

IPROs – Structural and legal considerations

Structure and minimum requirements of an IPRO

Each IPRO requires the issuance of a **Prospectus** and the conclusion of a **Fractional Rights Agreement** between the Originator, the Property Vehicle (as applicable) and the Original Investors. Issuance and execution of these documents is done in the NAFRAM platform, electronically.

Each IPRO prospectus will include:

- a Project – it can be a fix and lease, fix and flip, develop and lease, develop and sell, lease and re-release, for residential or commercial purposes, for single large properties or many smaller properties of homogenous features which are pooled together;
- the Originator – the entity or person who holds ultimate responsibility and manages the Project; the Originator can be a developer or a property manager, depending on the relevant skills specific to the Project;
- an Investment Horizon – 5- 20 years, depending on the Project, but may vary from 1 year to Projects held in perpetuity, in some cases;
- a Property Structure – which can vary from
 - (1) strict direct ownership in the real estate itself by the investors – i.e. no corporation,
 - (2) pass-through structures, such as trust entities, including public and private REITs,
 - (3) fully segregated structures, where the property legal ownership is vested entirely with the Originator who retains the rights over it after the Project is finalized, while the investors hold contractual rights against the property vehicle, during the Investment Horizon; and
 - (4) dual listed Projects, which feature both a Project Vehicle listed on a classical exchange through an IPO, combined with an IPRO;
- various layers of Investors, from fixed income (debt) to preferred and common equity investors;
- specific Governance Rules, dealing with various events occurring regarding the Project or in relation to the investors, or between different classes of investors or regarding the Originator (and their liability).

IPRO Stages

Indicative Offers/Exclusivity Period

Properties that fit the profile are selected and the Originator provides an indicative offer and blocks the property for an exclusivity period (a potential upfront payment may be offered, e.g. 1-5%).

At the same time, the Originator initiates a **due-diligence process** with regard to the relevant properties (using a supplier listed on the platform) and confirms the incorporation of a trust entity (likely with the assistance of the Lead Arranger or from other trust corporation providers listed on the platform), which will have as trustee the Originator and as beneficial owners the investors.

Primary Market funding

The Originator, who has selected a Lead Arranger from the platform, proposes a structure for investment and seeks funding of each relevant tranche (for example (1) a fixed income tranche, (2) a preferred equity tranche and (3) a common equity tranche).

The Originator also proposes specifically the rules applicable to the relevant investment, including voting for the sale of various properties during the trust period, dismissal of the Originator, expenses above certain thresholds, reserves for maintenance and other budgeting issues, duration and dissolution of the trust, reporting of works and status of leases or other key matters, subcontracting of property managers for various areas, minimum lease terms etc.

NAFRAM will provide a standard Prospectus and a standard Fractional Rights Agreement, which will include all rules (as default rules) for co-ownership and exploitation of the project, which may be amended only subject to the approval of the investors and the approval of NAFRAM (if the issue will be listed on NAFRAM).

With respect to fixed income fractional rights, the prospectus will regulate Events of Default, triggers and means of acceleration, as well as rights and prerogatives of the fixed income fractional rights holders to swap debt for equity and effectively dilute the common and preferred equity holders.

Final Offer

Once the funding phase is completed, the final offer to each individual owner is made. At the same time, a Fractional Rights Agreement is signed between the Originator, the Property Vehicle and the Original Investors.

Following this, a physical signing of the transfer of the properties from the owners to the trust corporation follows with regard to all offers accepted. This will be an actual signing in front of a notary public or other method which is widely recognized on that market, based on which the trust corporation will be able to confirm to the beneficial owners that the properties have been duly transferred to the trust corporation.

At the same time (or before that), the system records the creation of the issue and the relevant classes of tokens for each investors, based on the amounts invested and the type of investment (fixed income/equity) made.

Secondary Market Trading

Once the primary market phase is completed, the relevant tokens can be traded on NAFRAM.