

VARNEY

**REAL ESTATE &
DEVELOPMENT
RISK MANAGEMENT**



Real Estate Insurance Designed for Entrepreneurs by Entrepreneurs



VARNEY

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REAL ESTATE & DEVELOPMENT RISK MANAGEMENT

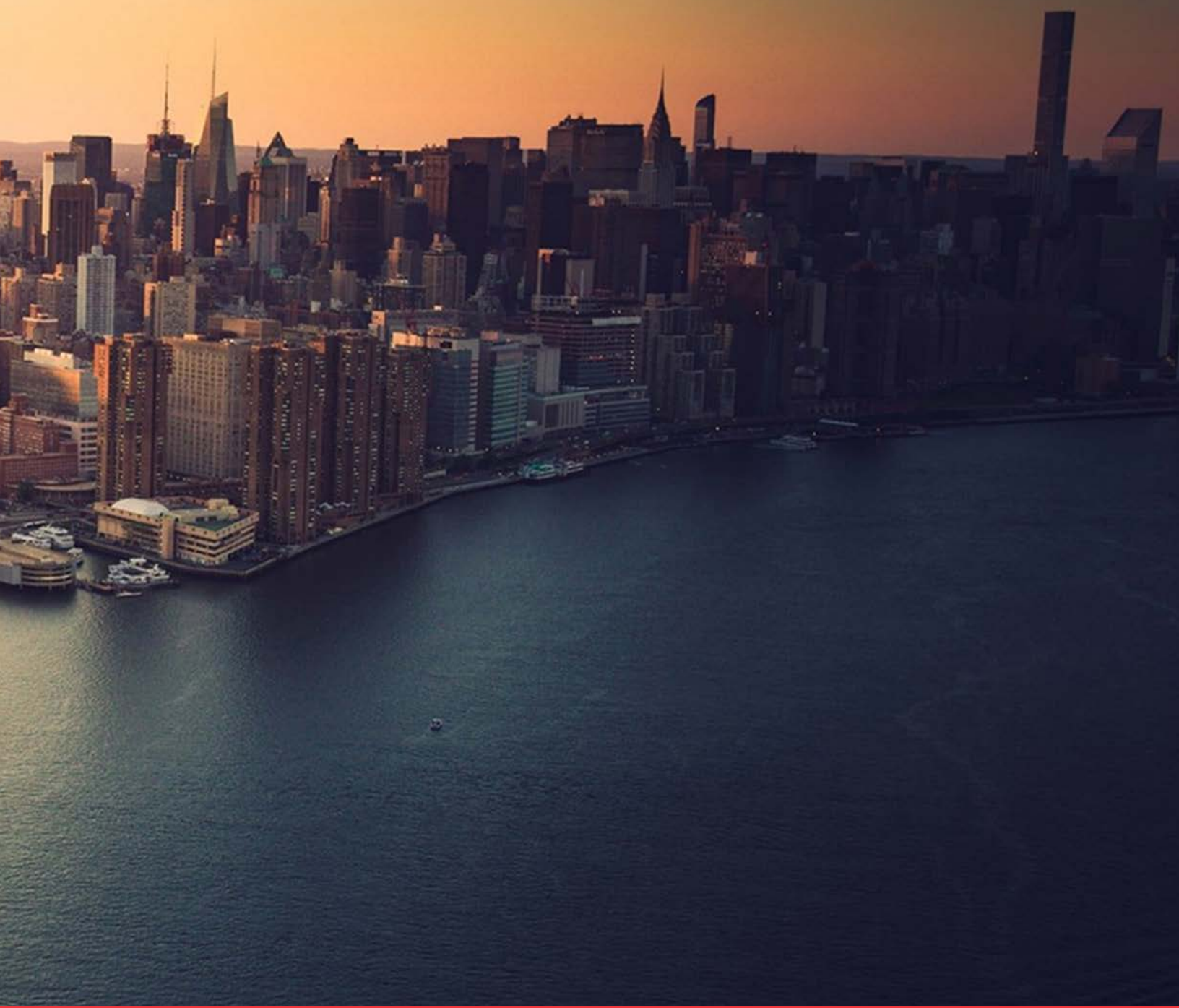
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VARNEY



INTRODUCTION TO VARNEY AGENCY



THREE GENERATIONS ONE BELIEF



Customer Service has defined our business ever since Bill Varney put his name above his first office in 1960. Twenty years later when he and his son Tim set up Varney Agency, that same approach guided their decisions.

Today Tim and Mike lead the way in continuing to find new ways to serve our business clients and private clients. To us, client service means more than just looking after our customers. It means looking out for them.

It's that belief that has built our business from a single location to 19 offices along the east coast with over 140 employees. Varney Agency serves businesses and private individuals in 48 of the 50 states within the United States and from Canada to Bermuda.

VARNEY IS A FULL-SERVICE BROKERAGE



Business Risk Solutions

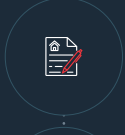
- Commercial Insurance
- Risk Transfer Services
- Claims Management
- Surety



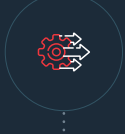
Employer Sponsored Group Benefit Solutions



Private Client Group



Real Estate & Development Risk Management



Alternative Risk Solutions

- Traditional Captives
- Reinsurance Programs
- Dividend Reimbursement



Varney Underwriters

- Wholesale
- Lloyd's Coverholder
- Managing General Underwriter



VARNEY



VARNEY REAL ESTATE & DEVELOPMENT RISK MANAGEMENT

VARNEY REAL ESTATE & DEVELOPMENT SERVICES

The Varney Real Estate & Development practice focuses on minimizing risk for both new projects and established portfolios through contractual risk transfer and custom coverage requirements while also creating a narrative around our clients to help underwriting teams fully understand the operations. Varney has excellent carrier relationships within the retail market as well as an established wholesale presence allowing us to access the full scope of available options. Outside of traditional placement we are also well versed in developer/contractor programs, captives, reinsurance programs, and other alternative risk financing options.

▶ **TRADITIONAL INSURANCE PLACEMENT**

▶ **DEVELOPMENT & CONSTRUCTION EXPERTISE**

- OWNERS INTEREST POLICY
- OWNER/GC DUAL INTEREST POLICIES
- GL ONLY WRAP
- OCIP/CCIP PROGRAMS

▶ **SURETY & BONDING**

▶ **PROPRIETARY PROGRAMS**

- HISCOX FLOODPLUS
- UMBRELLA PROGRAM
- RENT REGULATION PROGRAM

▶ **ALTERNATIVE RISK FINANCING**

- RE-INSURANCE PROGRAMS - RE-PAID
- VARNEY LOAN LEVER
- CAPTIVE PROGRAMS

▶ **TRANSACTIONAL RISK SOLUTIONS**

- REPS & WARRANTIES
- TAX INSURANCE

▶ **FORCED PLACE PROGRAMS**

▶ **CUSTOM POLICY PROVISIONS**

- DE-RISKING ORDINANCE CHANGES
- ENERGY PRODUCTION GUARANTEES
- MANUSCRIPT POLICY FORMS

▶ **CONTRACTUAL REVIEW & RISK TRANSFER**

▶ **IN-HOUSE CLAIMS MANAGEMENT**

VARNEY REAL ESTATE & DEVELOPMENT TEAM OVERVIEW



**Tim
Varney**
Principal



**Mike
Varney**
Principal



**Jack
Cowie**
SVP Real Estate & Dev



**Patrick
Yannotta**
SVP Real Estate & Dev



**Robert
Desrosiers**
*Managing Director
Equity Risk*



**Craig
Bassingthwaite**
*Loss Control
& Claims Executive*



**Steven
Coward**
*Construction Risk
Surety Specialist*



**Sunny
Quintal**
*Senior Account
Manager*

THE VARNEY DIFFERENCE

At Varney we understand that there is more to a business than what can be defined in Acord forms. That's why we have focused on creating teams of experts within specific industries to tailor our approach for the middle to large market.


The Varney Real Estate & Development practice focuses on creating competitive insurance programs while minimizing risk for Owners, Operators and Developers. We act as an extension of our clients' risk management team providing contractual risk transfer analysis with Subs or Tenants, negotiating with lenders, and adding custom coverage requirements. By performing underwriting in house, we can present carriers with the best possible narrative for our clients.

With nearly five decades in business, Varney Agency has established relationships within the retail market as well as a wholesale presence giving us access to the full array of insurance carriers internationally.



TRADITIONAL REAL ESTATE INSURANCE SOLUTIONS

Having been in business for almost half a century, Varney Agency has cultivated longstanding relationships with the most competitive markets within the real estate insurance industry. We leverage our experience and advocate on behalf of our clients to ensure they are obtaining the best coverage at the most competitive price for their assets and portfolio.

 <p>PROPERTY</p>	 <p>BUILDER'S RISK</p>	 <p>GENERAL LIABILITY</p>
 <p>UMBRELLA</p>	 <p>FLOOD INSURANCE</p>	 <p>CONDO & CO-OP BOARDS</p>
 <p>D&O</p>	 <p>E&O</p>	 <p>EPLI</p>
 <p>CYBER</p>	 <p>WORKER'S COMP</p>	 <p>PROFESSIONAL LIABILITY</p>

TYPICAL BROKER RELATIONSHIP



- Broken and implement your Insurance program
- Submit Acond applications
- Review pricing
- Supply certificates to lenders, contractors, etc
- Add/remove locations

Typical Services from Brokers

Break away from the mold of the traditional broker. The average broker meets your basic needs when it comes to claims, plans and renewal negotiation. What about new exposures like cyber attacks? New legislation? At Varney Agency, complacency is not an option.

VARNEY CLIENT RELATIONSHIP



- Broker and implement your Insurance program
- Submit Acord applications
- Review pricing
- Supply certificates to lenders, contractors, etc
- Add/remove locations
- Insurance requirements to vendors & contractors
- Quote Policies
- Claims Assistance
- Billing Assistance
- Negotiate Renewals in advance
- Risk Summaries
- Coverage & Policy Expertise
- Application Submission
- HR Hotline
- Employee Safety Manual
- Industry-specific Safety Training
- Return to Work Programs
- Fraud Reduction Program
- Business Continuity Planning
- Workplace Posters
- Employee Newsletter
- Loss Analysis
- Frequency vs. Severity
- Mod Reduction & Management
- Workers' Compensation Analysis
- Mod Reporting

Expansive Services from Varney

Through a proactive approach to risk management, Varney offers services well beyond that of the traditional brokerage. We understand the complex nature of insurance and are here to guide clients through more than just placing traditional policies. These services include helping with due diligence, insurance estimates, contract negotiations (w/ lenders, banks, contractors, tenants, etc.), COI review & tracking, claims management, a comprehensive underwriting & marketing campaign, and so much more.

DEVELOPMENT & CONSTRUCTION EXPERTISE

Development and construction are recognized as “high risk” industries within the insurance market, and with high risk comes complex insurance programs. Varney Agency has extensive experience and a successful track record placing policies for our development and construction clients of all sizes. We go beyond the services of the traditional broker by implanting ourselves as part of our clients’ risk management team.

The following pages highlight Varney Agency’s expertise in the different ways to insure the liability associated with a given project. Liability coverage for the Developer, GC, and Subs (GL, Workers Comp, Auto, Environmental, Professional, among others in certain instances) will need to be present and there are several ways to implement these coverages. Smaller projects generally secure an Owner’s Interest policy and put the burden on the GC and Subcontractors to place their coverage while billing back for it. As a proposed project size grows, it allows for more creative options. The most obvious benefit with each progressive option is the broadened coverage and streamlined claims process. In addition, as one moves towards an OCIP there is reduced administrative burden and more aggressive premium as well.



AN OWNER'S INTEREST POLICY

- Covers General Liability interest of Developer ONLY (Both premises liability and Construction activities)
- Rely on GC and Subs to carry their own coverage and bill via budget change back
- Steps in when GC/subcontractor coverage is inadequate
- Added as additional insured by underlying professions
- Provides Completed Operations tail up to statute of repose (above GC's primary limit)

DUAL INTEREST POLICY (MINI WRAP)

- Covers General Liability interests of Developer AND General Contractor
- Rely on Subs to carry their own coverage and bill via budget change back
- Steps in when subcontractor coverage is inadequate
- Provides Completed operations tail up to statute of Repose (above Sub's primary limit)

GL ONLY WRAP

- Covers General Liability interests of Developer, GC, and ALL Subcontractors
- No Charge back for liability
- Primary Liability coverage for project
- Provides Completed operations tail up to statute of Repose

PROJECT WRAP (OCIP)

- Can "wrap in" all liability associated with the project including General Liability, Auto, Workers Comp, Environmental, Professional, etc...
- No reliance on coverage provided by any other contractors
- Primary coverage for all liability, one claims point of contact
- Provides Completed Operations tail up to the statute of repose

OTHER ASPECTS OF A DEVELOPMENT PROJECT THAT ARE CONTEMPLATED INCLUDE, BUT ARE NOT LIMITED TO, THE FOLLOWING:

➤ Builder's Risk
Property Coverage

➤ Rail Road Protective Liability

➤ Pollution Liability

➤ Subcontractor Default
Insurance

➤ Bonding/Surety

➤ Flood Insurance

➤ Professional Liability

➤ XCU (*Explosion, collapse
or underground hazard*)

BONDING CAPABILITIES

Varney Agency's surety expertise is grounded in the team's extensive experience ranging from entrepreneurial roots to national surety CEO experience negotiating with reinsurers and the federal treasury.

Our strategy has an intense focus of finding the perfect balance for all involved parties including the Principal, Obligee and Surety. With appointments for some of the largest global surety bond companies, we have the markets to accomplish all types of bond obligations including the below companies.





PERFORMANCE & PAYMENT BONDS



DEVELOPMENT BONDS



LIEN BONDS



LICENSE & PERMIT BONDS



COMMERCIAL SURETY

Our team has had significant success negotiating unique deals for all aspects of surety bond lifecycles:

- ✓ Start-ups with **minimal surety credit or history**
- ✓ **High growth firms** struggling to maintain adequate surety metrics
- ✓ **Active litigation or claims proceedings** with contractors
- ✓ Ownership transitions with **heavy impacts on Balance Sheet strength**

PROPRIETARY PROGRAMS

Varney Underwriters was founded in 2000 with a focus on specialty trades and lines of business. Through this business, Varney has become a coverholder for Lloyds of London, which means we have the authority to underwrite risks, bind coverage and settle claims at our discretion up to a limit of coverage. Varney Underwriters also has access to many proprietary programs that provide significant value to our clients.

HISCOX FLOODPLUS

Varney Underwriters is appointed by Hiscox which provides market leading flood coverage. Through the program Varney has flexible underwriting authority and can generally provide quotes and bind within 24-hours. Elevation certificates or surveys are not required and the program also contains a broader, more advantageous definition of "Flood" versus the National Flood Insurance Program ("NFIP"). Another benefit is the ability to cover basements.

UMBRELLA

The Varney wholesale division has access to one of, if not the, most competitive umbrella markets covering the real estate industry. Through this program, Varney has reduced umbrella premiums for our clients by up to 50% in some instances. The program seeks best-in-class buildings of superior construction in neighborhoods with low crime scores.



RENT REGULATION PROGRAM

As an agency that takes pride in solving complex issues with innovative programs, Varney has teamed up with top New York City Land & Tenant attorneys and a specialist insurance provider to create a solution to cover purchasers of real estate for loss, arising from an administrative action before the DHCR or civil court brought by tenants, as a result of overcharged rent.

Varney helped develop a contingent liability solution for instances when purchasers have undertaken adequate due diligence to determine whether rent increases are permissible. The contingent liability solution will only be offered alongside the placement of a real estate RWI policy. The policy would pay for a “loss as a result of a final and non-appealable order and finding of rent overcharging by the Petition for Administrative Review or civil court”.

ALTERNATIVE RISK FINANCING SOLUTIONS

Varney Agency is at the forefront of innovation and seeks creative insurance solutions built around our clients. We offer many types of alternative programs, such as RE-PAID which allows our clients to participate in underwriting profits and the Loan Lever that can help achieve loans up to 100% leverage. Each program is designed to give our clients an edge over their competitors.

Re-Paid has achieved market recognition for innovation, having won numerous awards and honors for being the world's first middle-market re-insurance program.



2019 US Captive Awards Innovative ART Structure/New Risk Placement

2019 Insurance Day London Market Awards MGA Initiative of the Year

2020 US Captive Awards Insurance Solution of the Year

2020 US Insurance Awards Insurance Underwriting Team of the Year (all property/casualty)

2021 Captive International US Awards Reinsurance Firm



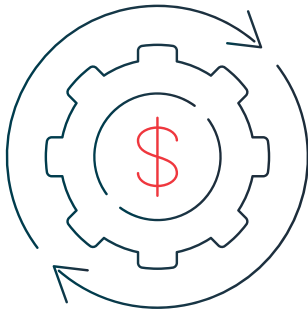
SOLUTIONS



RE-PAID



VLL



RE-PAID

What is Re-Paid?

An alternative risk financing solution that empowers our high-performing clients to take on a little bit of risk and earn a profit of up to 50% of their annual premium back from their insurance company.

Who It's For

- High performing businesses that have historically low claim activity each year with strong risk management and contractual risk transfer
- Must have a 5-year historic loss ratio of less than 40%
- \$250k - \$5million in annual insurance premium

Program Benefits

- Receive up to 50% of annual premium back on day one of policy effective date each and every year.
- Fortegra Insurance Company is the insurer of the program's Property, GL & Umbrella coverages and boasts an A- (Excellent) rating by AM Best Financial with over \$2.45 billion in assets.
- PMA Companies is the insurer of the program's Worker's Compensation & Commercial Auto coverages. PMA is an Old Republic subsidiary that has been in business for over 100 years and has an A+ (Superior) rating by A.M. Best Financial.
- Uncoupled from subsidizing poorly performing peers in traditional marketplace
- Control losses and influence claims. Work alongside renowned Gallagher Bassett who is the third-party claims administrator for the program.
- Reduced capital requirements & IRS scrutiny than traditional captive.
- Significant tax benefits.
- Keep the profits, reinvest, lend to yourself, or take a dividend.

RE-PAID (cont'd)

How it Works

STEP 1 - SELECT THE RISKS YOU CAN CONTROL

The insured doesn't have to include all of the lines of business they currently buy. Just the ones they choose.



Re-Paid offers the following lines of coverage:

- Commercial Property
- General Liability
- Umbrella/Excess
- Worker's Compensation
- Commercial Auto

STEP 2 - PROVIDE UNDERWRITING INFORMATION

The insured provides Varney Agency with 5 years of historical information for all lines of coverage they select:



- Annual Premium
- Loss runs
- Building Construction Details
- Statement of Values

STEP 3 - CHOOSE HOW MUCH RISK TO TAKE

The insured generally gets to decide how much risk they would like to take on an occurrence basis in a given policy period. The aggregate limit is 4x the any one occurrence limit selected.



Risk Options

	Max. Per Occurrence Loss:	Max. Aggregate Loss:
Option 1	\$250,000	\$1,000,000
Option 2	\$350,000	\$1,400,000
Option 3	\$500,000	\$2,000,000

STEP 4 - GET RE-PAID

The insurer will calculate the premium ceded back to the client owned reinsurance entity, which can be as much as 50% of the premium. Their underwriting is based on the annual premium, loss history, spread of risk and amount of risk selected.



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Re-Paid Illustration

PROJECTED YEAR 1 ILLUSTRATION	
Projected Annual Premium RE-PAID to Captive	\$612,500
Projected Annual Captive Claims (70%)	(\$87,500)
Projected Annual Central Fund Participation (30%)	(\$20,654)
Estimated Annual Captive Management Cost	(\$40,000)
Estimated Captive Formation (one time cost)	(\$40,000)
Projected Year 1 Captive Underwriting Profit	\$424,347

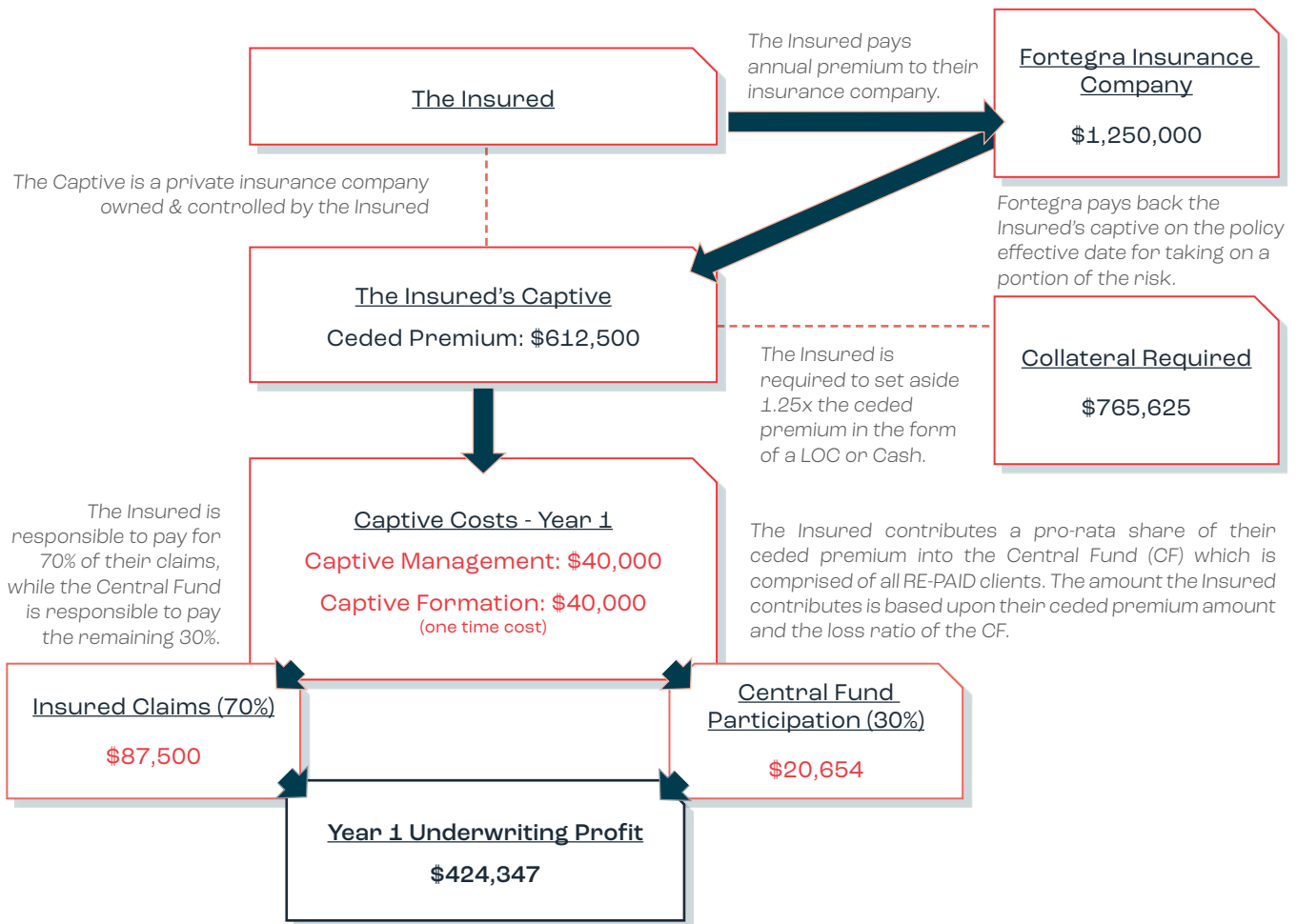
PROJECTED 5-YEAR ILLUSTRATION	
Projected 5-Year Premium	\$6,250,000
Projected 5-Year Premium RE-PAID to captive	\$3,062,500
Projected 5-Year Captive Claims (70%)	(\$437,500)
Projected 5-Year Central Fund Participation (30%)	(\$103,268)
Estimated 5-Year Captive Management	(\$200,000)
Estimated Captive Formation (one time cost)	(\$40,000)
Projected 5-Year Captive Underwriting Profit	\$2,281,733

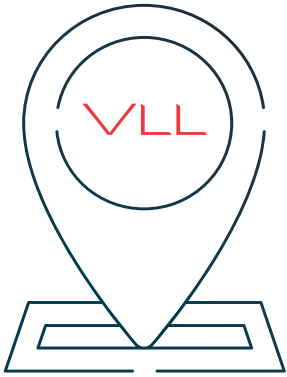


ASSUMPTIONS	
Current Premium	\$1,250,000
Projected 5-Year Insurance Premium	\$6,250,000
Total 5-Year Historical Claims to Date	(\$625,000)
Average 5-Year Loss Ratio	10.0%
Projected Annual Claims	(\$125,000)

*This example is for illustrative purposes only and should not be relied upon for any other use.

Flow of Funds - Year 1





VARNEY LOAN LEVER

What is the Varney Loan Lever?

The Varney Loan Lever (“VLL”) is an insurance product designed to maximize loan proceeds for our real estate clients. This is achieved through the placement of an insurance policy that is bound upfront at loan closing (acquisition or refinance) where an insurance company guarantees the future value of a given asset at the maturity date. Benefits of the VLL include;

- Maximizes loan proceeds up to 100% LTV
- Similar rate as senior debt
- Minimizes more expensive equity requirements
- Improves IRR of investment
- Can be utilized to fund capital improvement projects
- Lower DSCR requirements
- Rate can be tied to tenant credit versus CMBS market

How does VLL work?

A Loan Lever insurance policy is put in place with the payment of a single premium at the inception of the financing. At the scheduled maturity of a financing, if the owner does not repay the loan in full including the balloon amount due, the VLL policy pays the lender(s) an amount equal to the agreed residual value amount. If the insurance company pays a claim pursuant to the VLL policy, the insurance company succeeds to the lender’s position through an assignment of the loan and the underlying loan documents. The insurance company may elect to foreclose on the property or sell the note to a third party. The owner may still retain ownership of the property by paying the insurance company the amount of the claim payment plus any accrued interest. During the term of the financing, the property must be maintained to avoid deferred maintenance.



Case Study

SCENARIO:

- Acquisition Loan
- \$40 million purchase price
- 20-year NNN sale-leaseback
- 6.75% going-in cap rate
- 2.0% annual rent escalations

OUTCOME:

- VLL requires **83% less equity**
- VLL generates **260 basis points higher first-year ROE**
- VLL generates **8.9% first year ROE vs CMBS Loan of 6.3%**
- VLL generates **170 basis points higher minimum IRR**
- VLL generates **8.7% minimum IRR vs CMBS Loan of 7.0%**

FINANCING COMPARISON

	With Varney Loan Lever	Without Varney Loan Lever
Loan Proceeds	\$38.6 million	\$24.0 million
LTV	96.50%	60.00%
Term	20 years	20 years
Rate	5.65%	5.65%
Type	Fixed CT Loan (Credit Tenant)	Fixed CMBS loan
Origination Cost	\$1.3 million (3.36%)	\$300k (1.25%)
DSCR	1.10x	1.60x
Equity Required	\$1.4 million (3.5%)	16 million(40%)



TRANSACTIONAL RISK SOLUTIONS

Transactional Risk Insurance is used to protect against and/or mitigate two main categories of risks that may arise in M&A transactions including; 1) Unknown/Unforeseen Risks & Exposures and 2) Identified/Known Risks & Exposures. Varney's RWI team has spent close to twenty years in the private equity space closing M&A, debt and equity transactions and understands that any insurance product needs to provide value add, not unnecessary complications that inevitably lead to delays. The team has extensive experience negotiating with underwriters, deal counsel and the counterparty so that our clients can close their transaction quicker and not waste time with superfluous delays or additional costs.



EXAMPLES OF INSURABLE RISKS

QUALIFICATIONS & EXEMPTIONS

REIT, S-Corp, ECI, USTB, Treaty Qualification, USRPHC, PFIC, Substance, Withholding Tax, FIRPTA, 338(h)(10), Indirect Transfer Tax, LTCG

DEDUCTIONS

Debt / Equity, Worthless Stock Deduction, NOL Availability / 382 / 384 Limitations, Ordinary vs Capital deduction

VALUATION

Valuation & Cost Segregation, 311(b) gain, NOL Carryforward / GILTI / Subpart F Inclusions, 83(b) Elections, Qualified Basis

TRANSFER PRICING

Operational, Financial, Intellectual Property Reorganization and Deferral Acquisitive / Divisive Reorganizations (Spin-Off, Split-Off & Split-ups) Like-kind exchanges (1031), Deferred Compensation, 409A

CREDITS

ITC, PTC, LIHTC, 45Q, FTC, State Tax Credits

FUND RISKS

Carry – Income/Capital, Dissolution/hold back, Taxable Status

HOLDCO

Residency, Substance

TRANSACTIONAL

Withholding Tax, Revenue vs Capital, Interest Deductibility, Indirect Transfer Taxes, Treaty Applicability, VAT/ Sales, DAC6

DEBT & CREDIT FACILITIES

Debt vs Equity, Withholding and transfer taxes, Loan Origination – season & sell issues

REAL ESTATE

Transfer Tax

TAX INSURANCE BENEFITS

Inside M&A Transactions

- **Replaces the need** for specific indemnity or escrow and avoids price chipping
- Eliminates negotiation by replacing an unknown or uncertain tax with an **inexpensive one-time premium**
- Can **reduce or eliminate risk** related to historic tax positions taken as well as tax issues arising from a transaction itself

Outside M&A Transactions

- **Removes the tax uncertainty** from tax planning and internal transactions as part of the company's ongoing operations
- Replaces the need for a private letter ruling, or **insures the outcome** of a pending tax audit of a tax position
- Can **insure unknown risk** associated with a corporation or partnership's U.S. federal income tax return

TAX INSURANCE GETS MORE DEALS DONE

An investor's tool that allows them to allocate risk of tax loss.

- ▶ Address small probability of significant loss
- ▶ Extend or add to survival of seller's escrow or indemnity for buyer
- ▶ Achieve economic certainty absent a PLR from the IRS
- ▶ Mitigate counterparty credit risk in indemnity agreements
- ▶ Replace escrowed cash or holdbacks
- ▶ Internal comfort for investment committees or management approvals



Risk Solutions for the Entrepreneur.

VARNEY

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