUCTURE & REGULATORY COMPLIANCE

36. What SEC exemption are you using for this offering?

- Is this a 506(b) or 506(c) offering?
- If 506(c), how will you verify accredited investor status?
- Have you filed Form D with the SEC and state blue sky notices?

37. Who prepared your Private Placement Memorandum?

- What law firm drafted the PPM and operating agreement?
- Have you had any SEC enforcement actions or investor complaints?
- Are there any ongoing legal disputes related to prior investments?

38. What insurance coverage exists for this property?

- What types of insurance are carried (property, liability, flood, etc.)?
- What are the coverage limits and deductibles?
- Who pays insurance premiums (included in operating expenses)?

39. How is the investment entity structured?

- Is this an LLC or LP structure?
- What state is it registered in and why?
- What are the specific rights and protections for limited partners?

SECTION 11: RISK MANAGEMENT & CONTINGENCY PLANNING

40. What could go wrong with this investment?

- What are the top three risks you've identified?

- What is your mitigation strategy for each risk?
- What would cause a total loss of investor capital?

41. Do you have adequate reserves budgeted?

- What is your operating reserve (months of expenses)?
- What is your capital expenditure reserve?
- Under what conditions would you call additional capital from investors?

42. What happens if a major tenant vacates or defaults?

- How concentrated is your tenant base (% of revenue from largest tenant)?
- What is your tenant creditworthiness analysis?
- How long would it take to re-lease major space?

43. How do you handle natural disasters or casualty events?

- Is the property in a flood zone or seismic risk area?
- What insurance coverage exists for business interruption?
- What is your disaster recovery and business continuity plan?

SECTION 12: PLATFORM RISK & TECHNOLOGY (If Applicable)

44. If investing through a platform, who controls investor capital and the cap table?

- Are investor funds held in segregated accounts?
- Who is the transfer agent and how are ownership records maintained?
- What happens to investor interests if the platform fails or shuts down?

45. For tokenized offerings, who controls smart contract admin keys?

- Can token transfers be paused or restricted?
- What upgrade mechanisms exist for smart contracts?
- How are distributions processed (on-chain or off-chain)?

46. What is the platform's financial stability and regulatory status?

- How long has the platform been operating?
- What regulatory licenses does the platform hold?
- Does the platform maintain insurance or reserve funds for continuity?

SECTION 13: FINAL VERIFICATION QUESTIONS

47. Can you provide audited financial statements for your sponsoring entity?

- Who is your accounting firm?
- Are your prior deals audited annually?
- Can you provide evidence of adequate cash reserves?

48. Are there any facts or circumstances you haven't disclosed that could impact this investment?

- Any pending litigation, regulatory issues, or partner disputes?
- Any changes to the original business plan or underwriting?
- Any verbal representations not included in written materials?

49. Why should I invest with you instead of other sponsors or platforms?

- What makes your approach or execution unique?
- How do you differentiate yourself from competitors?
- What is your long-term vision for the firm?

50. Can you provide complete contact information for three LP references?

- Please include investors from different deals and different vintage years
- Have any investors ever sued or filed complaints against you?
- What percentage of your investor base invests repeatedly with you?

REQUIRED DOCUMENTATION CHECKLIST

Request and review the following documents before making investment decision:

- Private Placement Memorandum (PPM) with complete risk disclosures
- Operating Agreement or Limited Partnership Agreement
- Property inspection report and Phase I Environmental Site Assessment

- Rent roll and tenant lease abstracts (for existing tenants)
- Historical operating statements (3+ years if existing property)
- Pro forma financial projections with detailed assumptions
- Debt term sheet or commitment letter from lender
- Property appraisal or broker opinion of value
- Capital expenditure budget and renovation plans (for value-add)
- Insurance certificates showing adequate coverage
- Articles of incorporation and certificate of good standing for sponsor entity
- Background checks on all principals (using third-party service)
- Sample investor reports from prior deals
- Sample K-1 tax form from prior investment
- Complete list of all fees with calculation methodology
- Waterfall distribution example showing various return scenarios

CRITICAL RED FLAGS - IMMEDIATE DISQUALIFICATION

If sponsor exhibits any of these red flags, strongly consider deal rejection regardless of other positive attributes:

| | |
|---|---|
| ■ | Refuses to answer direct questions or provides evasive responses |
| ■ | Cannot provide complete deal-by-deal track record with audited results |
| ■ | Shows only gross returns, refuses to disclose net-to-LP performance |
| ■ | Has no personal capital invested or refuses to disclose exact amount |
| ■ | Cannot provide references from prior investors or references are scripted |
| ■ | Has SEC enforcement actions, investor lawsuits, or undisclosed legal issues |
| ■ | Verbal representations contradict written materials in PPM |
| ■ | Pressures for quick decision without adequate due diligence time |
| ■ | Cannot explain underwriting assumptions or business plan specifics |
| ■ | Has related-party fee arrangements without market rate justification |

POSITIVE INDICATORS - GREEN FLAGS

Strong sponsors typically demonstrate these characteristics across multiple dimensions:

| | |
|---|---|
| ■ | 5+ full-cycle deals with realized returns within +/- 10% of projections |
| ■ | 10-20% personal cash co-investment, not deferred fees or sweat equity |

| | |
|---|--|
| ■ | Transparent fee disclosure with all returns shown net-to-LP |
| ■ | Provides complete track record including underperforming deals |
| ■ | Multiple repeat investors (30%+ of capital from prior LPs) |
| ■ | Readily provides 3+ unscripted investor references |
| ■ | Conservative underwriting (exit cap 50+ bps higher than entry) |
| ■ | Proactive communication during challenging periods |
| ■ | Personal debt guarantees demonstrating conviction |
| ■ | Third-party audited financials and verified track record |

PROCEED WITH CAUTION - YELLOW FLAGS

These warning signs require additional scrutiny and may be acceptable with proper mitigation:

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|---|---|
| ■ | Limited track record (2-4 deals) or first time in new asset class |
| ■ | Performance variance from projections in +/- 15-20% range |
| ■ | 5-10% sponsor co-investment with some deferred components |
| ■ | Asset management fees above 2% annually without justification |
| ■ | Non-recourse debt only (no personal guarantees) |
| ■ | Some fee opacity or incomplete disclosure requiring follow-up |
| ■ | Selective track record disclosure (won't show all deals) |
| ■ | K-1s routinely delivered after March 15th requiring extensions |
| ■ | High LTV (70-75%) or floating rate debt in rising rate environment |
| ■ | Related-party fees within market range but not independently verified |

SPONSOR VETTING SCORECARD

Use this scorecard to systematically evaluate sponsor quality across 13 critical dimensions. Score each category as Green (3 points), Yellow (1 point), or Red (0 points) based on interview responses and documentation review.

| Category | ■ 3pt | ■ 1pt | ■ 0pt | Score |
|------------------|----------|----------|----------|-------|
| Track Record | ■ | ■ | ■ | — |
| Skin in Game | ■ | ■ | ■ | — |
| Fee Transparency | ■ | ■ | ■ | — |
| Communication | ■ | ■ | ■ | — |
| Debt Structure | ■ | ■ | ■ | — |
| Underwriting | ■ | ■ | ■ | — |
| Market Analysis | ■ | ■ | ■ | — |
| Operations | ■ | ■ | ■ | — |
| Exit Strategy | ■ | ■ | ■ | — |
| Legal/Compliance | ■ | ■ | ■ | — |
| Risk Management | ■ | ■ | ■ | — |
| References | ■ | ■ | ■ | — |
| Documentation | ■ | ■ | ■ | — |
| TOTAL: | | | | — /39 |

SCORING INTERPRETATION

| | |
|-------|--|
| 35-39 | EXCELLENT - Institutional-quality sponsor. Proceed with confidence. |
| 26-34 | GOOD - Solid sponsor, some areas need scrutiny. Acceptable for experienced investors. |
| 20-25 | MARGINAL - Multiple yellow flags. Requires significant DD and pricing discount. |
| <20 | REJECT - Multiple red flags. Pass regardless of projected returns. |

Critical Note: Any red flag in Track Record, Skin in Game, or Fee Transparency = automatic rejection regardless of total score.

Important Disclaimer: This questionnaire provides educational framework for sponsor vetting and does not constitute investment advice, legal counsel, or recommendation to invest in any specific sponsor or offering. Fractional real estate involves substantial risks. Conduct comprehensive due diligence, verify all representations independently, and consult qualified advisors before investing. Evasive answers or refusal to provide requested documentation should be treated as immediate disqualification criteria.