

THE DEFINITIVE 10-QUESTION

Fractional Real Estate Due Diligence Checklist

Systematic Framework for Evaluating Sponsors, Fees, and Market Risk

Framework developed by AltStreet Research | altstreet.investments

Purpose: This checklist provides institutional-grade framework for vetting fractional real estate sponsors across syndications, crowdfunding platforms, and tokenized property offerings. Use it to protect capital and identify red flags before committing funds.

How to Use This: Evaluate each deal independently using these questions. A single red flag may be acceptable with proper mitigation, but multiple red flags across sections typically indicate structural risk warranting deal rejection or significant risk discount.

✓ Appropriate For:	✗ Not Suitable For:
<ul style="list-style-type: none">• Accredited investors (5-10 year horizons)• Family offices allocating to real assets• Self-directed IRA investors• Institutional allocators	<ul style="list-style-type: none">• Day traders or short-term speculators• Investors requiring guaranteed liquidity• Those needing funds within 12-36 months• Margin account holders

SECTION 1: SPONSOR EVALUATION

1. What is the sponsor's full-cycle track record with this specific asset class?

Demand deal-by-deal performance showing realized IRR within +/- 10% of projections. Verify returns are net-to-LP (after fees) not gross. Check recession performance (2008, 2020).

■ Green Flags:	5+ full-cycle deals in exact asset class, realized IRR within +/- 10% of projections, recession performance with positive returns, complete deal list including failures
■ Yellow Flags:	Limited track record (2-4 deals), some variance (+/- 15-20%), asset class experience but different strategy, selective disclosure
■ Red Flags:	First-time sponsor or new asset class, major projection misses (>25%), no recession experience, refuses disclosure, only shows gross returns

2. Can you provide detailed fee schedule and confirm returns are shown net-to-LP?

See breakdown of acquisition fee, asset management fee, and disposition fee. If marketing shows "20% IRR," verify if that's property performance or actual investor profit after sponsor promote.

■ Green Flags:	All returns shown net-to-LP, total fees under 3% annually, promote only after 8%+ preferred return, detailed PPM disclosure, competitive with market
■ Yellow Flags:	Some fees disclosed but others vague, returns shown as "estimated gross," promote starts at lower hurdle (6%), asset management over 2% annually
■ Red Flags:	Only gross returns disclosed, fee stacking (multiple overlapping fees), vague charges, refuses net-to-LP calculations, upfront promote regardless of performance

3. How much personal capital is the sponsor committing (skin in the game)?

Target 5-20% of total equity as real cash, not deferred fees or sweat equity. Verify personal guarantees on debt (recourse liability) demonstrating conviction.

■ Green Flags:	10-20% cash co-investment, personal debt guarantees (recourse), capital committed upfront not deferred, transparent documentation in PPM
■ Yellow Flags:	5% co-investment but partially deferred, non-recourse debt only, vague about timing, some sweat equity counted
■ Red Flags:	Under 5% co-investment, all capital as deferred fees, refuses to disclose exact amount, no personal debt liability, claims "sweat equity" as co-investment

SECTION 2: FINANCIAL STRUCTURE & TERMS

4. What are the specific debt terms and how is interest rate risk mitigated?

In 2025's elevated rate environment, verify Loan-to-Value ratio, whether rate is fixed, and if "rate cap" is in place. LTV over 75% or variable rates without caps are high-risk.

■ Green Flags:	LTV under 65%, fixed-rate financing or capped floating rate, DSCR above 1.30x, long-term loan (7-10 years), no balloon payment risk
■ Yellow Flags:	LTV 65-75%, floating rate with rate cap purchased, DSCR 1.20-1.30x, moderate term (5-7 years), refinance planned mid-hold
■ Red Flags:	LTV over 75%, floating rate with no cap, DSCR under 1.20x, short-term bridge financing, balloon payment within 3 years, unclear refinance strategy

5. What is the exit cap rate assumption and how does it compare to current market?

Conservative deals assume exit cap rate at least 0.5% higher than entry rate, accounting for building aging and future economic uncertainty. Verify assumptions are market-defensible.

6. What hyper-local zoning or regulatory hurdles are embedded in the business plan?

Verify sponsor's value-add plan doesn't require ungranted permits, variances, or conditional use approvals. Check for rent control risk, open violations, or legally non-conforming status.

SECTION 3: OPERATIONAL DUE DILIGENCE

7. What is the breakeven occupancy for this property?

Ask at what occupancy level property can cover debt and operating expenses. Breakeven should be below 75% for adequate safety margin. If breakeven is 85% and market average is 90%, margin is thin.

8. Is property management vertically integrated or outsourced?

Vertical integration (sponsor owns management company) often aligns goals but can hide extra fees. If outsourced, request third-party's track record in that specific submarket.

9. What are the results of the Phase I Environmental Site Assessment?

Never invest without Phase I ESA. It identifies legacy liabilities (underground tanks, soil contamination) costing millions to remediate. If RECs exist, has Phase II been conducted to quantify risk and costs?

10. How and how often will I receive financial updates and tax documentation?

Request sample quarterly report (P&L, balance sheet, narrative update). Confirm expected K-1 delivery timelines and whether sponsor routinely files extensions. Many miss March 15th deadline.

QUICK REFERENCE: KEY TERMS

Sponsor/GP	Entity managing the investment (acquisitions, operations, exits)
LP	Limited Partner - passive investor with limited control over decisions
Waterfall	Tiered profit distribution between LPs and GP at performance hurdles
Preferred Return	Minimum return (typically 8%) LPs receive before GP participates
Promote	GP's profit share after investors achieve preferred return (typically 20-30%)
Exit Cap Rate	Projected capitalization rate at property sale determining exit valuation
DSCR	Debt Service Coverage Ratio - NOI divided by debt payments (1.25x+ safe)
Net-to-LP	Actual investor profits after all fees, expenses, and GP promote deducted

DEAL RISK SUMMARY

After completing all 10 questions, assess the overall risk profile of this investment based on the distribution of green, yellow, and red flags identified across all sections:

■ LOW RISK	Predominantly green flags across all sections with minimal yellow flags and zero red flags. Sponsor demonstrates strong track record, transparent fees, adequate co-investment, and conservative underwriting.
■ MODERATE RISK	Mixed green and yellow flags with isolated red flags in non-critical areas. Acceptable for experienced investors who understand specific risk factors and negotiate appropriate discounts or protections.
■ HIGH RISK	Multiple red flags across different sections (sponsor, fees, market, structure). Typically indicates structural problems warranting deal rejection unless dramatic risk mitigation or pricing discount applied.

Important Disclaimer: This checklist provides educational framework for fractional real estate due diligence. It does not constitute investment advice, legal counsel, or recommendation to invest in any specific platform or sponsor. Fractional real estate involves substantial risks including sponsor failure, fee erosion, illiquidity, market volatility, and complete capital loss. Conduct comprehensive due diligence and consult qualified advisors before investing.