

The Real Estate Value Exchange

FRACTIONAL OWNERSHIP OF SINGLE FAMILY HOMES

Fraction ownership, the sharing of ownership of a home between an owner occupant and an institutional investor, is a burgeoning form of home finance. Public and private programs are currently up and running on a small scale. Motivations for the homeowner include down payment assistance, lowering the cost of ownership and equity release. Forms of ownership typically include an option to purchase a share of the home and the parties settle up based on the sale price or appraisal of the house.

REVEX LLC – USING A UNIQUE HOME PRICE INDEX TO LOWER HOMEOWNER COSTS AND CREATE INVESTOR LIQUIDITY

Revex was formed to commercialize a new form of fractional ownership, Indexed Fractional Ownership (IFOs), in which the settlement between homeowner and investor is based on a home price index for the particular home.

Weiss Analytics, the founder of REVex, produces the only index set at the house level and has licensed to REVex exclusive use of the WA indexes for settlement of IFOs. This license also includes exclusive rights to use four patents owned by an affiliate as they apply to IFOs.

THE WA INDEXES – ACCURATE HOUSE SPECIFIC INDEXES

The indexes are based on the repeat sales method first commercialized by Case Shiller Weiss with an additional overlay of characteristics information bringing their focus down to each house. WA currently maintains and updates 60 million house specific indexes on US single family homes. The indexes are published nationally and are used by major hedge funds, smaller investors. They are also used by real estate brokers through a distribution partnership with Inman News ([Inman Market Intel](#)).

IFO LEGAL FORM - TENANTS IN COMMON

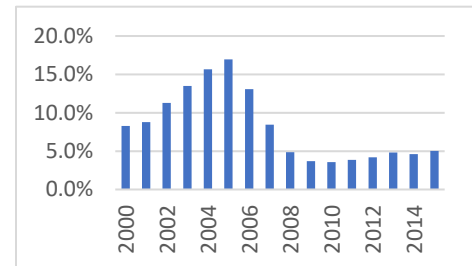
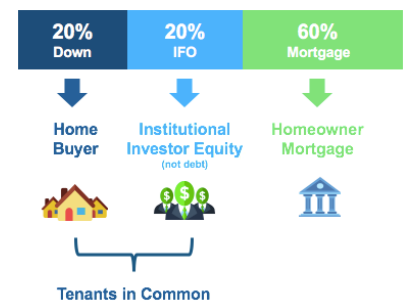
An IFO is an equity interest in real estate secured by a tenants in common interest in a house. The direct owner of this interest is a single purpose LLC which has a contract with the homeowner determining the terms of co-ownership. The homeowner pays all taxes, insurance and maintenance and has complete control of the property. They may own the house for as long as they wish and at the time of sale, the IFO return is determined by the change in the index for the house during the IFO term. IFOs typically return a multiple of the index change of 2.5 x. Therefore, if the IFO was originally 20% of the house value, the IFO investor would receive 50% of the change in the value of the house up or down.

IFO BENEFITS – HOMEOWNER KEEPS INVESTMENTS, INVESTOR PROTECTED FROM POOR MAINTENANCE, TRANSPARENCY

The fundamental benefit of the IFO structure is that the Index measures only marketplace changes to the house's value and is unaffected by changes to the house itself. Settling on the Index creates a buffer so that the owner occupant receives the entire value of good maintenance and improvements in the sale price and shares only the Indexed return to the investor which may be lower. If the house is poorly maintained and therefore sells at a discount, the investor still receives the indexed returns. The parties can see the index performance before, during and when the IFO is concluded.

INVESTOR RETURNS – EXAMPLE OF BUYING US HOUSES IN 2000

The investor receives a 2.5 x multiple of the index change so if the IFO is 20% of the house value, the IFO returns half the house's indexed appreciation. For example, if an investor had bought an IFO portfolio in January 2000 and homeowners sold the typical rate each year the average cash flow would have been 8.2



PROGRAM VARIATIONS - IFO AND NEW MORTGAGE OR USE IFO TO PAY OFF MORTGAGE

IFOs can also be employed when the homeowner has no mortgage or a low mortgage. When the IFO is created the proceeds are first used to pay off any existing mortgage and any remaining cash is provided to the homeowner so it replaces a cash out mortgage or a reverse mortgage.

IFOs can be originated with a typical mortgage scenario in which the borrower makes a down payment of 20%, the IFO investor contributes another 20% and the lender provides a 60% LTV mortgage.

LIQUIDITY – IFOS ARE HELD BY SINGLE PURPOSE LLCs WHICH ARE DESIGNED TO TRADE ON A SECONDARY MARKET

REVex is creating standards for IFOs and arranging for a trustee, custodian and broker/dealers so they can become liquid traded instrument.

