Investor Education Series | No. 02

Durable Growth Begins with Strong Foundations

Understanding the Three Drivers of Real Estate Returns

Understanding how income, value creation, and exit work together to shape investment performance.

ORINOVA CAPITAL

EXECUTIVE SUMMARY

Real estate investments are often summarized using projected returns such as IRR or equity multiples. While those metrics are useful, they don't explain **where** returns actually come from.

A more practical approach is to break an investment into its underlying drivers. At a high level, virtually every real estate investment generates returns through three sources: **current income, value creation, and exit.**

Understanding how much of a return comes from each driver provides a clearer picture of both opportunity and risk.

KEY INSIGHT

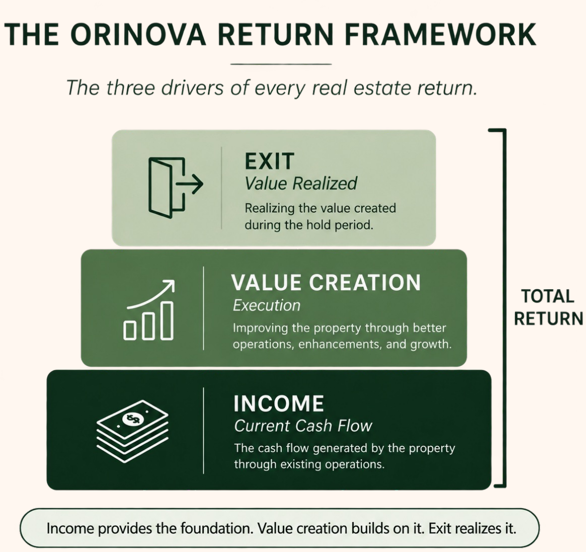
Income provides the foundation. Execution creates value. Exit realizes it.

Every real estate investment relies on these three drivers in different proportions. Understanding which driver contributes the most to projected returns provides a more meaningful way to evaluate an opportunity than focusing on headline performance metrics alone.

THE ORINOVA FRAMEWORK

The Orinova Return Framework breaks real estate returns into three fundamental drivers: **Income, Value Creation, and Exit.** Each plays a different role in an investment, carries different assumptions, and contributes to the overall return in different ways.

The framework begins with income as the foundation, layers value creation through execution on top of that foundation, and ultimately realizes that value at exit. Understanding the contribution of each pillar helps investors look beyond headline returns and better evaluate what must occur for an investment to perform as projected.



Income: The Foundation

Income is the cash flow generated by a property's existing operations. It is driven by factors such as rents, occupancy, operating expenses, and financing structure.

Because income is tied to current operations, it is generally the most observable component of return. We view durable in-place cash flow as the foundation of an investment - providing current returns while supporting the business plan and reducing dependence on future outcomes.

Value Creation: Execution

Value creation is the improvement in a property's performance during ownership. It can result from better operations, increased occupancy, strategic renovations, expense efficiencies, additional income streams, or other initiatives that increase net operating income.

Unlike in-place income, value creation must be achieved. It depends on both the opportunity present in the asset and the owner's ability to execute. This makes it important to distinguish between value that exists at acquisition and value that is expected to be created through the business plan.

Exit: Value Realized

Exit is the point at which the value of the investment is ultimately realized through a sale. The outcome reflects the property's income at that time, the value created during ownership, and the market's pricing of those cash flows.

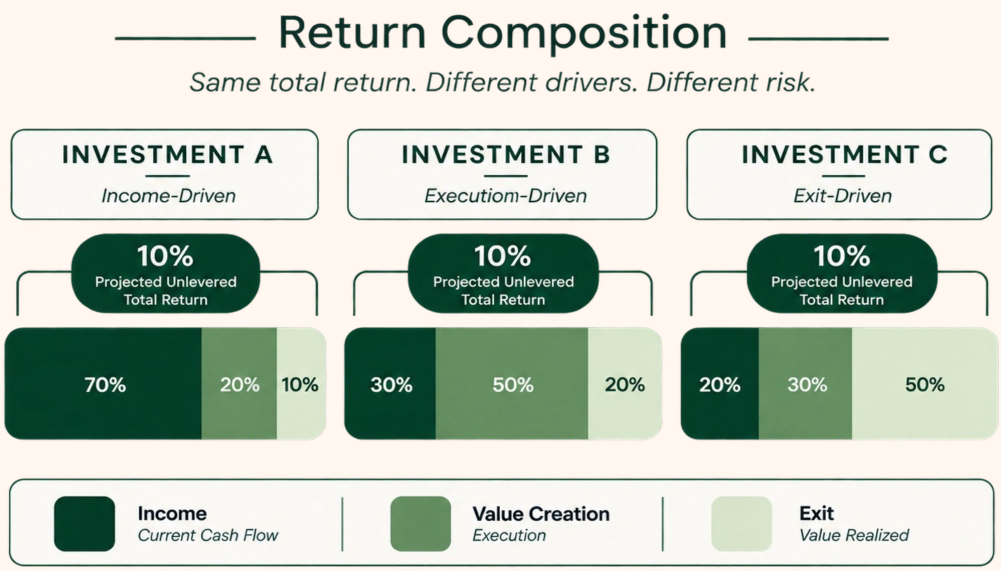
Because the timing and pricing of a future sale cannot be known with certainty, exit introduces assumptions that are largely outside an investor's control. The more a projected return depends on a particular exit value or market environment, the more sensitive that return may be to future conditions.

THE DRIVERS WORK TOGETHER

While Income, Value Creation, and Exit are distinct drivers, they ultimately work together to produce an investment's total return. Their relative contribution, however, can vary significantly from one investment to another.

Some investments are supported primarily by in-place income, while others depend more heavily on value creation through execution or assumptions about the eventual exit. Two investments may project similar returns while relying on very different combinations of these drivers—and therefore carry very different risk profiles.

Understanding which driver is doing the most work is critical to understanding the investment.



THE RETURN COMPOSITION

The examples above show how investments with the same projected unlevered return can rely on very different drivers.

Investment A is primarily income-driven, providing greater visibility into current performance. **Investment B** relies more heavily on value creation and successful execution. **Investment C** depends more on value realized at exit, increasing exposure to future pricing and market conditions.

None is inherently better or worse. The key is understanding which driver is doing the most work - and the risks required to achieve the projected return.

THE ORINOVA PERSPECTIVE

At Orinova, we generally favor a blend of **income-driven and execution-driven investments**. We look for current income in every opportunity, providing a foundation that exists at acquisition rather than depending entirely on future performance.

From that foundation, we seek to create value through what we can influence—improving operations, identifying additional income streams, and making strategic property improvements. Our vertically integrated platform allows us to evaluate these opportunities not only for their potential, but for our ability to execute within the Orinova ecosystem.

We are more cautious when projected returns depend heavily on exit assumptions. While every investment ultimately has an exit, our preference is for the sale to **realize value already created**, rather than create the return itself. Put differently, we want performance driven primarily by **income and execution - not by what we hope the market will pay us in the future.**
