INTRODUCTION TO

PASSIVE INVESTING

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MESSAGE FROM THE FOUNDER

Hi, my name is Gerard O'Sullivan and I'm the founder of Spindrift Capital Partners. I wanted to take a moment to thank you for downloading this resource and your interest in Spindrift Capital.

Are you considering investing in multifamily real estate?

Maybe you've been watching the market and realized that multifamily investments are looking at substantial long-term growth over the next few years. Perhaps you know someone who has already invested in one or more syndicated deals and is seeing amazing returns of passive income every year. Or maybe you just want more stable investments in your retirement portfolio.

Whatever brings you here – ***Welcome!***

We, at Spindrift Capital, are really glad to have this time with you. We understand that like many others we've met over the years, you want to know more about how we create a solid flow of passive income through multifamily investment.

Right now you might be asking yourself "Where do I even start?" You may have some general knowledge about passive investments in multifamily real estate but maybe you're unsure of how to gain access to investment deals or how to evaluate potential deals that come your way.

Here at Spindrift Capital, we have extensive experience in syndicated investments and in the process of guiding new investors through their first multifamily real estate deals. This introductory guide was designed to be a starting point for investors who are eager to break into multifamily real estate investing. We believe that empowering investors fosters a more vital market and creates better options and opportunities for residents of multifamily real estate developments.

Now we want to share some of our experience, our knowledge and our passion for multifamily real estate with you.

Thanks and Best Regards,

Gerard O'Sullivan

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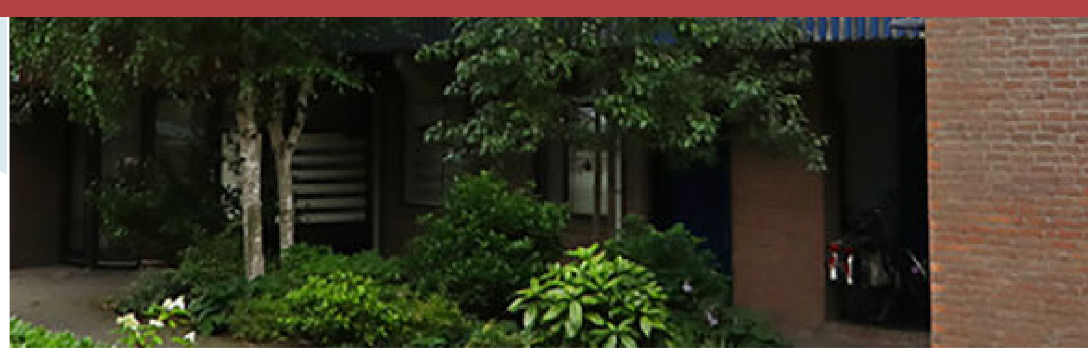
WHAT TO EXPECT IN THIS GUIDE

This guide is intended for **accredited** and **sophisticated** investors interested in passive investment in multifamily real estate and contains a brief overview of the multifamily investment process as well as common terms and concepts.

Multifamily investment is a complex topic, and we can only briefly explore a few of the most important details here. But by reading this guide you will improve your ability to build wealth through investment in multifamily real estate.

We will also provide you with some valuable resources for further learning.

Disclaimer: *Spindrift Capital Partners is not a lawfirm or accountancy, and therefore does not offer legal or tax advice. This guide is in no way intended to explain the laws surrounding multifamily investment or the related tax codes. As always, please consult a qualified attorney and tax professional before taking any action based on the contents of this guide.*



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THE BASICS

THE BASICS

01

WHAT IS MULTIFAMILY REAL ESTATE?

Multifamily real estate is the official classification for buildings that contain more than one legal housing unit. Though composed of residences, typically these developments are considered a commercial rather than residential use of real estate. **Multifamily real estate can mean:**

- **small buildings containing more than one residence, including duplexes, triplexes, fourplexes, etc.**
- **a two or three story apartment building with 20 or 30 units**
- **a multi-building apartment complex with a few hundred units**
- **a 1,000+ unit, highrise tower block**

Smaller multifamily real estate is very similar to single-family real estate in terms of maintenance and profit margins. These can be excellent investments for active investors with a background in managing and maintaining apartments and who want to be on-site regularly overseeing the day-to-day operation of their investment.

***Spindrift Capital** deals almost exclusively with larger multifamily developments containing 50 or more units. Larger multifamily developments offer investors unique opportunities to buy into a large number of units in a single deal and thereby benefit from the economies of scale involved in larger apartment developments.*

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WHY SHOULD I INVEST IN MULTIFAMILY REAL ESTATE?

Why should you invest in real estate at all? The simple answer is because it is very profitable. **John D. Rockefeller** once said:

> **"THE MAJOR FORTUNES IN AMERICA HAVE BEEN MADE IN LAND.**

Not for nothing! Land is where all value originates, and owning real estate is like owning the fountainhead of wealth rather than dipping from the river further down.

Let's dig a little deeper into what makes real estate so important for investors:

- Real estate is shelter. Shelter is a basic human need and will always be in demand.
- When you invest in real estate you're putting your money into a proven class of assets that has produced returns for its owners throughout history.
- Real estate also tends to rise in value with inflation and is affected to a lesser degree by economic fluctuations. When real estate does lose value, the losses tend to be more short-termed and values seem to rebound faster than the stock market.
- Unlike investing in stocks and bonds where your investment is entirely dependent upon the actions of a company's board, investing in real estate gives you more control over the decisions that affect your investment.
- Multifamily properties, when managed effectively, generate significant cash flow which will cover operations, capital improvements and debt servicing...not to mention profits for investors.
- Numerous tax advantages make multifamily real estate investing a smart decision. Opportunities for savings such as tax deferred income, accelerated depreciation, cost segregation studies, 1031 exchange and step-up in basis make this an extremely tax-efficient investment.

So why should you invest in multifamily real estate instead of buying single-family houses?

- Multifamily properties usually cost less per unit than single-family housing, but for each unit in the complex, careful investors often realize rents similar to those from a single-family house of equivalent square footage and quality.
- Multifamily developments can support property management and maintenance professionals to oversee day-to-day operations while still generating excellent net revenues.
- The ratio of maintenance costs to rental revenues is simply better in multifamily properties.
- Because of all these factors, multifamily real estate is ideal for creating Passive Income – a stream of revenue that requires you to do little or nothing to maintain.

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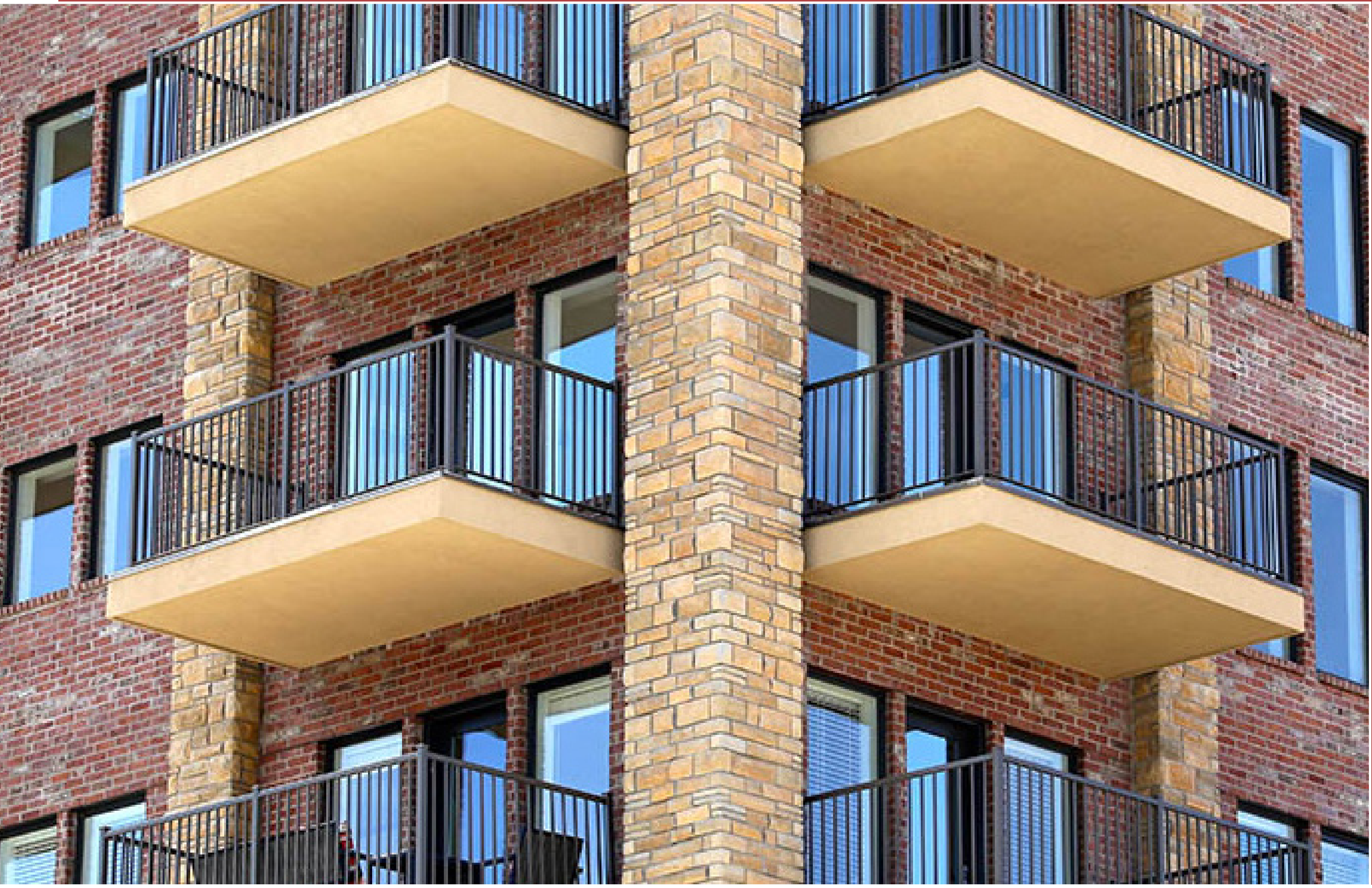
In multifamily investing the efficiency of scale works in your favor. Operating 100 units in one location generally takes far less time and money than operating 100 widely disbursed single-family homes.

Units in an apartment complex tend to all use the same materials (plumbing fixtures, lighting installations, flooring and roofing materials, paint, etc.). This enables owners to purchase materials in large quantities, which reduces costs. One handyman or maintenance company can care for all of your units at a lower expense which will improve returns.

The resulting cost efficiency and scale of revenues are what turn multifamily assets into passive income powerhouses.

Another advantage over single-family real estate that you might want to consider is that there's typically only one loan to deal with as opposed to 100. Do you really want to deal with the hassle of closing on 100 rental units individually (never mind managing them year after year)?

We could really spend all day talking about the advantages of investing in multifamily properties – in fact we have, several times – but this should give you a general idea of a few reasons why this sort of investment can be so lucrative and easy to manage.



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HOW CAN I GET
INVOLVED?

Every day, you'll have opportunities to take chances and to work outside your safety net. Sure, it's a lot easier to stay in your comfort zone – in my case, business suits and real estate – but sometimes you have to take risks. When the risks pay off, that's when you reap the biggest rewards. – Donald Trump

A syndicate is a group of individuals or organizations working together to promote some common interest. Commonly used to refer to your investment team.

The amount of capital you need to purchase such large developments means that you, as an individual investor, are probably not able to buy a large multifamily property on your own. Don't let this discourage you though – most other investors are in the exact same situation!

Because of the large capital investments required, multifamily real estate investment is most often done by teams or Syndicates. This allows you to pool resources with other qualified investors in order to purchase properties. Responsibilities within the team are divided to ensure a deal's success, and the distribution of gains is organized to return profits to the various passive investors or "Limited Partners" (such as yourself) who backed the investment.

Most multifamily investment opportunities come in the form of a deal or offering. Each deal is a potential opportunity to buy a specific multifamily building or community of buildings, and will usually be summarized in an official offering. Offerings (also known as Private Placement Memorandums or PPMs) are legal documents that outline the key elements of an investment opportunity.

Key elements of a PPM:

- investment objectives
- terms of the deal
- perceived risks
- expected returns

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We've dedicated an entire section in this guide to explaining what to expect from syndication PPM offerings. Be sure not to skip this section unless this is something you're already *very* familiar with!

Because the SEC (Securities Exchange Commission) carefully regulates investment syndications, formal offerings can only be circulated to qualified investors – accredited investors who have a proven record of financial investment and wealth creation that meets with SEC rules, or sophisticated investors (very well-informed investors, and typically those who already have an existing relationship with a deal's sponsor). So for most individuals who aren't already established multifamily real estate investors, the best option for getting access to potentially lucrative multifamily real estate offerings is to self-educate and develop connections to and relationships with existing syndicates and their sponsors.

Once you've educated yourself about multifamily investing, and made a connection with an established sponsor, getting involved in multifamily investing becomes a very real possibility!

Let your sponsor know what kinds of deals you're interested in and he or she will begin sending you offerings whenever they are syndicating those sorts of deals. From there it's up to you to determine whether any given deal is something you're interested in, and most of the rest of this guide is built around helping you do that…so let's read on!

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PASSIVE VS ACTIVE

INVESTING

“IF YOU DON’T FIND A WAY TO MAKE MONEY WHILE YOU SLEEP, YOU WILL WORK UNTIL YOU DIE. – Warren Buffet

You’re probably eager to start making money through investing in multifamily real estate. Before we go any further though it’s important for you to determine what approach to investing is the best fit for you. Most investors are busy running a company of their own, or pursuing their own profession. They don’t typically have time to find and vet new investment opportunities, so they prefer to invest passively – they are Passive Investors (Limited Partners). Some professional investors with extensive experience in managing syndicates prefer to spend all of their time finding new deals, leading investment teams and creating solid returns for passive investors. These are Active Investors (General Partners). Passive investors often work with the same Active Investors again and again for new opportunities to multiply their capital.

Passive Investors entrust their capital to a syndicate that is managed by a General Partner or Sponsor who handles all the work of executing an investment. They collect returns on their investment over and above what they initially contributed. Most passive investors do not get involved at all in the decision-making process during an investment, but general partners will occasionally solicit input from a team’s investors about specific decisions that need to be made.

Active Investors find, research, qualify and close on real estate deals themselves using their own capital, and directly execute a business plan to realize returns on their investments. They develop extensive networks of capital investors, contractors, legal advisers and other experts important to a successful multifamily real estate investment. Typically they are investing with their own money as well as carefully managing the invested capital of several passive investors.

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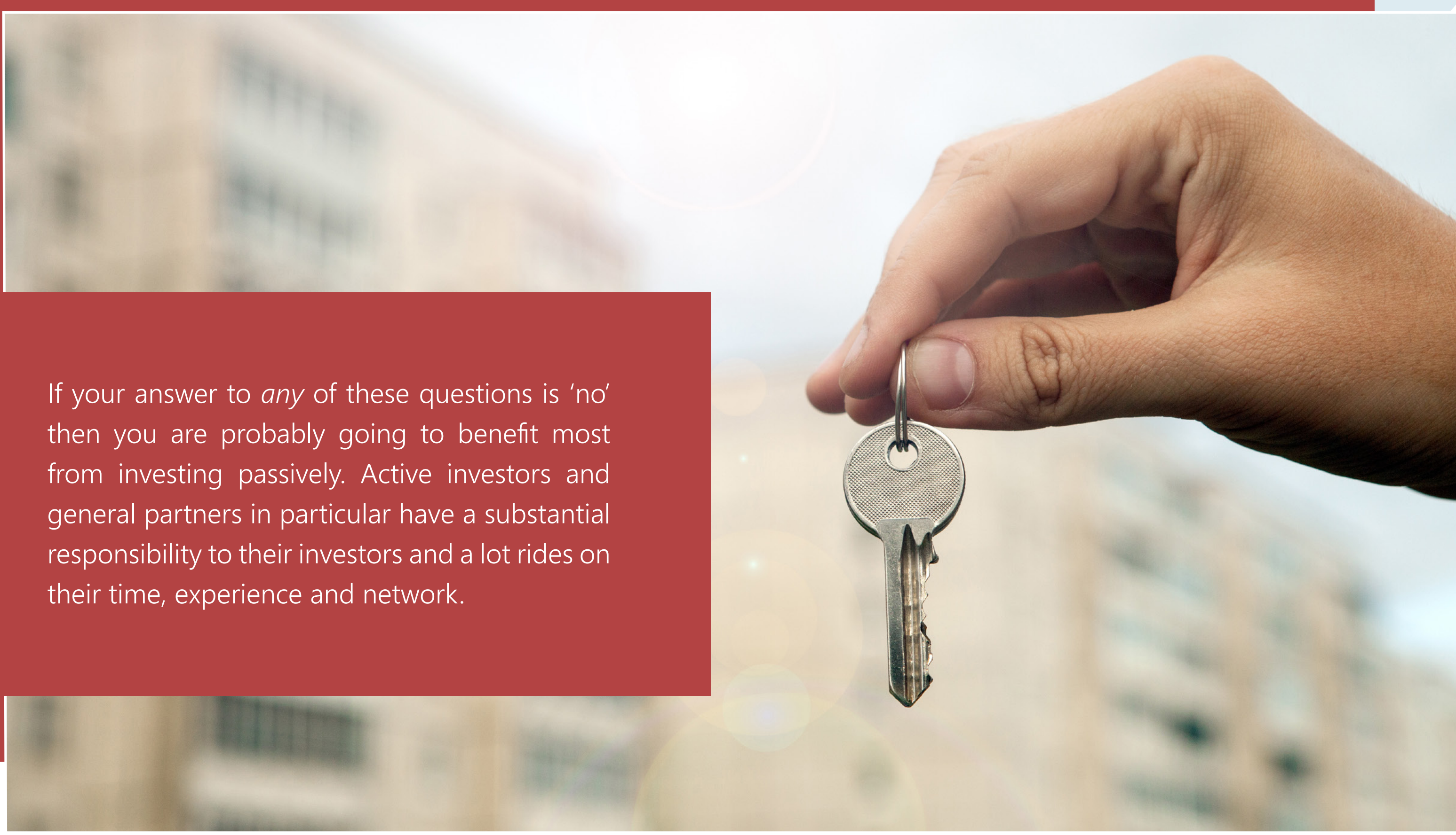
PASSIVE VS ACTIVE

INVESTING

Which investing approach best suites you? Ask yourself these questions:

- Do I know how to find multifamily real estate deals on my own?
- Do I know what to look out for in a multifamily real estate deal?
- Do I have a network of accredited and sophisticated investors to back new deals?
- Do I have access to reliable and qualified legal, accounting, property management professionals?
- Do I have time in my day-to-day life to plan and oversee major new investments?

If your answer to *any* of these questions is 'no' then you are probably going to benefit most from investing passively. Active investors and general partners in particular have a substantial responsibility to their investors and a lot rides on their time, experience and network.



01

PASSIVE INVESTING

FREQUENTLY ASKED QUESTIONS

WHAT IS MULTIFAMILY REAL ESTATE?

Multifamily real estate is the official classification for buildings that contain more than one legal housing unit. This can be anything from a small duplex to a huge apartment development with hundreds or thousands of units.

WHAT IS AN ACCREDITED INVESTOR?

As of the date of this publication, The SEC defines an Accredited Investor as an individual with a net worth exceeding $1 million, or an earned income exceeding $200,000 in each of the prior two years and a reasonable expectation of the same for the current year.

Because we do not represent the SEC, it's important that you verify the details of any relevant SEC regulations in **their own publications**.

WHAT IS A SOPHISTICATED INVESTOR?

Sophisticated Investors have sufficient experience and knowledge to judge the merits and understand the potential risks of any particular investment opportunity.

WHAT IS SYNDICATION OF MULTIFAMILY REAL ESTATE?

Syndication is the creation of a temporary group or organization that is entrusted with the management of one or several investments. Syndicates are commonly used for large transactions that would be hard or impossible for individuals to handle alone. Typical investment syndicates involve a partnership between a General Partner or Sponsor, and one or more Limited Partners or passive investors.

WHAT ARE THE RISKS OF INVESTING IN MULTIFAMILY REAL ESTATE?

Most smart multifamily investments are relatively low-risk, but there is no guarantee of returns or even assurance of protection for your principle investment even under a preferred return option. If any sponsor or general partner implies that there are no risks or that certain returns are "guaranteed" it's a serious red flag and you should be extremely wary in your dealings with them.

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THE TEAM

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WHAT IS A SPONSOR OR
GENERAL PARTNER ?

Multifamily investment deals are typically lead by a Sponsor (also known as the General Partner). Sponsors are arguably the most important single member of an investment team as they are responsible for finding potential deals and assessing their value, as well as assembling the other key team members and locating qualified investors.

YOUR SPONSOR DRIVES THE DEAL!

- Before any acquisition, your sponsor will analyze the offerings from a variety of brokers and determine which ones are worth pursuing further. From there, they will perform an initial comparative analysis of all these properties, and typically get second and even third opinions from other experts on the most interesting of these.
- Once the field has been narrowed, your sponsor will tour the most promising options with other members of the investment team and talk to property management services in the area to see what options are available.

- Only once all the puzzle pieces fall into place correctly will a trustworthy sponsor conduct their due diligence and make an offer on the property.
- Typically your sponsor has conducted analysis and due diligence on dozens of properties and toured several for any one deal they actually choose to invest in and extend an offering to you.
- When an offer is accepted, issues like an earnest money deposit and terms of the contract will need to be negotiated. Transaction attorneys on both sides of the deal will be firing a variety of details back and forth at each other during this stage of the process; determining whether a contract should include penalties for breach of contract, which specific documents the buyer will receive from the seller, and what additional legal expectations each party has of the other. This is where your sponsor's skills at negotiation and finding win-win scenarios is absolutely vital!

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- Once a contract has been executed, a much more stringent level of due diligence will be initiated. Contractors such as plumbers, electricians, and roofers will inspect the property to determine what capital expenditures might be necessary. Your team's attorney will probably review the property's title and other records to ensure there are no problems. At this point, the team will likely be sketching out a much more detailed set of documents projecting expenses, revenues, and a more precise financial outlook for the deal.
- During this part of the dealmaking, your sponsor is also juggling a plethora of other responsibilities such as reaching out to raise the necessary capital for the deal, getting underwriting for the deal's partners as well as the asset itself, getting property management in place and ready to take over operation of the asset. They will also personally be taking on additional financial risks by paying the associated fees such as loan applications, inspection fees, and retainers.
- Once a deal has closed, your sponsor's job is far from finished. Going forward, they will regularly review reports from property management, approve vendor contracts, and get any renovations and upgrades underway on the appropriate timeline.

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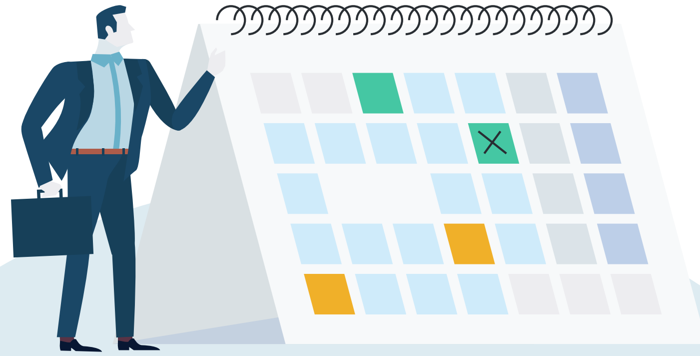
PASSIVE INVESTORS

(or Limited Partners) like you, who contribute capital to a deal, are essentially investing in the knowledge and expertise of the Sponsor. In return, Sponsors are investing massive amounts of time, their personal and professional network, and their accumulated experience – not to mention staking their reputation on the deal's success or failure.

Some accomplished investors have gone so far as to suggest that the quality of the sponsor is more important to the confidence you should have in a given deal than the underlying value of the property itself.

For this reason, one of the most important things you'll need to learn as a passive investor is how to vet a deal's sponsor. You're going to want to consider several factors about a deal's sponsor before you seriously consider investing in what they are offering. Charisma and excellent communication skills are definitely a big asset, but don't let personal charm blind you to the other assets they do or don't bring to the table!



When you're considering passive investment in a real estate deal, be sure to find out as much as you can about the sponsor, including:

- **How much relevant investment experience do they have?**
- **How much general knowledge of business and real estate do they have?**
- **What does their track record look like? No one can succeed 100% of the time, but an overwhelmingly positive track record means they definitely know their business.**
- **How much of their own money are they investing in this deal?**
- **How is the deal structured as far as returns to both Limited and General Partners?**
- **Do they have good references?**

Because of the complexity of organizing such deals, sponsors often receive larger returns on deals based on the value they bring to the table. This varies though depending on how each deal is structured and can be contingent upon the performance of the investment.

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WHERE DO PASSIVE
INVESTORS FIT IN?

> **"IT'S NOT HOW MUCH MONEY YOU MAKE, BUT HOW MUCH MONEY YOU KEEP, HOW HARD IT WORKS FOR YOU, AND HOW MANY GENERATIONS YOU KEEP IT FOR.** – Robert Kiyosaki

As you're probably aware, capital investors are a vital component of every investment team. Not only because deals require capital from a variety of sources in order to be successful, but because investors – even passive ones – serve as an important form of second opinions regarding a deal.

If a sponsor puts together a deal and none of the investors in his network are interested in investing, it could be a good indicator that the deal isn't a great prospect to begin with and maybe there's something about it that the sponsor is overlooking or hasn't considered.

If, on the other hand, you review a deal offering from a sponsor and it looks so great that you and five other capital investors jump on it right away, it can be an indicator that the deal has a pretty good outlook. This is typically the point at which a good sponsor will begin reaching out to qualified investors in their network to find the additional capital necessary to close the deal.

In our experience, passive capital investment is the best place to start out in multifamily real estate investment for several reasons:

- **Passive investment can give you a chance to learn more about the multifamily investment process by watching and working with your team.**
- **It allows you to learn more about multifamily investing.**
- **It gives you the opportunity to create substantial returns which enables you to take advantage of other deal offers that might come your way.**

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For many investors with already busy lives, a passive investment is simply the only kind worth considering. As a passive investor, you can continue to focus on your own priorities while your capital earns returns without distracting you from your life's other demands. When you find a good investment with a reliable General Partner, you are on-board to grow your money while everyone else does the hard work!

Most deals will have several passive investors in addition to its general partner (sponsor). Passive investment in multifamily syndications is a tremendous passive income building opportunity.

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HOW DOES MULTIFAMILY

PROPERTY MANAGEMENT WORK?

The importance of property management in a multifamily investment deal can hardly be overstated. This element of the investment team oversees maintenance, marketing of the development, keeps vacancy rates low, identifies opportunities for refurbishment of existing amentities or installation of new ones and ultimately oversees the implementation of upgrades.

Property management is probably the most important element of the investment team after the Sponsor, and excellent asset management can go a long way towards making a deal successful.

Property Management provides a wide range of functions:

- **Foremost is day to day operation of an asset**, which involves curating the rent roll, collecting rents, marketing the apartments to minimize vacancy, executing leases, organizing community activities, processing evictions, and responding to emergent maintenance issues. All of these functions lead to lower vacancy rates and higher returns for you! Property Management also oversees important projects like value adding improvements, supervising contractors and procuring materials.
- Your Property Manager will also provide **regular reporting on the operation of the asset**. They are generally very motivated towards ensuring the success of a project as their earnings are tied to the percentage of the overall rent roll. So when the apartment is performing optimally they are earning the most money possible for every involved.
- Property management typically **provides multiple layers of support to an investment team**. On-site managers supervise the property and provide essential support for residents. The on-site team reports to higher level project managers who ensure that operations are on track, and they in turn are supported by a regional manager with the experience to solve any problems that might arise.

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WHAT GOES INTO

LENDING FOR MULTIFAMILY INVESTMENTS ?

Almost every investment deal will require a degree of financing, and unlike conventional mortgages which typically require a down payment of 20% or less, these commercial loans often require more like 25%–30% down (depending of course on the lender and the specific conditions of a deal).

Some deals will be financed by a bank or commercial lender, others by private lenders. Most lenders are not actually using their own capital to fund your loan, but instead acquire or borrow the funds from another party or resell your loan to a government-backed institution like Fannie Mae or Freddie Mac. Banks and credit unions that have the ability to lend entirely from their own funds are considered Portfolio Lenders, and are often able to provide more flexible loan terms and standards to qualify for financing.

Whether your team works with commercial or private lenders or a combination of these, you are likely to be working with a loan officer or agent that deals exclusively with business lending and the complexity such deals involve. This may not always be the case, but these specialized agents have the experience and understanding to be able to work more flexibly with your team, making it easier to underwrite not only the property itself but all of the investment partners bringing capital to the table.

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OTHER

TEAM MEMBERS

Not all members of your investment team will be capital investors. However, they will all prove to be an invaluable member of the team, each serving their own important purpose.

Most multifamily investment deals will involve one or all of the following:

- Attorneys
- Lendors
- Inspectors
- Contractors

These important team members do not have the most glamorous jobs, but are vital to ensuring that deals are well planned, well thought out, and properly executed.

- **Attorneys** draft syndication documents and ensure that acquisitions go smoothly and that closing requirements are met by both parties. They also help keep projects in compliance with local, state and federal regulatory standards as well as SEC guidelines.
- **Commercial Lenders:** Offering a variety of financing options to get projects off the ground and running, Commercial Lenders are vital to every investment team. Commercial banks, mutual companies, private lending institutions, credit unions and hard money lenders are all examples of financial groups that may provide commercial loan services.

  Commercial loan officers are lending professionals who specialize in working with borrowers, and can help lenders navigate the complexities of commercial borrowing and often serve as financial advisors to General Partners engaged in multifamily real estate syndication.
- **Inspectors** are another important element of any investment team and represent a substantial part of the due diligence process. Inspectors will typically spend several days checking each unit, plumbing, sewage, HVAC, electric, roofs, gutters, pools and parking areas. This "physical due diligence" establishes that the asset is in the expected condition and won't require major capital expenditures up front. If a problem is found with the property during inspection it gives the buyer an opportunity to walk away or possibly renegotiate over the cost of necessary repairs.
- **Contractors** do the work of physically improving and maintaining the property in a deal to achieve cap rate increases. Your sponsor should have contractors in their network with specialized multifamily experience that will ensure your deal meets its projected goals.

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INVESTMENT TEAM

FREQUENTLY ASKED QUESTIONS

WHAT SORT OF EXPERIENCE DOES THE GENERAL PARTNER HAVE?

This is the sort of thing you will want to find out from a General Partner when you first consider investing with them. Ideally you should ask not just about their successful deals, but specifically deals of the same class as the one you are considering. General Partners with more experience aren't the only good option, but if they have a decent track record it can signal a safer deal.

DOES THE PROPERTY MANAGEMENT HAVE A PROVEN TRACK RECORD OF PERFORMANCE MANAGING SIMILAR ASSETS?

Property Management plays such a key role in the performance of multifamily investment deals that you'll want to be extremely confident in their abilities. A Property Manager with extensive experience in making similar assets perform up to expectations is ideal.

HOW WILL I RECEIVE INFORMATION FROM THE INVESTMENT TEAM?

Knowing how and when you will receive important updates will help you communicate with the investment team. Whether they will be using specialized software to issue updates or sending these out via email on a regular schedule, you'll avoid stress and confusion by knowing exactly what to expect and where to look for information.

IS IT BETTER TO APPLY FOR FINANCING DIRECTLY WITH LENDERS OR GO THROUGH A COMMERCIAL LOAN BROKER?

Working directly through a lender may reduce wait times and up front fees on loan financing, however there can be substantial advantages to going through a broker. Brokers may be able to come up with innovative and unique ways to overcome obstacles to lending that borrowers may not be able to access on their own. Brokers are familiar with the minimum Debt Service Coverage Ratios (DSCR) and other conditions required by various lenders before being willing to underwrite a loan, and are able to connect borrowers to the right lender for their needs.

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EVALUATING OFFERS

EVALUATING OFFERS

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WHAT IS A PPM?

A Private Placement Memorandum (PPM) is a legal document that sponsors must provide to prospective investors when selling stock or other securities. When multifamily Sponsors offer individuals the oppportunity to invest in apartment syndications, they are in fact engaging in the activity of offering a security. PPMs are used in private business transactions when the securities are sold under legal exemptions of some kind, including multifamily syndications. They describe the company selling the securities and the terms of the offering as well as disclosing the risks and other important details.

Investors also commonly refer to a PPM as an "Offering Document" or simply an "Offering" and every serious investment offer must include one. Elements commonly outlined in an offering are:

Summary of Offering Terms

- **Risk Factors**
- **Description of Company and Management**
- **Use of Proceeds**
- **Description of Securities**
- **Subscription Procedures**
- **Exhibits**

A PPM provides details regarding fees, returns, the team's structure and the deal's time frame and business plan. We'll talk about some of these briefly on the following pages. Remember that every PPM is a little different and the more you know the better able you will be to determine if a deal is right for you.

There are several good sources online to learn more about PPMs and the kind of information you will find in them. One good place to start reading further would be Nolo.com, a free and extensive online library of legal forms, documents, books and ebooks, and software.

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WHAT KIND OF FEES

CAN YOU EXPECT?

There is no standard but some common fees you will encounter are:

- **Acquisition Fees: to compensate the sponsor for their time and effort in finding and organizing the deal**
- **Asset Management Fees: to pay for ongoing expenses of managing the company**
- **Refinance Fees: to fund value adding efforts or new construction**
- **Disposition Fees: to cover marketing, negotiation, and closing costs**

It's important to carefully review these fees and make sure they line up with your investment goals.

There is no hard rule regarding fees, but a rough average for the deal acquisition fee at closing should probably fall somewhere around 1% – 3%. Monthly asset management fees will probably also fall in roughly the same range: 1% – 2%.

These figures aren't meant to show top and bottom ends of the spectrum, but rather the middle range of what you can normally expect to see. So, for example, don't automatically assume that a 5% acquisition fee is a bad deal: it might be part of an otherwise favorable fee structure. You should evaluate all fees within the context of each individual deal, the deal's hold term, projected returns and what kind of multiple you expect to see on your principle at time of sale.

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HOW RETURNS ARE **DISTRIBUTED**

Returns are what investing is all about! This is what you will be expecting to earn from your investment so it's another element of the offering that should never be overlooked. It would be impossible to cover all the different ways syndicates structure their returns, but to give you an idea, a few common structures are:

- **Straight Equity Split, which can be anything from 60/40 to 80/20, with the investor's share represented by the larger amount, the sponsor's share by the smaller.**
- **Preferred Return with Equity Split, where the investor receives a set payout before equity splitting sets in.**
- **Waterfall Returns, can be structured in different ways, but typically involve return levels being tied to specific investment performance markers.**

Every sponsor structures deals a little differently, depending on their own experience as well as the specifics of the deal. It's best to consider the whole deal and not get too hung up on split structures. As you'll read in the next section about Timelines, there are *more factors* to consider than return structures alone, like what the final multiplier on your equity investment is going to look like in the end!

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RISKS & REPORTING

Make no mistake – every worthwhile venture involves risks. Be wary of anyone who tells you their deal is risk-free or that returns are guaranteed. Even with an extremely high degree of confidence it's impossible to know when there will be a hurricane, recession or change in rental legislation that negatively affects an otherwise perfect multifamily investment project.

Your investment team should regularly share information about important changes as well as progress towards reaching certain benchmarks. Staying up to date with reports from your Sponsor and other members of your syndicate will help you make informed decisions about the current risk level in a project.

It's typical for sponsors to provide a monthly or quarterly update on financial performance, vacancy / occupancy numbers, capital expenditure projects and future plans for the property. These updates will usually be accompanied by financial statements showing profit and loss and actual vs proforma numbers.

If you're not sure what the reporting schedule is for an offer, or if you feel like it has been a while since you've gotten an update on a current investment, just talk to the General Partner. Typically it's not a problem for them to forward you the most recent information and let you know when to expect more updates.

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INVESTOR
TIMELINES

Every investment plan is different, and each will have its own time frame or hold time which can range from several months to over a decade. Because your principal will be tied up for a period of time, it's very important to consider the timeline set out in each offering and make sure that it's right for you and your investment needs.

DEAL A:

- **B Grade Asset**
- **Major Capital Upgrades**
- **Resell in 18-24 months**

DEAL B:

- **A Grade Asset**
- **Minor Improvements**
- **Improved day-to-day opperations to improve returns over a 10-year hold.**

Which of these offer examples most interests you?

What specifics about it are most appealing to you?

Which of these deals match up well with the concrete goals you've laid out?

If these questions seem straightforward at first, you may want to look a little deeper. We want you to understand that timeline is actually a fundamental factor in what that equity increase is going to look like in the end.

> **IN SUMMARY, shorter hold times of 2-5 years will typically result in a lower equity multiple return on investment. Longer hold term investments, which usually range from 8-10 years, will typically return a higher equity multiple to investors.**

Longer term = Higher return

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03

BUSINESS **PLANS**

Each offering will also have a unique business plan detailing how the team plans on achieving estimated levels of performance. Business plans can be anything from buying and holding a turnkey property, to adding value through minor improvements and remodels or making major upgrades and capital improvements in an effort to improve the property's Net Operating Income (NOI). The details of an offering's business plan can tell you a lot about the level of risk each investment entails, so don't skimp on spending time reviewing this part of the offering.

Because not every deal is right for every investor you should always keep your individual investment goals in mind. If the minimum investment for a deal is too large for your portfolio then that deal is definitely not for you. Likewise, if your portfolio is already rather large, then small deals might not be an efficient application of your time and resources. And speaking of time, many of us are more concerned with conserving our personal time than with getting a slightly better return rate. This is why passive investment is often preferable to a deal that you can only make happen by taking over one of the key roles (such as property management oversight or sponsorship) yourself.

Make sure that when evaluating a deal, you do so with your long-term goals in mind. It needs to work for you personally and move you one step closer to achieving your own financial goals or you may not be very happy with the results even if those are technically positive.

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03

YOUR GOALS VS
YOUR OPPORTUNITIES

In the end, you should only consider deals that are going to help you meet your needs as a passive investor and that line up well with your financial goals.

Questions to ask as you read through any PPM:

- Can I sell my interest and leave this deal early?
- What happens if the deal doesn't have enough capital?
- What is the compensation structure?
- What does the payout schedule look like?
- What are the terms of the financing?
- What kind of reports and updates will I get after closing?

Evaluating whether an investment fits your goals:

- What is the amount the investment?
- How long will my investment be tied up?
- Do I have confidence in the General Partner?
- Do I have confidence in the business plan?
- Does this project align with my views and vision?
- Will this investment advance my progress towards my goals?
- Do I feel comfortable with the risks outlined in the PPM?

We delve more deeply into the various fees in other publications and on our investment blog so be sure to sign up for those.

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03

EVALUATING OFFERS

FREQUENTLY ASKED QUESTIONS

WHAT IS "REGULATION D?"

Regulation D under the Securities Act of 1933 allows companies to raise capital through the sale of equity or debt securities (or public/private stocks) without registering those securities with Federal or State agencies. However, the regulation does require that a Private Placement Memorandum is filed for most new multifamily investment offerings.

IS A PPM A LEGAL DOCUMENT OR A MARKETING DEVICE?

Both. It's a document required by the SEC for all unregistered private offerings, and because it contains all of the vital information about a given deal it is also widely distributed by General Partners to potential investors as a confirmed fact list for an offer to invest.

SHOULD I HAVE MY LEGAL COUNSEL REVIEW PPMS I'M CONSIDERING?

Yes. In most cases sending offering documents to a lawyer or trusted adviser is highly recommended. Not all PPMs are created equal, and if the document is poorly written, fails to fully outline risks or other required items, or otherwise fails to meet SEC standards it might mean that there is something wrong with the deal itself. A legal professional may also catch details about terms and fees that you overlook.

WHAT IF THE INVESTMENT SEEMS TOO RISKY?

If the risks outlined in an offering leave you concerned or worried, walk away. General Partners typically do not want investors who are not confident in the deal, and investors should not put their capital at risk in a deal that they are not comfortable with. Risk tolerance is different for everyone. Don't feel bad, just move on and look for a deal more suited to the level of risk you are comfortable with.

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—04

QUALIFYING MARKETS

04

MARKET
ANALYSIS

QUALIFYING MARKETS

Markets are dynamic, organically evolving systems in which trade occurs. Even very stable markets are constantly shifting under the competing pressures of supply and demand as well as technology, currency, regulation, politics and sometimes even weather and the multifamily real estate market is no different!

When you evaluate any deal you should be looking very closely at the market where the asset in question is physically situated. You'll need to study the attractiveness and unique dynamics of the particular market in question from the specific perspective of multifamily housing.

KEY FACTORS in Multifamily Market Analysis:

- Location
- Growth
  - Population
  - Average Household Income
  - Rental Prices
  - Rental Occupancy
- Employment
  - Wages
  - Employer Diversity
  - Employer Outlooks
- Market Cycles & Timing
- Historical Data
- Net Absorption & Overbuilding

On the following pages we talk a bit about these factors in some detail, and we strongly encourage you to do additional research on methods of evaluating multifamily real estate markets. At the end of this publication we've included a list of helpful online references for researching markets.

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LOCATION, LOCATION

LOCATION

All real estate (including multifamily property) is bound to location, and there are over 400 Metropolitan Statistical Areas (MSAs) listed for the US alone. MSAs are defined and determined by the US Office of Management and Budget (OMB) and designate a geographical region with a substantial population center, together with adjacent communities that are highly integrated with the region's center both economically and socially.

MSAs can tell you a lot about the market an asset is in, but it's not enough to look only at the city. Each neighborhood within a city (submarket) has a unique market profile and can be strongly affected by its surrounding areas.

It is important to be thorough in your research. Even when it seems like every multifamily real estate market in a region is currently seeing strong growth, there may be outliers. Is the offered asset in a neighborhood that is bucking regional trends? What positive and negative factors could be affecting it and are those likely to persist in the long term?

Studying Neighborhoods:

- How do the schools stack up?
- Is there a college or university nearby?
- What are the crime statistics?
- Are there landfills or heavy industrial activities nearby?
- Is there good freeway access?

— 04

MARKET
GROWTH

Growth is a straightforward indicator for multifamily markets. First of all, you're probably going to want to be sure that the asset being acquired is located in an MSA that already boasts a substantial population.

You'll then need to determine whether the market has seen an increase in general population, in job growth and average household income. You'll also want to look specifically for growth in rental occupancy rates and rental prices.

Also be on the lookout for the opposite of growth – shrinkage. This may be a negative indicator unless there is an identifiable cause that you are confident will remit over time. Population is always fluctuating, so healthy metropolitan areas should be seeing at least moderate growth.

Growth indicators are extremely important to planning multifamily real estate syndications. They tell you a lot about a market's likelihood to sustain good returns on your investments. Because a market's vitality directly affects what it is possible for people to pay for rentals, a growing market will typically equate to solid returns for your investment!

Market Growth | Ask Yourself These Questions:

- Has the market recently seen substantial population growth?
- How does that growth stack up to the recent growth seen in neighboring areas?
- Is job growth keeping pace with population growth?
- Does wage growth compare favorably with that in neighboring areas?
- Are rental occupancy rates growing or shrinking?
- Does rental price growth in the area compare favorably to growth rates nationally?
- Are major employers in the area seeing appreciable growth?

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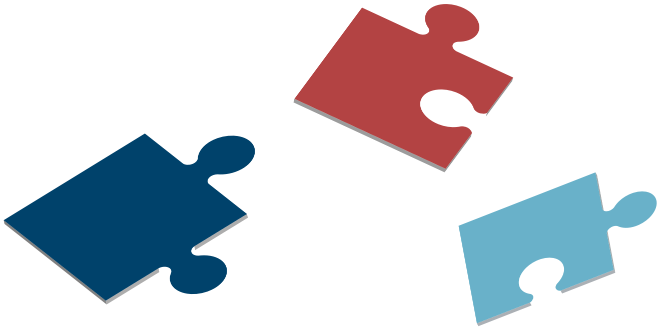
MARKET

EMPLOYMENT



Studying the employers in a potential investment's local market is key to determining an asset's long-term potential. It's not enough for there to simply be "enough" jobs. Ideally you would *want to see* a diversity of job providers so that if market trends or new regulations cause one industry to leave the area, your residents will be able to find other good jobs.

You will want to determine whether the companies creating most of the jobs in the area are providing high-quality employment with competitive wages and benefits. Stable, long term employment options signal a better outlook for your investment. Under-employed and under-paid populations are not ideal for most value add projects. Populations with access to good employment and health care opportunities are capable of supporting most kinds of multifamily investment projects.

A market which has recently seen a major new employer move in will have more available jobs and greater demand for high-quality residences. This environment is perfect for value add and other investment projects!

A lower quality property in a neighborhood that has recently seen new business development or other quality of living enhancements could be a perfect opportunity, since it can be acquired at a good price and improved to match the market's new rent price standards resulting in huge gains.

The more you know about the relevant companies or industries, the better you will be able to predict what the location's employment outlook is. If an area's job market is overly dominated by a single employer, investigate them carefully. Make sure they haven't recently made big job cuts elsewhere or suffered major litigation losses – these could be signs of a riskier outlook.

A Word About Employer Diversity

In general, you should avoid markets in which 50% or more of the jobs in the community are provided by a single employer.

Ideally, you would like to see three to four medium to large businesses providing those jobs, otherwise the market in question is going to be more vulnerable to unforeseeable changes in potential downturns in the market.

A market where no more than 30% of the jobs are from one major employer and where there are at least a few other good employment options is a robust and stable multifamily market with job diversity.

— 04

MARKET
CYCLES & TIMING

Every neighborhood is also affected by the ebb and flow of markets that govern the key employers in the area. If the community is heavily dependent upon a petroleum refinery and the petroleum market is facing a downturn for the next few years, you may end up with increased vacancies and diminished returns when overtime hours disappear for a while. Whether or not residents are aware of the market forces affecting them, you as an investor need to be.

Timing is almost as important as location to you as a multifamily investor. Multifamily real estate markets – like the economy as a whole – go through natural cycles. No one market is exactly like another, and because there are so many local and other factors involved, some submarkets don't match broader trends.

Market cycles can be a very difficult thing to gauge. They rarely make or break an investment, but investing at the right time will mean superior returns for everyone involved. Investing at the wrong time, however, could leave your capital frozen in an overpriced asset in a struggling economy. No investor wants to be in that situation.

Your investment should have a solid business plan that takes into account where a market currently is in its cycle as well as where it will be going. The plan should be based on known indicators and a thorough understanding of the local markets.

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— 04

HISTORICAL
DATA

When examining a deal, make sure your sponsor is using historical data to make his or her projections. A market might look great at the moment but historical statistics may show the current numbers to be more of a fluke than a trend. The longer the asset will be held, the more important it is to be aware of the historical data surrounding a market.

That said, the past is never a perfect prediction of the future. Historical data on growth and the local economy can be very informative in your research, but don't make the mistake of assuming that next year will look just like last year! Real estate markets – like every other market – see up and down fluctuation over time.

The key is looking at long term trends and interpretting them so you can get a better understanding of the direction in which the market will probably move.

Use all current resources available to try and identify specific reasons that a neighborhood looks likely to either flourish or fail. Don't just settle for vague projections or market statistics from three years ago.

A real danger for many investors evaluating market performance is making the assumption that the market will perform better than it has historically. While superior performance in the future is possible and something worth hoping for, it should never constitute a factor in a project's business or financial planning.

For example, if vacancy rates have historically averaged around 4%, your investment deal shouldn't base its projections on a presumed future rate of 2%. This is true even if there are studies projecting a lower rate or the city recently cut a new deal with a major employer that it expects to lower vacancy rates citywide. Even in cases where such projections do pan out, it may only be a temporary change.

04

QUALIFYING MARKETS

FREQUENTLY ASKED QUESTIONS

HOW DO YOU QUALIFY A MARKET?

Your General Partner should identify any relevant market factors such as changes in unemployment rates, population age distribution, job diversity, supply and demand and other factors. Make sure you understand which factors the General Partner is considering and make sure they are covering all the important aspects of the market to determine if the offering meets your needs.

HOW RELEVANT ARE CRIME STATISTICS?

Anything which negatively impacts the quality of life for residents of your investment property can become a serious problem. All communities suffer a degree of criminal activity but if a market has crime statistics worse than surrounding areas it will almost certainly impact your returns over time. Crime can reduce market rent rates and increase vacancy rates, not to mention creating a risk of vandalism and damage to capital assets.

HOW DOES A MARKET'S MEDIAN INCOME AFFECT MY INVESTMENT?

People typically spend 25% – 35% of their annual income on housing costs, so knowing a market's median income can give you an excellent insight into market rent rates and potential revenues for an asset. You may want to check with the United States Census Bureau, which keeps detailed information on median incomes across the country.

WHAT CAN LOCAL RETAILERS TELL US ABOUT A MARKET?

It's worth noting that successful chain stores such as Starbucks do extensive market research before entering a market or selecting the site for a new outlet. Most popular franchise shops also have a well-funded site selection program in place to determine whether the population in an area will support their business. By studying where Starbucks and other high-end retailers and eateries deploy their branches within a market, you can take advantage of their huge budgets to learn more about that market and its submarkets.

—05
NEXT STEPS & RESOURCES

05

NEXT STEPS

READY TO START?

If you're ready to learn more about adding multifamily real estate to your investment or retirement portfolio, head to our website and fill out our **Interest Form**. This will let us know more about your reasons for being interested in multifamily real estate investment, your level of experience in investment and finance, and a little bit about your goals.

When you fill out the Interest Form, you can also opt in to our newsletter which has more information about our organization and investors, current events affecting the multifamily market, and more quality resources for learning more about multifamily investing.

Once you've done that we'd also love to talk to you in person!

Our goal is to develop relationships with serious investors and sponsors around the country and world. If you're seriously motivated to get involved as an accredited or sophisticated investor, just **schedule a phone call** with us today and one of our senior partners would be happy to talk with you about your investment goals and interests.

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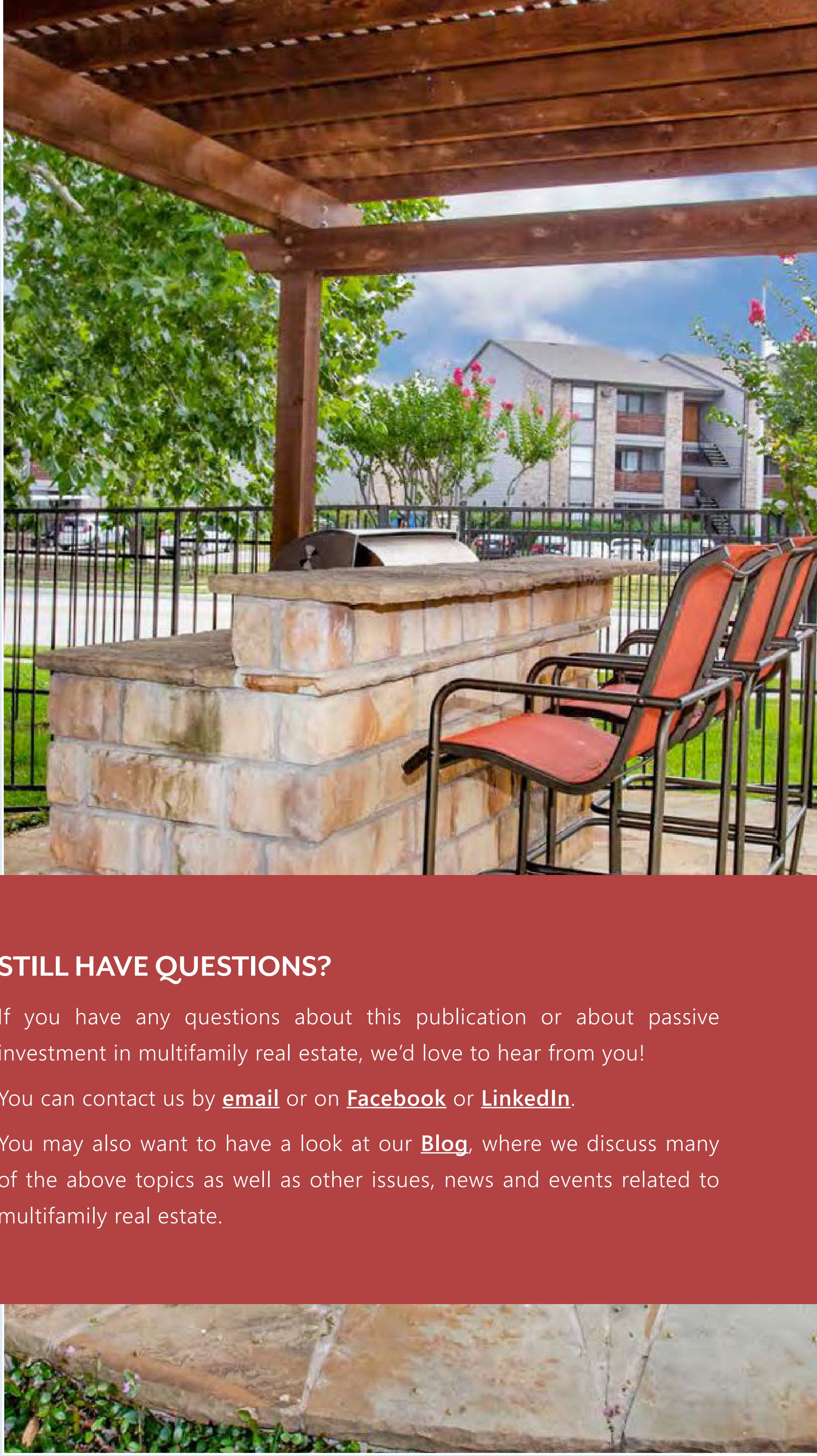

STILL HAVE QUESTIONS?

If you have any questions about this publication or about passive investment in multifamily real estate, we'd love to hear from you!

You can contact us by **email** or on **Facebook** or **LinkedIn**.

You may also want to have a look at our **Blog**, where we discuss many of the above topics as well as other issues, news and events related to multifamily real estate.

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— 05

GLOSSARY OF
RESOURCES

LEARNING AND NETWORKING

→ Bigger Pockets

→ Investopedia

→ Forbes Real Estate Council

→ Connected Investors

→ Meetup.com

→ Facebook Multifamily Groups

→ MultifamilyInvesting Podcasts

MARKET RESEARCH

→ CBRE.us

→ NCREIF.org

→ Marcus and Millichap

→ Yardi Matrix

→ Integra Realty Resources

→ City-data.com

→ Census.gov

→ Neighborhood Scout

→ US Bureau of Labor Statistics

→ BestPlaces.net

→ Co-Star

→ Loopnet

RENTS

→ Zillow.com

→ Rentometer Pro

→ Apartments.com

→ Trulia.com

CRIME

→ Lexis Nexis

→ Crimereports.com

→ Spotcrime.com

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05

GLOSSARY OF

USEFUL TERMS AND ABBREVIATIONS

ACCREDITED INVESTOR
A person able to invest in Syndications by satisfying one of the SEC's published requirements regarding either net worth or gross income. As of publication, to qualify as an accredited investor, an individual must have a net worth of $1 million dollars or an annual gross income of $200,000 ($300,000 for joint incomes) over the past two years with a reasonable expectation of equal or greater earnings in the current year. Always check current SEC publications to confirm details for accreditation.

ACQUISITION FEE
The fee charged by a Syndicate used to pay commissions and cover expenses incurred during the process of acquiring a new asset.

AMORTIZATION
A plan to periodically make payments on a specific sum of money over a period of time with a concrete timeline after which the entire sum in question will be paid off.

APPRAISAL
A report created by a certified appraiser that precisely estimates the value of a real estate asset.

ASSET MANAGEMENT FEE
The fee charged to cover the costs of day-to-day management and operation of a multifamily asset.

AVERAGE ANNUAL RETURN (AAR)
A figure commonly used to report on an investment's historical returns. This figure is found by dividing the total returns over the life of the investment by the number of years your capital has been invested.

BAD DEBT
The total amount of uncollected rent owed by a tenant when they vacate a multifamily residential unit.

BRIDGE LOAN
A mortgage loan used to cover a period while a borrower seeks permanent financing. These are typically short term loans (6 – 24 months) with higher interest rates than standard mortgages and are nearly always paid on an Interest Only basis. Bridge loans are also referred to as gap financing, interim financing.

CASH FLOW
Indicates an asset's total revenue remaining after all expenses. This figure is found by subtracting all operating expenses and debt service payments from an asset's Effective Gross Income.

CASH ON CASH RETURN (COC)
This figure tracks a syndicate's actual rate of return on every dollar invested. Find this by dividing the total amount of cash invested by the asset's actual before-tax Cash Flow.

CLOSING COSTS
Expenses additional to an asset's purchase price that buyers and sellers pay to complete a multifamily real estate transaction. Such expenses typically include appraisal fees, loan origination fees, discount points, title searches, title insurance, surveys, taxes, fees for recording deeds and other documents, and credit report charges.

CONCESSIONS
In order to entice new tenants to move in, credits are occasionally given to offset expenses like rent, application fees, move-in fees, and other costs incurred by tenants.

COST SEGREGATION STUDY (CSS)
This identifies and discriminates personal property assets from capital assets and is used to shorten Depreciation time. Typically used to reduce current income tax obligations.

DEBT SERVICE
All expenses incurred in repayment of debts.

DEBT SERVICE COVERAGE RATIO (DSCR)
Indicates the amount of cash flow available to pay currently outstanding debts. Find this by dividing your Net Operating Income by your total amount of Debt Service.

DEPRECIATION
The reduction in an asset's current value caused by passage of time through weathering, use and general wear and tear.

DISPOSITION FEE
The fee charged to cover all the costs of asset disposition such as marketing, negotiation, and closing.

DISTRIBUTIONS
The portion of profits rendered to Limited Partners invested in a deal. These can be made monthly, quarterly, annually or at other intervals as dictated by a deal's PPM.

EARNEST MONEY DEPOSIT (EMD)
The portion of a purchase price (typically 1%–5%) paid to a seller up front to show a prospective buyer's good faith and demonstrate their intent to buy.

EFFECTIVE GROSS INCOME (EGI)
An asset's Gross Potential Income minus vacancy losses and collection expenses.

EQUITY INVESTMENT
This is effectively the initial cost of purchasing an asset and includes financing expenses, closing costs, operating costs, capital expenditures and any fees charged by a syndicate's General Partner.

EQUITY MULTIPLIER (EM)
The rate of return on a capital investment that compares Net Profits to an Equity Investment figure. This is found by adding Cash Flow, Sale Proceeds and the remaining Equity investment at time of sale and dividing their sum by the Equity Investment.

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05 GLOSSARY OF USEFUL TERMS AND ABBREVIATIONS

ENVIRONMENTAL SITE ASSESSMENT (EDR)
A report detailing existing and potential environmental contamination liabilities associated with an asset. Environmental due diligence typically begins with conducting a Phase I ESA.

GENERAL PARTNER (GP)
A partnership's owner whose investment has unlimited liability. GPs manage investments and are active in day-to-day operation of a syndicate's business. In multifamily syndication GPs are also referred to as the Sponsor or Syndicator.

GROSS POTENTIAL INCOME (GPI)
The total revenue an asset would generate if every unit were leased at current market rates.

GROSS RENT MULTIPLIER (GRM)
Indicates the number of years a property would take to pay for itself through gross rents collected. Found by dividing the selling price (or appraised value) by gross annual rents.

INTEREST ONLY (I/O)
Typically refers to a period during which a borrower's monthly payments cover only the interest portion of a mortgage.

INTEREST RATE (IR)
The cost of borrowing funds from a lender, over and above repayment of the loan's Principal.

INTERNAL RATE OF RETURN (IRR)
The return rate required to bring the sum of all future "uneven cash flow" (cash flow, sales proceeds, payments of principal) equal to an initial Equity Investment.

LEASE
A contractual agreement between an apartment's ownership (or management) and a tenant to rent a specific unit for a specific period of time. This contract should detail all terms of occupancy and conditions of payment.

LETTER OF INTENT (LOI)
A non-binding agreement between two or more parties stating their desire to enter into a transfer of real property.

LIMITED PARTNER (LP)
A partner whose investment liability is limited to the extent of their ownership share. In multifamily real estate syndication this denotes the Passive Investor, who funds a portion of the project's capital investment.

LOAN TO VALUE (LTV)
Indicates an asset's value compared to the amount of the loan used to purchase it. Find this figure by dividing the Mortgage lien by an asset's appraised value.

LOAN TO COST (LTC)
Indicates the ratio of a loan to a building project's cost. Determined by dividing the Mortgage lien by the asset's appraised value plus the cost of the building project.

LOSS TO LEASE (LTL)
This indicates lost revenue due based on differences in rental rates. Calculate this subtracting actual rent from Gross Potential Rent and divide the difference by the asset's Gross Potential Rent.

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05 GLOSSARY OF USEFUL TERMS AND ABBREVIATIONS

MARKET RENT
The amount of rent charged by similar apartment communities located in the same area as an asset. This is a good indicator of what a landlord can reasonably expect tenants to pay to occupy units.

METROPOLITAN STATISTICAL AREA (MSA)
A geographical region with a substantial population center, together with adjacent communities that are highly integrated with the region's center both economically and socially. MSAs are defined and determined by the US Office of Management and Budget (OMB).

MORTGAGE LOAN
A long-term, Amortized loan from Fannie Mae or Freddie Mac. Mortgage durations are commonly 3, 5, 7, 10, 12, 15, 20, 25, 30 or 40 years.

MULTIFAMILY DEAL
A deal in the multifamily context is any syndicated or coordinated effort to purchase a major asset. In multifamily investing this is usually a collective effort to buy a commercial, multifamily real estate development. Deal's are typically represented by a PPM.

NET OPERATING INCOME (NOI)
Net Operating Income is a company's income after operating expenses are deducted, but before deducting income taxes or interest.

NET ABSORPTION
A measure of demand for commercial real estate derived by deducting the amount of commercial space vacated by tenants from total space currently leased.

NON-RECOURSE
The lender's right to attach personal assets above and beyond proffered collateral when a borrower defaults on a loan only in cases of gross negligence, fraud or other conditions.

NON-STABILIZED ASSET
An apartment community with occupancy rates below 85%. Non-stabilized assets rarely qualify for standard Mortgage financing and instead require a Bridge Loan to initially acquire.

OCCUPANCY (ECONOMIC)
Indicates the current rate of paying tenants by comparing your total possible revenue to your actual revenue. This figure is found by dividing your effective gross payments by your gross potential payments.

OCCUPANCY (PHYSICAL)
Indicates the proportion of units currently occupied. You can find this figure by dividing your total number of occupied units by the total number of units the asset contains.

OFFERING
An offering is a solicitation to join an investment on a particular deal and is represented by an official Private Placement Memorandum.

OPERATING AGREEMENT
A document outlining various responsibilities and ownership shares for all General and Limited Partners in an apartment Syndication.

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05 GLOSSARY OF USEFUL TERMS AND ABBREVIATIONS

OVERBUILDING
The building of too many of a particular type of development in a neighborhood, city or region.

PASSIVE INVESTOR
See Limited Partner.

PREFERRED RETURN
A contractual entitlement to first return of profit Distributions up until a certain threshold rate of return is met by an asset. These Preferred Returns occur before Distributions are made to other stakeholders.

PREPAYMENT PENALTY
Many mortgages include clauses stipulating during a certain period the lender is entitled to assess penalties on any payments made directly to loan principal over and above agreed payments.

PRINCIPAL
The amount of currency borrowed on a loan or put into an investment.

PRIVATE PLACEMENT MEMORANDUM (PPM)
Also known as an "Offering," a PPM must be provided to potential investors in a private investment deal describing the organization, fees, risks and expected outcomes.

PRO FORMA
A projected budget with line itemized for an asset's revenue and expenses over the subsequent 12 months or 5 years.

PROFIT AND LOSS STATEMENT
(P&L or T-12)

Also sometimes referred to as a trailing 12 month profit and loss statement, P&L, operating statement, or T-12, this document contains detailed information about the revenue and expenses of an apartment over its past 12 months of operation.

PURCHASE AND SALE AGREEMENT (PSA)
An agreement finalizing all terms and conditions in the buying and selling of an asset according to terms originally outlined in the Letter of Intent.

PROPERTY MANAGEMENT
Property Management is an organization or group that oversees the operation of residential, commercial, or industrial real estate on behalf of the property owner in order to preserve or increase property value while generating income.

RATIO UTILITY BILLING SYSTEM (RUBS)
This refers to a method of calculating an average resident's utility bill based on occupancy, apartment square footage, number of beds, common area usage and any other relevant factors.

RECOURSE
A lender's right to attach personal assets beyond proffered collateral if a borrower defaults on a loan.

05 GLOSSARY OF USEFUL TERMS AND ABBREVIATIONS

RENT ROLL
This document details information on each unit in an apartment community and typically includes data such as unit numbers, unit types, square footage, tenant names, market rents, actual rents, security deposits, pets and vehicle information, move-in dates, outstanding balances for any tenants and start and end dates for leases. Often maintained as a spreadsheet this document gives a great overview of what's going on with an apartment.

SECURITIES & EXCHANGE COMMISSION (SEC)
The US Securities and Exchange Commission; a regulatory body tasked with enforcing federal securities laws, proposing new rules, and regulating stock and option exchanges, electronic securities, and many other forms of investment.

SOPHISTICATED INVESTOR
A person determined to have investing knowledge and experience sufficient to competently weigh the risks and merits of a private investment opportunity. Sophisticated Investors do not have to meet the same financial requirements as Accredited Investors do.

SPONSOR
The member of a syndicate who organizes team members, coordinates all moving parts of a deal, and ensures that deadlines are met and filings occur on time. See also General Partner.

SUBSCRIPTION AGREEMENT
A binding agreement by the asset's ownership to sell a specified number of shares to a Limited Partner at a specified price and a commitment by the named Partner to pay that price.

SUBMARKET
A finer geographical subdivision of a particular market or MSA.

SYNDICATE
A syndicate is team or alliance of investors and/or other financial entities formed to handle a large transaction that would be difficult to handle individually.

UNDERWRITING
The process of researching and assessing the risk of a particular asset in order to determine whether it can be financed and under what conditions.

VACANCY LOSS
The amount of potential revenue lost due to unoccupied units in an apartment community.

VACANCY RATE
The proportion of unoccupied units compared to an asset's total units. Find this figure by dividing the number of unoccupied units by the total number of units.

WATERFALL RETURNS
A return structure in which capital gained by the syndicate's fund is allocated between Limited Partners and General Partners in a way that changes as certain performance benchmarks are met.

YIELD MAINTENANCE
A prepayment premium designed to allow lenders to attain the same yield as if the borrower made all scheduled interest payments up until a loan's date of maturity or amortization.

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THANK YOU
FOR READING

We hope you've enjoyed this resource and we look forward to working you.

Until then – safe investing!

GET IN TOUCH

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