ARCSA CAPITAL

Residential Value-Add: 12 Questions to Ask a Sponsor Before You Commit

An underwriting checklist for accredited investors reviewing short-cycle residential funds in Florida

ARCSA Capital · November 2026 · General information, not an offer or advice

> How to use this list. Each question names the answer a sponsor should be able to give you in writing. If they cannot document it, treat that as a signal to ask for more information, not as a conclusion.

A. Acquisition

1. **What is the entry discount to market value, and how is it measured?**
   Ask for the method: which comparables, what date, and who appraises. *ARCSA reference: it seeks to acquire at an average discount of about 40% to market value. This is an acquisition target, not a return, and it is not guaranteed.*
2. **Where does the deal flow come from?**
   Channel, volume reviewed and rejection criteria (the filter), not just the deals that closed.

B. Capital cycle and timing

3. **How long does each phase last: acquisition, renovation, sale?**
   ARCSA reference: a planned cycle of 3 to 6 months from purchase to resale, subject to delay risk. Ask the sponsor for theirs, by phase.
4. **What happens if the timeline stretches?**
   Carrying costs, interest and taxes, and who absorbs them.
5. **What is the plan if the sale does not close in the expected window?**
   Exit alternatives and their effect on investors.

C. Renovation and cost control

6. **Who executes the work, and under what contract?**
   Budget by line item, contingency, and the process to approve changes.
7. **How is progress verified?**
   Inspections, photo reports, and draws released against completed work.

D. Structure and alignment

8. **How is the vehicle structured (GP/LP, parallel fund, vehicles for non-U.S. investors)?**
   Who is a party, which jurisdiction applies, and how tax burdens are allocated.
9. **What fees and expenses are charged, in what order, and on what base?**
   Ask for the waterfall in writing and a numerical example from the sponsor itself.
10. **How much of its own capital does the sponsor invest, and what conflicts of interest exist?**
    If the sponsor plays several roles (origination, management, sale), ask for the conflicts policy.

E. Reporting and verification

11 **What will you receive each quarter?**

Financial statements, renovation progress, valuations and material changes.

12 **How is your accredited status verified, and what documents does the sponsor request?**

In a Rule 506(c) offering, verification is mandatory. Be wary of anyone who skips it.

Warning signs. Returns presented as certain or fixed; comparisons to bank deposits or bonds as if equivalent; inability to see the waterfall in writing; pressure to decide quickly; marketing material that contradicts the offering memorandum.

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