INFINITE FOCUS CAPITAL

PASSIVE INVESTORS GUIDE TO REAL ESTATE SYNDICATION

Welcome!

Congratulations on taking action to invest in the greatest wealth building tool available.

Real estate

Did you know Arnold Schwarzenegger was a millionaire before he started acting and before he won Mr. Universe? He did this as a laborer laying brick and through real estate investments, he bought apartments. These investments allowed him to focus on what he was good at, building massive muscles!

When you're driving around town have you ever stopped to wonder who owns all these buildings? It could be an apartment, a warehouse, a storage facility, a strip mall, or a mobile home park. Here's a secret, it isn't always someone sitting in an office in a tall building, many times it's just a normal person like you and me. The difference is at some point in their life they made a decision, a decision you are in the process of making. They said to themselves, "There has to be a better way to build wealth, I will buy that." Then they figured out how.

I am going to share with you a method in which you can go from asking how you can do it, to being able to actually make it happen. My goal is to arm you with the tools you need to be able to take your investing to the next level. You don't need to rely on Wall Street to build financial stability and wealth for the future of your family, you can take matters into your own hands and build a legacy and achieve financial freedom.

My Story

In 2002 during my first stint in college, my brother shared with me a book by Robert Kiyosaki called Rich Dad, Poor Dad. After reading the book I was excited to be able to invest in real estate but didn't know where to start. I spoke with people who were already in my circle, but those people didn't invest in real estate and didn't even know how. They all said I needed to come up with 20-25% down to buy any investement property. Back then I was a college kid who had just bought his first new car and was driving a Zamboni part time after class, I didn't have 20-25% to put down. That college kid didn't even have $1,000 to put down on that truck he had just purchased. The conclusion: real estate was out of my grasp.

I didn't come back to the idea of real estate investing until 2018. After my second stint in college, getting married and having my first kid. I ended up using the equity from selling a home to pay off all my student loans. The truck I bought in 2002 was still running and I didn't have a car payment. Other than the payment for our new house and one small vehicle payment we were debt free.

We were looking for an investment vehicle for the remaining equity and the math of the stock market and 401(k) didn't make sense. I lived through the dot com bust and the great recession. It took my Wall Street investments years to recover and if we wanted to gain financial freedom a new solution needed to be found.

While I was on my lunch time walk one afternoon, I heard a surgeon talking about buying apartments on the side. This was intriguing to me, luckily in the 15+ years since I read Rich Dad, Poor Dad, information was far more easily attainable. I knew I couldn't rely on the people in my circle, so I relied on Google. It was like drinking through a firehose of information, some sources contradicting others, with one consistent theme:

Financial freedom is possible through real estate investment

Once I made the decision to invest in real estate it took over 3 years of education and work before I closed on my first apartment. In that time, I retained my full-time employment, we added two more babies to the mix and lived through the Covid shutdowns. This was proof that I can actively invest in real estate while focusing on my family and career.

Traditional vs alternative investments

Investments typically fit into one of two main categories. Traditional and alternative.

Traditional investments are ones that are pushed by Wall Street and the typical financial advisor. They include stocks, bonds, and cash. The Wall Street managers like these investments and tout them as safe because of their liquidity, government oversight, and because they can charge fees when they complete a trade or manage your money. They like to say these types of investment carry less risk and are less volatile than alternative investments but anyone who has lived through the drastic swings in their portfolio balance may disagree.

Wall Street pushes a narrative that alternative investments carry more risk. Their reasoning is because they say these investments are more volatile, have less oversight, and are

less liquid, meaning it may be harder or impossible to trade on an open market. While it is true that these investments may be less liquid it can be contested that the lack of oversight adds risk or that they are more volatile. In fact, the lack of liquidity in this space contributes to its lack of volatility and therefor decreases its risk profile overall.

Some alternative investments include real estate, private equity/venture capital, private loans, and energy.

Types of real estate investment

While real estate investment is simple to do, the options can be overwhelming which is can scare many people away from it in the first place.

A real estate investment involves the purchase, ownership, management, rental, or sale of real estate properties for the purpose of generating income or capital appreciation. Here are eight types of real estate investment:

Rental properties

Rental properties are purchased with the intention of generating rental income from tenants. They can include single-family homes, multi-family homes, apartments, and commercial properties.

Fix-and-flip

Fix-and-flip properties are purchased with the intention of renovating them and reselling them at a profit. This type of investment requires a higher degree of risk and expertise to identify undervalued properties and execute a successful renovation.

Real estate investment trusts (REITs)

REITs are companies that own or finance income-producing real estate properties and offer investors a way to invest in real estate without owning property directly. REITs are publicly traded on stock exchanges and provide regular income to investors through dividends.

Vacation rental properties

Vacation rental properties are properties that are rented out to vacationers for short-term stays. They can include homes, apartments, and other properties located in popular tourist destinations.

Real estate notes

Real estate notes involve purchasing mortgages or other debt instruments secured by real estate properties. Investors can earn income from interest payments on the notes and may have the opportunity to acquire the underlying property if the borrower defaults.

Real estate tax liens

Real estate tax liens involve purchasing the right to collect unpaid property taxes from the property owner. Investors can earn income from the interest and penalties charged on the delinquent taxes and may have the opportunity to acquire the property if the taxes remain unpaid.

Real estate crowdfunding

Real estate crowdfunding is a relatively new type of investment that allows investors to pool their money with others to invest in real estate projects. This type of investment is typically done through online platforms and provides investors with the opportunity to invest in real estate projects that they may not have access to otherwise.

Real estate partnerships

Real estate partnerships involve pooling money with other investors to purchase a property or a portfolio of properties. Investors share in the profits and expenses of the partnership based on their ownership stake.

One of the most popular types of programs on TV today are about people doing flips on homes and that can be a great way to make money. But flipping homes is job by itself. You need constant deal flow, and you need to manage the contractors doing the work. The income generated through flipping homes usually falls into two categories, short-term capital gains and regular income. To the IRS, these properties are viewed more as inventory than as an investment property due to the nature of the business plan. Flipping properties is not a passive investment.

REITs are one way to passively invest in real estate but in reality, you aren't actually investing in real estate. You are investing in a company that invests in real estate. You get to share in the cashflow and the appreciation of the properties, but they keep the tax benefits of owning the property. Many investment brokerages like REITs because they are quite liquid and traded on the open market. Therefore, the brokerage and advisor are still able to charge their fee when they place the purchase for you.

Vacation rentals, notes, and tax liens all require a great deal of work. Sure, you can hire a manager to manage your vacation rental, but they will usually charge you 20-25% of the income to do it. That's money out of your pocket unless you want to do it yourself. However, then you've just created a new job for yourself. For notes and tax liens, you will still need to source the deal and negotiate it. None of these are passive investments.

We have focused our efforts on rental properties through partnerships where we own the property and hire a manager to handle the day-to-day tasks. The form of partnership that best allows for passive investment is the real estate syndication.

What is a syndication?

A real estate syndication is a type of investment strategy where a group of investors pool their money together to purchase, manage, and sell real estate properties or portfolios. The investors form a syndicate, usually in the form of a limited liability company (LLC), and the syndicate acts as the legal entity that owns and operates the property.

In a real estate syndication, there are typically two types of investors: the sponsor (or syndicator) and the limited partners. The sponsor is responsible for finding the property, conducting due diligence, and managing the property, while the limited partners contribute capital and receive a share of the profits based on their ownership stake.

Real estate syndications are typically used for larger, more complex real estate projects that require significant capital and expertise. They can offer investors the opportunity to invest in real estate with less capital than it would take to purchase a property outright, and provide the benefits of diversification, professional management, and potentially higher returns.

Most people do not have the time, energy, knowledge, or capital to be able to take down these larger deals by themselves. That is where the power of syndication comes in. It allows many people the ability to pool their capital to be able to purchase a larger asset than they would be able to do by themselves.

What is value-add?

To succeed in this industry, it is important to have a well-thought-out business plan that not only outlines your financial goals but also incorporates value-add strategies to differentiate your rental properties from competitors.

A value-add strategy is a business approach that aims to increase the value of a rental property by making improvements or offering additional services that attract tenants and justify higher rents. Here are some key components we use in our business plan to add value and increase our NOI:

Identify your target market

Understanding our target market is crucial to developing value-add strategies that will appeal to them. Are we targeting young professionals, families, or retirees? What are their needs and preferences in terms of location, amenities, and rental rates? Conducting market research and gathering data on your target market helps us tailor our value-add strategies to their specific needs.

Property upgrades

Upgrading the property can increase its value and attract high-quality tenants. Improvements such as updating appliances, installing energy-efficient lighting and plumbing fixtures, and upgrading flooring and finishes are potential upgrades. Investing in curb appeal by landscaping, painting, and adding outdoor amenities like a barbecue area or a pool can also attract renters and justify higher rents.

Offer additional services

Offering additional services can set our property apart from competitors and increase its perceived value. For example, providing a concierge service, fitness center, or dog-walking services can make a property more attractive

to renters who are willing to pay more for convenience and lifestyle amenities.

Develop a marketing strategy

A strong marketing strategy is essential to attracting tenants and maximizing your rental income. The marketing plan should include a clear value proposition that highlights your property's unique features and benefits, as well as targeted advertising and promotions that reach your desired audience.

A value-add business plan is essential to succeed in this competitive industry. By focusing on property upgrades, offering additional services, and developing a marketing strategy, and creating a comprehensive financial plan, we can differentiate our rental properties from competitors and attract high-quality tenants who are willing to pay more for a better living experience.

Why apartments?

The focus with our investment strategy is on apartments.

Here are 13 reasons to invest in apartments:

Steady cash flow

Apartments can provide a steady stream of rental income, which can help to offset the cost of owning and maintaining the property.

Diversification

Investing in apartments can provide diversification for your investment portfolio, which can help to reduce risk and volatility.

Tangible asset

Apartments are a tangible asset, which can provide a level of security and stability compared to other types of investments.

Potential for appreciation

The value of apartments can appreciate over time, providing the potential for capital gains when the property is sold.

Scalability

Apartments allow you to purchase the equivalent of multiple houses in a single transaction. With this scalability comes the power of efficiency. All the units are in a single location which means the management cost will be lower and maintenance will be simpler. With more units you can also afford to employ on site management which provides a better experience for those residing there.

Tax benefits

Real estate investments, including apartments, can provide tax benefits such as depreciation deductions and the ability to defer capital gains taxes through 1031 exchanges.

Multiple exit strategies

Apartments offer multiple exit strategies, such as selling the property, refinancing, or holding onto the property for ongoing rental income.

High demand

Apartments are in high demand, especially in urban areas where housing is limited and expensive. This can provide a steady supply of potential renters. Across the country we have been hearing about a housing shortage for years, this has helped contribute to unpresented increases in rent which assists with the appreciation of the value of the property.

Professional property management

Apartments are managed by professional property management companies, which can help to reduce the workload and stress of owning and managing a rental property.

Control

We control the asset by hiring the manager and holding regular meetings with them to ensure the business plan goals are being met.

Social impact

Investing in apartments can have a positive social impact by providing affordable housing for people who need it, which can be a rewarding and fulfilling aspect of real estate investing.

Hedge against inflation

Real estate investments can serve as an inflation hedge, as rental income and property values can increase with inflation over time.

Leverage

Real estate investments can be purchased with leverage, allowing investors to use other people's money to increase their returns.

While our primary focus is on apartments, we also like mobile home parks and self-storage for similar reasons as apartments. Conversely, currently we are avoiding most retail and office spaces due to the changing demand coming out of Covid.

How investors are compensated

Cashflow

In a real estate syndication, a limited partner receives cash flow in the form of periodic distributions from the profits generated by the real estate asset in which they have invested. The specific timing and frequency of these distributions are outlined in the limited partnership agreement and can vary depending on the investment strategy and the stage of the investment.

Typically, limited partners receive a preferred return on their investment before the general partner receives any profits. This preferred return is a fixed rate of return, such as 8% or 10%, and is calculated based on the limited partner's initial investment. Once the preferred return has been distributed to the limited partners, any remaining profits are typically split between the general partner and the limited partners according to a predetermined formula, such as a 70/30 or 80/20 split.

The cash flow received by a limited partner can be an important source of income and a key factor in evaluating the potential returns of a real estate syndication. It's important for investors to carefully review the terms of the limited partnership agreement and understand the potential risks and rewards associated with the investment before making a commitment. Additionally, investors should work closely with their legal and financial advisors to ensure that the investment aligns with their investment goals and risk tolerance.

Capital event

If the general partner decides to refinance the property, the limited partners may receive a distribution of cash from the proceeds of the refinance.

When a cash-out refinance occurs after the initial purchase, the LPs may be subject to certain tax implications. While the proceeds from a cash-out refinance are not taxable, the interest expense associated with the new loan will be deductible as an expense against the rental income generated by the property. Additionally, if the cash-out refinance results in a distribution of cash to the LPs, that distribution may be considered a return of capital rather than taxable income, but it depends on the specific circumstances of the investment. Investors should consult with their tax advisor to understand the specific tax implications of a cash-out refinance on their investment.

Tax benefits

Limited partners may be eligible for certain tax benefits, including depreciation, passive activity losses, and tax-deferred exchanges.

Depreciation is a tax deduction that allows the LPs to recover the cost of the property over its useful life. The depreciation expense can offset the rental income generated by the property, reducing the LPs' taxable income.

Passive activity losses (PALs) occur when the expenses of a passive activity exceed the income generated by that activity. LPs can use PALs to offset other passive income or, in certain circumstances, ordinary income. However, there are limitations on the amount of PALs that can be claimed each year.

Tax-deferred exchanges allow investors to sell a property and purchase another investment property without paying

capital gains tax on the sale. To qualify for a tax-deferred exchange, the syndication must comply with specific rules and deadlines set forth by the IRS.

It's important to note that the specific tax benefits available to LPs in a real estate syndication will depend on a variety of factors, including the investor's individual tax situation and the structure of the investment. You should consult with your tax advisor to understand the specific tax implications and benefits of your investment in a real estate syndication.

Equity split

Limited partners can benefit from the equity split, which is a distribution of the profits of the investment that is split between the LPs and the general partner. The equity split is usually based on a predetermined formula that is agreed upon in the partnership agreement, and it can vary depending on the specifics of the investment.

The equity split is a benefit for LPs because it provides them with a share of the profits without requiring them to actively manage the investment. Additionally, the equity split is often structured in a way that incentivizes the GP to maximize the profitability of the investment, which can ultimately benefit the LPs.

For example, if the equity split is structured so that the GP only receives a higher percentage of the profits after a certain level of return has been achieved for the LPs, then the GP has an incentive to work hard to achieve that level of return. This can ultimately result in a better overall return for the LPs. Overall, the equity split is an important benefit for LPs in a real estate syndication, as it allows them to participate in the profits of the investment while minimizing their involvement in the day-to-day management of the property.

Where to find the money

Now that you know some of the ways an LP is compensated and what some of the tax benefits you can receive you are left wondering,

Where do I find the capital to invest?

Here are 5 of the most common sources of fund that we have seen limited partners use.

Cash

This is the most obvious source but not many people have $25k, $50k, or $100k sitting in a bank account. As a sophisticated or accredited investor, you know that money that isn't working to make more money is wasting its potential so you have most likely already put your liquid capital to work in one of the other sources that we can use.

Life insurance

Investing in a real estate syndication with a life insurance policy can be done through what is called a life insurance policy loan. A policy owner can borrow money against the cash value of their life insurance policy and use it to invest in a syndication. Typically, this is done through a whole life policy and falls into what has been coined the infinite banking concept.

Before pursuing this option, it's important for the policy owner to fully understand the terms and conditions of the policy loan. The loan will typically have an interest rate that must be repaid, and the loan will reduce the death benefit of the policy if it's not repaid before the policyholder passes away.

Using a life insurance policy loan to invest in a real estate syndication can provide several benefits, such as the ability to access funds without triggering taxes or penalties, as well as the potential to earn higher returns on the investment than the interest rate on the policy loan.

IRA or 401(k)

Investing in a syndication with an Individual Retirement Account (IRA) or 401(k) can be done through a self-directed IRA or self-directed 401(k). A self-directed retirement account allows the account owner to invest in a wide range of assets beyond traditional stocks, bonds, and mutual funds, including real estate syndications.

To invest in a real estate syndication with a self-directed retirement account, the account owner must first open self-directed account with a custodian that allows real estate investments. The retirement account owner will then transfer funds from their existing retirement account to the new self-directed retirement account, which can then be used to invest in the syndication.

Investing in a syndication with a self-directed retirement account can provide several benefits, such as the potential for tax-deferred or tax-free growth of the investment and the ability to diversify the retirement account portfolio beyond traditional investments.

HELOC

Using a home equity line of credit (HELOC) to invest in a real estate syndication can be a risky strategy and should only be considered after careful evaluation of the potential risks and rewards.

Assuming you have enough equity in your home, you can obtain a HELOC from your bank or financial institution. The HELOC will give you access to a line of credit based on

the equity you have in your home. You can then use the funds from the HELOC to invest in a res.

One potential benefit of using a HELOC to invest in a real estate syndication is that the interest paid on the HELOC may be tax-deductible, subject to certain limitations. However, this strategy also carries risks. If the syndication does not perform as expected, you could end up with a significant amount of debt and potentially even lose your home if you are unable to make payments on the HELOC.

Before using a HELOC to invest in a real estate syndication, it's important to carefully evaluate the potential risks and rewards, as well as your personal financial situation and risk tolerance. It may be wise to consult with a financial advisor or tax professional to fully understand the tax implications and potential risks involved in this strategy.

1031

A 1031 exchange is a tax-deferred exchange that allows real estate investors to defer capital gains taxes when selling one investment property and acquiring another "like-kind" investment property. While the IRS has not explicitly addressed the use of a 1031 exchange for investing in a real estate syndication, it may be possible to use a 1031 exchange to invest in a real estate syndication if certain conditions are met.

To use a 1031 exchange to invest in a real estate syndication, an investor would need to identify a n investment that qualifies as a "like-kind" property to the property being sold in the exchange. The new investment must be held for investment purposes and not for personal use. Additionally, the investor must follow the strict rules and timelines associated with a 1031 exchange, including identifying potential replacement properties within 45 days of the sale of the original property and completing the exchange within 180 days.

However, investing in a real estate syndication through a 1031 exchange can be challenging since the investor does not have direct ownership of the property, which is owned by the sponsor. Therefore, investors must be careful to structure the investment in a way that complies with IRS regulations and does not disqualify the 1031 exchange.

Investors considering using a 1031 exchange to invest in a real estate syndication should consult with a qualified tax professional or financial advisor to fully understand the complex rules and requirements associated with this strategy.

The syndication processes

From the limited partners perspective, the process for investing in a real estate syndication is quite easy. Here is a brief outline of the process for an LP investor:

Identify and evaluate potential opportunities

The LP investor should research and evaluate potential opportunities, considering factors such as the sponsor's track record, the property's location and condition, the investment structure, and the projected returns. Most sponsors will host a webinar to introduce the deal to potential investors and answer questions that come up.

Provide your soft commitment

After conducting your initial research and reviewing the documents from the sponsor it’s time to let them know how much you would like to invest. This amount is not set in stone, and it does not guarantee there will be a spot in the deal.

Sign a subscription agreement

Once you have selected an opportunity, you will sign a subscription agreement, which outlines the terms and

conditions of the investment, including the minimum investment amount, the expected returns, and the distribution schedule. It is always suggested that an investor review the legal documents with their attorney and CPA.

Transfer funds

The final active step you will take for every deal is to wire the funds to the sponsor. This will typically occur 1-2 weeks prior to closing.

Receive distributions

As the project generates cash flow from rental income or capital events, such as a property sale or refinance, the limited partner will receive distributions, usually monthly or quarterly.

Tax reporting and implications: You will receive an annual K1 tax form from the sponsor, including information on your share of the income and expenses. You may also be eligible for tax benefits such as depreciation deductions and pass-through losses.

Vetting operators

One of the most important factors in ensuring a successful investment is selecting the right operator, or sponsor, to lead the investment. Vetting operators requires careful research and due diligence to ensure that you are investing with a reputable and experienced team. Here, we'll explore the key steps in vetting operators for a real estate syndication.

Evaluate the operator's track record

One of the most important factors in selecting an operator is evaluating their track record. Look for operators who have successfully completed syndications in the past and review their historical returns and investor satisfaction.

Consider the operator's experience in the specific type of property or investment structure you are considering.

Check references

Ask the operator for references from previous investors and partners and contact them to get an understanding of their experience working with the operator. Ask about the operator's communication style, responsiveness, and ability to meet projected returns.

Research the operator's reputation

Research the operator's reputation in the real estate industry and among other investors. Look for any negative reviews, complaints, or legal issues that may indicate a lack of professionalism or ethical concerns.

Evaluate the operator's team

The operator's team is a critical factor in the success of the deal. Evaluate the team's experience and qualifications in real estate, finance, property management, and legal and tax matters. Consider whether the team has the resources and expertise to manage the investment effectively.

Understand the operator's investment strategy

Evaluate the operator's investment strategy and ensure that it aligns with your investment goals and risk tolerance. Understand the operator's approach to property selection, due diligence, financing, and exit strategies.

Review the investment documents

Carefully review the subscription agreement, private placement memorandum, and other investment documents provided by the operator. Pay attention to the terms and conditions of the investment, including fees, projected returns, distribution schedules, and exit strategies.

Consider the operator's communication and transparency
Look for an operator who is transparent and communicative with investors. Consider how frequently and through which channels the operator will provide updates on the investment and ask about their process for addressing investor questions and concerns.

Investing in a real estate syndication can be a complex and risky endeavor, but selecting the right operator can significantly reduce those risks. By following these steps for vetting operators, investors can increase their chances of success and achieve their investment goals. Remember, due diligence is key, and investors should never rush into an investment without thoroughly researching and understanding the opportunity and the operator.

Vetting deals

When vetting a deal, you should consider a range of deal-specific questions. These questions can help you assess the deal's risk profile, the operator's strategy, and the potential returns. Some key deal-specific questions to consider include:

How does the deal align with your overall investment strategy and risk tolerance?

What is the property type, location, and market demographics? You should look into the property's location and market dynamics to assess its potential value and the risks associated with investing in that market.

What is the operator's business plan for the property? You should understand the operator's strategy and how they plan to create value for investors.

What are the projected returns, and how were they calculated? You should ask about the return projections and how the operator arrived at these numbers. You should also review the assumptions that underlie the projections to ensure they are realistic.

What is the investment structure? You should ask about the legal structure of the investment, the rights and responsibilities of investors, and the exit strategy.

What is the operator's track record? You should investigate the operator's previous deals, their success rate, and their experience in managing similar properties.

What are the risks associated with the deal? You should ask about potential risks associated with the investment, including market risk, execution risk, and operational risk.

What are the fees associated with the investment? You should understand the fees charged by the operator and how they impact the investment returns.

What is the operator's track record with respect to deal sourcing, due diligence, and execution?

How does the operator plan to mitigate potential risks and protect investors' capital?

What is the operator's investment thesis, and how does it align with your investment objectives?

How is the deal financed, and what is the loan-to-value ratio?

What is the operator's exit strategy, and what is the projected timeline for the investment?

What are the terms of the operating agreement, and what rights do LPs have in the decision-making process?

What are the sources and uses of funds, and how will the capital be deployed?

What is the operator's experience in managing similar properties, and how will they handle the day-to-day operations?

How much capital has the operator committed to the deal, and what is their skin in the game?

What are the tax implications of the investment, and how will taxes be handled?

What are the liquidity terms, and what options do LPs have if they need to exit the investment early?

By asking these and other relevant questions, you can gain a better understanding of the investment opportunity and assess the potential risks and returns associated with investing in a particular real estate syndication.

Key terms and concepts

Syndicator, Sponsor and General Partner

In a real estate syndication, the sponsor and general partner (GP) play crucial roles in finding, acquiring, and managing the real estate asset. The sponsor is typically responsible for initiating the syndication, identifying investment opportunities, and negotiating with investors to raise the necessary capital. They also organize the legal structure of the syndication and take overall responsibility for managing the investment. The GP, on the other hand, is responsible for the day-to-day operations of the real estate asset. This includes overseeing property management, handling tenant relations, ensuring compliance with regulations and legal requirements, and implementing the investment strategy agreed upon by the syndication's members. The GP also takes charge of managing the syndication's finances, including bookkeeping, tax compliance, and financial reporting. Ultimately, the sponsor and GP work together to ensure the success of the syndication and provide investors with a profitable return on their investment.

Investor or Limited Partner

A limited partner (LP) is an investor who contributes capital to the syndication but has limited liability and no control over the day-to-day management of the asset. LPs typically receive a share of the profits in proportion to their investment, but their involvement in the syndication is otherwise passive. This allows investors to participate in real estate investments without the burden of direct ownership or management responsibilities. LPs may also benefit from the expertise and experience of the sponsor and GP, who have a vested interest in ensuring the success of the investment. Additionally, because LPs are typically not involved in the management of the asset, they are

shielded from personal liability in case of legal or financial issues. Overall, LPs are a crucial component of real estate syndications.

Accredited vs non-accredited

Passive investors in real estate syndications fall into one of two categories, accredited investors and non-accredited but sophisticated that differ in terms of their financial status and investment knowledge.

An accredited investor is an individual or entity that meets certain financial criteria, such as having a net worth of at least $1 million (excluding their primary residence) or an annual income of at least $200,000 ($300,000 for married couples) for the past two years. Accredited investors are deemed to have a level of financial sophistication and are allowed to invest in private securities offerings without the same level of regulatory oversight as non-accredited investors.

Non-accredited but sophisticated investors, on the other hand, do not meet the financial criteria to be considered accredited but possess a level of investment knowledge and experience that makes them capable of making informed investment decisions.

Debt, loan guarantor and risk

The financing for a syndication falls into two separate categories, recourse, and non-recourse. The sponsor must choose which debt is best for the project to finance the acquisition or development of a real estate asset.

Recourse debt is a type of debt where the lender can seek additional compensation beyond the property in the event of a default. This means that if the syndication defaults on the loan, the lender can not only take possession of the property but also pursue other assets of the loan guarantor

to recover any remaining debt. The loan guarantor are the sponsors which means there is one way that a limited partner is protected.

Non-recourse debt, on the other hand, is a type of debt where the lender can only seek compensation through the collateral that secures the loan. This means that if the borrower defaults on the loan, the lender can only take possession of the collateral and cannot pursue other assets of the borrower to recover any remaining debt.

Choosing the best loan terms for each project is paramount to that project's viability. The sponsor assumes this responsibility and it may be recourse or non-recourse depending on the situation.

IRR

IRR stands for Internal Rate of Return and is a financial metric used to measure the profitability of an investment over time. It is a way to calculate the time value of money by considering the timing and amount of cash flows generated by the investment.

In real estate, IRR is commonly used to evaluate the potential return on investment of a property because it considers both the timing and amount of cash flows, including rental income, capital gains from property appreciation, and any sale proceeds.

When comparing different investment opportunities, investors can use IRR to determine which investment is likely to provide the highest return over a given period.

NOI, Cap Rate, Cash on cash return

Net Operating Income (NOI) is a financial metric used in real estate to measure the profitability of a property. It is calculated by subtracting all operating expenses from the property's total revenue.

NOI = Total Revenue - Operating Expenses

Total Revenue is the gross income generated by the property over a given period, which can include rental income, parking fees, laundry fees, and any other income streams from the property.

Operating Expenses are the costs associated with operating and maintaining the property, such as property taxes, insurance, repairs and maintenance, utilities, property management fees, and other expenses.

The resulting NOI provides a clear picture of how much income the property is generating after all operating expenses have been paid. This is a crucial metric for real estate investors and lenders, as it is used to determine the property's cash flow and its ability to generate income.

NOI is also used to calculate other important metrics in real estate investment, such as the property's capitalization rate (cap rate) and cash-on-cash return. The cap rate is calculated by dividing the NOI by the property's current market value or purchase price, while the cash-on-cash return is calculated by dividing the NOI by the amount of cash invested in the property.

NOI is a useful tool for real estate investors, as it allows them to compare the profitability of different properties, and to evaluate the potential return on investment of a property. By understanding the NOI of a property, the operator can make informed decisions about whether to purchase, hold, or sell the property, and can also use this metric to negotiate lease terms, rental rates, and other operating expenses.

SEC Exemption

The Real Estate Securities Exemption is a provision under the United States securities laws that provides an exemption from registration for certain types of real estate investments. The exemption is provided under Rule 506 of Regulation D, which is a rule issued by the Securities and Exchange Commission (SEC) under the Securities Act of 1933.

Under Rule 506, a real estate syndicator can offer and sell securities to an unlimited number of accredited investors and up to 35 non-accredited investors without having to register the offering with the SEC.

It's important to note that while the real estate securities exemption allows syndicators to avoid registering with the SEC, they are still subject to anti-fraud provisions under federal and state securities laws.

506b vs 506c

Regulation D provides two exemptions from the registration requirements of the SEC for certain private securities offerings: Rule 506(b) and Rule 506(c). Both rules allow companies to raise capital through the sale of securities without registering with the SEC, but they have some key differences that investors should be aware of.

Rule 506(b) allows syndicators to offer securities to an unlimited number of accredited investors and up to 35 non-accredited investors. However, the non-accredited investors must have sufficient knowledge and experience in financial and business matters to evaluate the merits and risks of the investment. Under Rule 506(b), syndicators are not allowed to use general solicitation or advertising to market their securities, and they are required to take reasonable steps to verify that all investors are accredited.

One of the main advantages of Rule 506(b) is that it allows syndicators to raise capital from a mix of accredited and non-accredited investors. This can be particularly useful for syndicators who have a pre-existing relationship with non-accredited investors who may be interested in investing in the deal.

Rule 506(c) was created by the Jumpstart Our Business Startups (JOBS) Act and went into effect in 2013. Under this rule, syndicators can only offer securities to accredited investors, and they are required to take reasonable steps to verify that all investors are accredited. However, unlike Rule 506(b), syndicators are allowed to use general solicitation and advertising to market their securities.

It's important to note that both rules have certain requirements and restrictions that must be followed to comply with SEC regulations. Therefore, it's important for the syndicator to work with legal and financial professionals who are familiar with the rules and can help ensure compliance.