**Wellings Capital Operator Due Diligence Process**

*Note that we freely share our operator track record information with prospective investors. Please email* [*invest@wellingscapital.com*](mailto:invest@wellingscapital.com) *if you would like our operator track record details. If you have not already registered at* [*https://wellingscapital.investnext.com/*](https://wellingscapital.investnext.com/) *please do so.*

1. Make sure at least one key principal on the operator’s team has at least a decade of direct experience in their asset class. Preferably they have experience through at least one recession/economic cycle, without a loss of investor money.
2. What is their track record? Know their best performing deal, worst performing deal, and everything in between. Request detailed documents on this if available. Ask for an independent review of distributions document(s) from an attorney or tax firm for currently owned or past properties, if possible.
3. How much of their own capital do the principals invest in the properties/funds? Are they signing recourse loans? This is very important.
4. What is the operator’s fee structure? Acquisition fees, asset management fees, refinance fees, disposition fees, property management fees, admin fees, splits, and preferred returns. Get clarity on how fees are calculated.
5. Evaluate operator alignment. Keep in mind true investor alignment with preferred returns and splits means operators have their own money invested in the project. Try to ascertain whether they view themselves as fiduciaries who serve their investors, or whether they view their investors as a necessary evil they need to deal with in order to enrich themselves. For example, do they carve out any revenue streams directly to themselves and not through the waterfall?
6. What is their acquisition strategy and their pipeline for their asset class? How do they source off-market deals? Are the off-market deals truly off-market?
7. Review the proformas for the deals and see if the assumptions are reasonable. Look carefully at rent increases, exit cap rate assumptions, occupancy projections, expense increase projections, and renovations. Do basic sensitivity testing for worst-case scenarios such as major recession.
8. Ask about the loan terms and LTV. Who sources the debt? What kind of loan did the sponsor get? What are the interest rate and interest-only period? How long is it fixed? How much money was put down? (We have seen proformas that show an interest rate of 5 percent that changes after 5 years, yet the proforma assumes the rate will be fixed for 25 years. Of course, that is revealed in the fine print.) If a fund, are any properties cross-collateralized? Is the philosophy to pay down debt and then distribute money? Prepayment penalties? Do they use subscription lines of credit?
9. Ask about long-term strategy and exit plans to make sure it’s a fit for Wellings Capital Funds. Ask about 721 Exchanges, 1031 Exchanges, refinances, etc.
10. Perform a comprehensive background check on the key people and decision-makers for criminal records, bankruptcy, lawsuits, driving records, or anything that would indicate a problem.
11. “Death by Google.” Search the operator’s name, company names, other team members’ names on Google for SEC violations, fraud allegations, and rip-offs.
12. Check and/or post on BiggerPockets, CrowdDD, 506 Group, and other online forums to find out as much detail as possible about the operator from previous investors. (Keep in mind typically the most upset investors will post online, but get details from them if possible.)
13. Ask when they typically produce investor K-1s and ask previous investors about this. This is essential to timely reporting for our own investors. Ask the operator the name of the CPA firm that handles their tax returns and contact the tax firm to double check information. Ask the CPA firm what it’s like working with the operator.
14. Fully read the PPM, Operating Agreement, and Subscription Agreement for the operator’s fund or deal. Get clarity on any confusing parts. Share documents with Wellings counsel if necessary to make sure nothing is missed. Carefully review items like capital calls, voting rights, and clawbacks.
15. Meet the key people and team in person, ideally at their office. (Weak management teams lead to weak results.) Interview top company management personnel. Look for signs of indecisiveness, bitterness, in-fighting, grudges, etc. If any potential problems are observed, dig a little deeper. Ask as many questions as possible to get to know their story and them as people. Ask key owners and employees about past/current bankruptcy and lawsuits. Get comfortable with their culture and values.
16. Does the operator’s company have any outstanding short or long-term debt? (Other than property or fund related.) Find out when these debts were incurred, for what purpose, and what the terms are. Does the company have enough cash, liquid assets, and positive cash-flow to service the short-term debts? Will future cash-flow be sufficient to pay off the long-term debt?
17. What kind of premium terms can they offer Wellings Capital for bringing $1 million or more? Why should investors invest with Wellings Capital over the operator directly?
18. Ask what the operator’s moral compass is. How do they decide what is right or wrong when no one is looking?
19. Fully understand the property management process. Does the principal visit the properties in person multiple times annually? Who is the primary person responsible for property management? Who keeps the onsite manager accountable?
20. Visit the property in person if it is a single asset. Visit as many properties in person as possible if a fund. If it’s a storage facility, what is the square footage of storage per person in a 1-, 3-, and 5-mile radius. Visit properties with the primary decision-maker to see how they manage them. The primary focus is vetting the operator as a person and company, but need to see properties as well. Gauge the quality of the onsite employees. Talk to tenants and try to learn as much as possible about the property.
21. Evaluate operator transparency. Do they share their underwriting? Do they have an open-book financial policy? Can Wellings Capital look into the books and records for the properties or for the syndication?
22. If possible, talk to the secretary or admin of the syndicator/operator alone and ask what it is like working for him/her?
23. Does the operator have a unified team who live and work in the same area and office? Not 100% necessary but preferred.
24. What kind of reporting do they offer for their properties? How often? How detailed is it? NOI and occupancy quarterly? Audited financials? If the investment is a fund, do the reports include property-level reports or just fund-level reports? Ask to see a sample report they did in the past.
25. What kind of insurance do they have on the properties? Business interruption insurance, wind, flood, etc. Double-check wind and flood policies (separate policies) for properties in coastal locations.
26. Obtain two to three past investor references and ask the references detailed questions about reporting, returns, ethics, and communication. Go beyond customer satisfaction surveys and word of mouth: the key here is customer retention. If customers keep coming back, this is a clear signal the company is doing something right. On the other hand, if most people are one-time investors, or there is a consistent long-term pattern of complaints about the company’s performance, this is a major red flag.
27. What are their succession and wind-down plans/structures?
28. After making an investment with an operator, continue to do due diligence over time. Look into new team members and their backgrounds. Continue to visit properties to ensure excellence is maintained.