

MODULE 2 – IMPACT OF SCHEDULE COMPRESSION ON PROJECTED RETURNS

The construction schedule is one of the most under-appreciated drivers of real estate investment performance. Modular construction directly impacts **projected returns, equity efficiency, and downside risk** by compressing construction timelines and accelerating lease-up.

REM Fund 2 pursues a diversified, multi-asset investment strategy and is currently underwriting projected returns in the **15%-21% range**. However, actual results will vary due to execution, timing, and broader market factors. Modular construction supports return targets by reducing interest carry, accelerating lease-up, and bringing certainty to the construction schedule.

Simply put, time is not our friend.

The Schedule Matters More than Cost

Of course, budget management is important, but the timing of capital deployment and project completion will have a larger impact on project returns than modest budget changes.

We have found that two projects with identical costs and exit strategies will produce materially different returns solely due to timing and scheduling. A faster execution will:

- reduce the duration of a negative carry,
- accelerate NOI generation, and
- improve the reinvestment velocity of equity.

The time-weighted metric of compressing the construction schedule is the most powerful lever in achieving projected returns.

How Modular Construction Compresses Schedules

1. Parallel Workstreams

Traditional construction follows a linear path:

site work → structure → interiors → finishes

Modular construction breaks this sequence by allowing the horizontal construction to be completed while the modules are built off-site. Most interior inspections can be conducted before the modules are delivered to the site.

These parallels are the primary drivers of schedule compression.

2. Reduced Weather and Labor Delays

Factory-controlled construction will remove many of the variables that delay construction schedules, like:

- weather interruptions,
- trade stacking conflicts,
- local labor shortages, and
- material damage and rework.

There is a profound difference in certainty and speed.

Return Drivers Impacted by Modular Construction

The single most effective driver of an investor's return is time. The time in the field, the time of the interest carry, and the time when cash flow begins. Remember, lease-up is not cash flow. A project is stable when it can operate on its generated income to cover costs, service debt, fund reserves, and distribute cash to the investors.

The forecasted construction period may exceed the time to reach stabilization. The variable under the builder and developer's control is the time to complete the project.

Below are discussions pertinent to each return driver.

1. Reduced Interest Carry

Shorter construction periods reduce:

- construction loan interest,
- extension fees, and
- rate lock exposure.

Even modest reductions in interest carry will add meaningful basis points to a return.

2. Early Lease-up and Cash Flow

Delivering units to the market sooner allows a project to:

- begin lease-up sooner,
- reach stabilization faster, and
- generate NOI months ahead of projections.

Earlier cash inflows have an outsized impact on projected returns due to the time value of money.

3. Exit Flexibility

A faster stabilization period provides sponsors with greater flexibility when considering:

- refinancing opportunities,
- the ability to time a sale in a stronger market, and
- the risk reduction when an exit occurs in an adverse cycle.

Optionality has value in volatile capital markets. The time saved in the field can provide a cushion for a sale or a refinance.

Assumptions (Simplified):

- Identical total development cost
- Identical stabilized NOI
- Identical exit cap rate

Key Differences:

- Traditional construction: 24-month delivery
- Modular construction: 16-18-month delivery

Results:

- Modular project reaches stabilization sooner
- Equity distributions begin earlier
- Exit occurs earlier and with greater flexibility

The compressed timeline results in a material uplift in projected returns, even if total project profit is unchanged.

Risk Reduction is Important

As stated above, the only variable in the control of the builder and developer is the time in the field to complete the project. The proforma for modular projects can compress the schedule, resulting in an earlier completion date than for projects built under traditional methods.

A compressed schedule lessens the downside risks, such as:

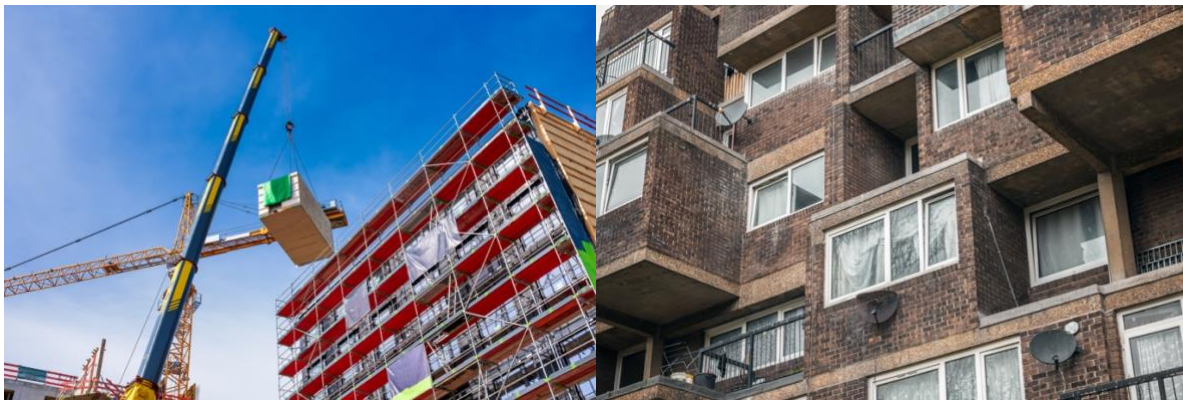
- less exposure to cost inflation,
- shorter duration of at-risk capital, and
- reduced reliance on extension options and renegotiations.

For investors, this translates into **improved risk-adjusted returns**, not just higher-than-projected returns.

Key Investor Takeaways

Modular construction improves returns not by changing real estate fundamentals, but by shortening the forecasted time periods.

By compressing schedules and increasing execution certainty, modular construction enhances projected returns, improves capital efficiency, and reduces development risk—a powerful tool for disciplined real estate investors.



For informational purposes only. This material does not constitute investment advice or an offer to sell securities. Projected returns and timelines are illustrative and not guaranteed. Actual results may vary.