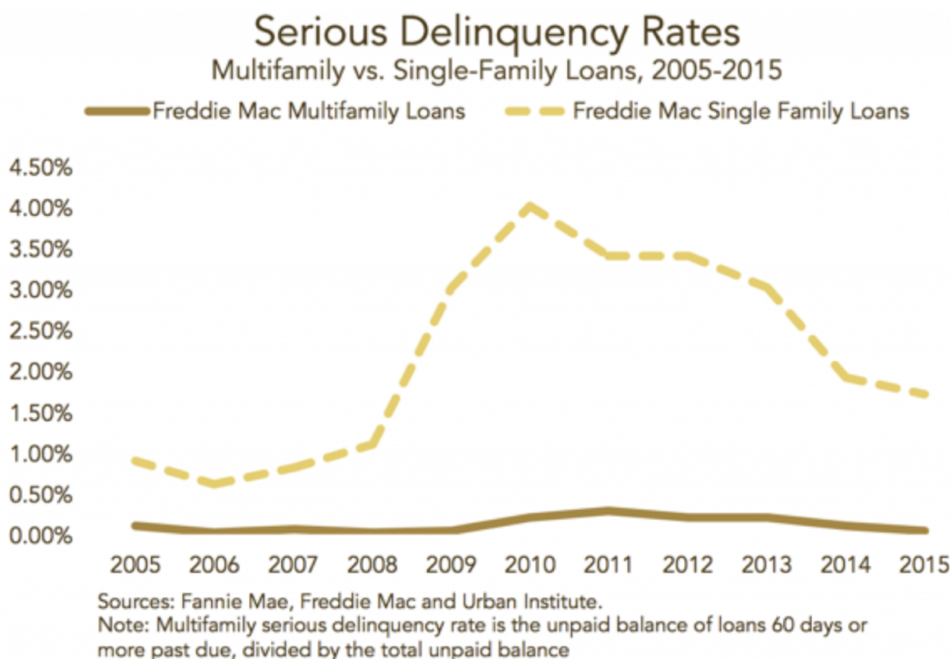
Secrets to Syndication

First, I want to thank you for taking action and making the decision to invest in the greatest wealth building tool available. Through this report you will learn why apartment investing is one of the best investments, with the highest returns, followed by the lowest risk. We focus on the strategy of syndication, in order to buy large apartment buildings that will create financial freedom for you and your family. With this report you will be armed with information to help take your investing to the next level. Let's dive in!

Why We Believe in Apartments

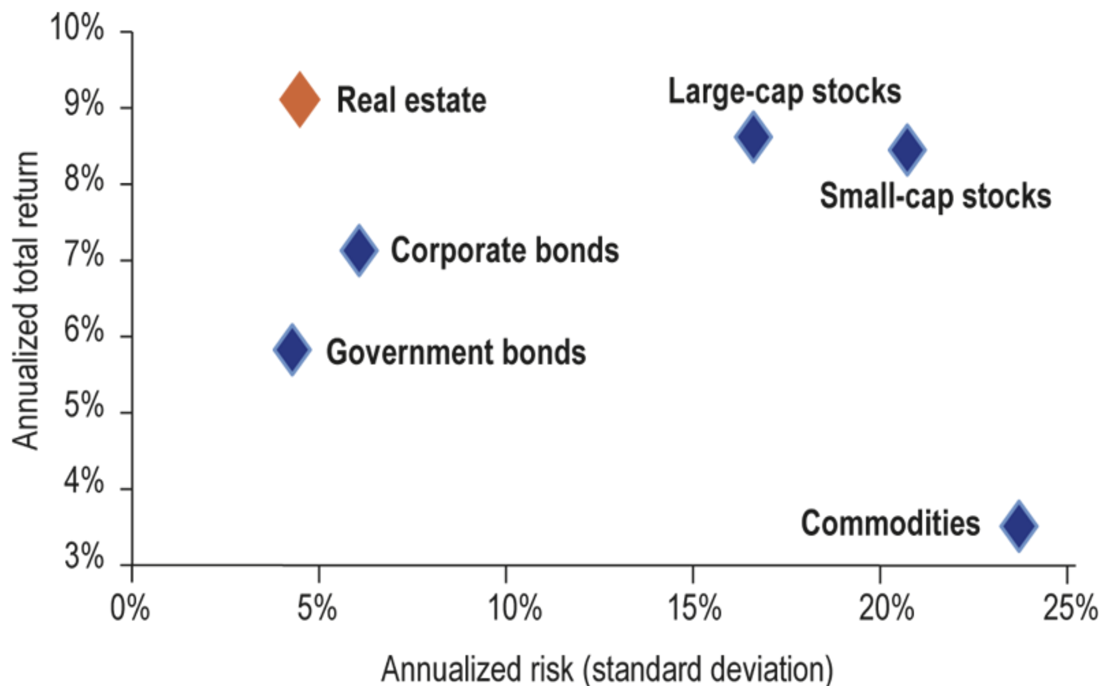
Venture D believes through its market research that the fundamentals are favorable for multi-family properties well into the future. The current demand being caused by the baby boomer generation, millennial generation, gen Z and the immigrant population along with the shift in home ownership percentage, is causing high demand for apartment living. We believe this trend in home ownership will continue into the foreseeable future, which will continue to put demand on Apartment buildings.

Multi-family is also very steady. When looking at the graph below you can see that during the recession around ½ of 1 percent of multi-family housing was 60 days+ delinquent. Only in the early 1990's did we see delinquencies of Multi-family above 1%. As compared to single family housing and other assets in general, apartments are a safe bet.



Low Risk and High reward

Commercial Real Estate has seen less volatility than most other asset classes. When you narrow it down to apartments in particular you will find that they are even less volatile. When looking at the chart below, you can see that Real Estate is only slightly more risky that Government bonds yet has higher yields than large cap stocks. This, to us, speaks volumes of the asset class that is real estate, especially apartment real estate. Very low risk with a very high return. Who doesn’t love that?



Supply / Demand:

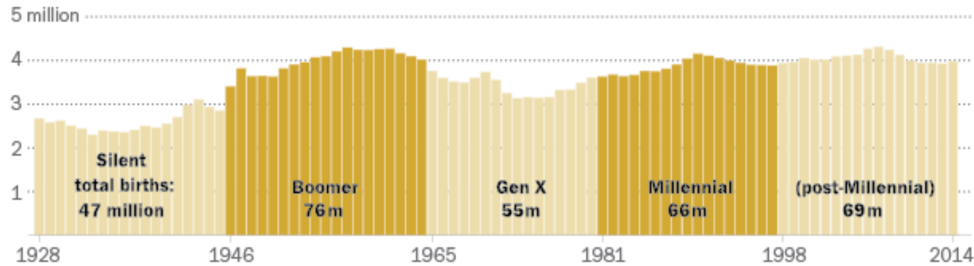
The housing starts graph below shows the story of US housing starts through out the years. Looking at the graph below, you can see the record low amounts of construction during the great recession and the fact that just now we are slightly above historical averages. 2018 is projected to produce less housing than 2016 and 2017. Currently on a national level we are in an inventory crunch in the single family and multi-family sectors. There are approximately 400,000 units needed to meet the housing demand and not nearly that being built. Couple that with the fact that we look for markets with current values below replacement cost, where it is cheaper to buy than build, resulting in low construction levels.

Source: https://tradingeconomics.com/united-states/housing-starts

- *Millennials*: The large population increase in the millennial generation– those between age 24-37 is currently flooding the multi-family market. This generation is the perfect age for renting and is expected to peak in 2020. Millennials are the largest generation since the baby boomers and have a desire to remain renter longer than the generations prior to them.

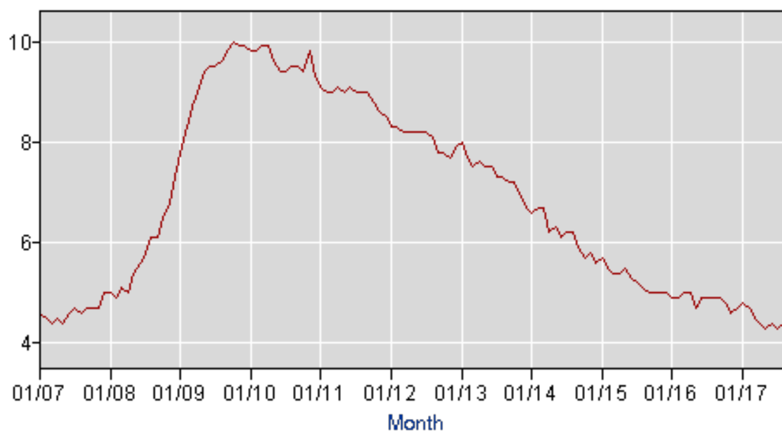
- *Baby Boomers:* The Baby Boomer generation is nearing the age where they are considering downsizing, which in turn will flood the multi-housing market. This generation is still the largest generation on record and trends are starting to emerge showing the generations desire to downsize into apartments and townhomes.

- *Generation Z:* Generation Z includes anyone born between 1995 and 2015. That would place them around the ages of 4-24. Of course, those in the upper ranges are the ones we'll be focusing on as the new renters. This generation makes up about 25% of the population, making them the largest generation in history.



Currently nationwide the unemployment rate is near 4%, much lower than the Great recession peak of 10%. This has boosted the economy and renting power among all demographics. The Millennial generation has finally began to obtain jobs and are seeing some, albeit small, wage growth. Currently we are focusing on markets that did not recover as quickly as others, but are now recovered or nearing recovery. This is allowing us to be in markets that we feel have a longer runway to capitalize on.

Labor Force Statistics from the Current Population Survey (Bureau of Labor and Statistics)



Tax Advantages:

Real Estate allows us to depreciate at 27.5% or better, take long term capital gains at near 15% and 1031 exchange our gains into another asset. We can also receive green credits, historical credits, low income credits, and many other potential government incentives.

- Depreciation – Government allows us to show that our property is worth $0 in 27.5 years. We can also use tools like cost segregation to help us be even more aggressive.

- Long term capital gains – if we sell and cash out, we will only pay the long term capital gains level, which will be much less than ordinary income

- 1031 Exchange – We can sell our asset and buy a new one of equal or greater value and avoid paying any taxes on the gain. This is perhaps the best tax benefit that we have.

Leveraging power:

One of the best parts of Real Estate is the fact that you can obtain financing in order to buy the asset. Doing so with an income producing asset, allows us to bolster returns. Our residents pay our mortgage every month and provide us with additional income. Fannie Mae, Freddie Mac, CMBS, Insurance companies, local banks, etc are on board, giving competitive rates in the low 4% range, with 25-30 year amortizations and a possibility to obtain interest only financing for 3+ years.

- *Leveraging repairs*
  - Our properties are value add and often times require repairs. We can obtain financing to make those repairs or pay with them out of our monthly income.
- *Refinancing*
  - After we add value to the property, it will appraise at a higher level allowing us to refinance within 1-3 years. This will allow us to pay ourselves and our investors back some of our original investment and maintain positive cash flow, further increasing our ROI.
- Principal pay down
  - Each month we are paying down principal of the loan, which without increasing the value of the property, increases our ROI

Scale - Power in numbers:

Buying any multi-family, especially 75+ unit multi-family allows us to be efficient and effective. The issue with single family and small multi-family is the ability to scale and the ability to be efficient. How do we know that? We own and operate over 50 of them and have learned of the lack of scale. With mid to large sized

apartment buildings we are able to have a full time or several full time maintenance staff and leasing staff. We are able to have a website for the property itself and we are able to add more amenities for our residents. Try adding a nice playground, grills, a dog spa, etc to a duplex. The numbers just don't work. With an apartment, a few vacancies don't ruin the cash flow for the entire year, in fact with most of our buildings we can be at 75-80% occupied and still break even. With a single family, one month of vacancy can mean an entire year or more is negative cash flow.

Teamwork:

Being able to build a power team is valuable for the success of the asset. With an apartment community, we need to run it like a business and that means we need to have property management, maintenance staff, leasing agents, accountants, administrative assistants, attorneys, appraisers, brokers, lenders, etc on our team. They are not all on payroll, but all of them are working toward the same goal of making the property a success. This creates each apartment as its own business and allows the machine to run as long as we keep it oiled and full of fuel.

Now on to apartment syndication…

Limited Partner’s Guide to Investing in the Right Deal

As an investor you are looking for products that can provide solid return, be relatively safe and provide tax advantages. With real estate we are able to hit all of those marks. We can also miss all of them. Success will depend on purchasing an asset at the right price, in the right location, with a solid business plan and the correct team in place.

With a **demanding job or business** and a bit of a personal life, passively investing in real estate may be the right avenue for many. Gaining the knowledge, finding the markets and deals, building the team, lining up the financing and executing the business plan takes time, effort and money. Doing it yourself is great, if that is your passion and you can fully commit to it, however, many are better off passively investing and earning great returns with much less effort.

In a syndication, there is a general partner (also called the sponsor) and a Limited partner. The general partner is the one that chooses the market, finds the deal, puts it under contract, completes the due diligence (inspections, underwriting, etc), putting together the team, forming the business plan, securing the financing, both debt and equity, closing on the deal, signing on the debt and then executing the business plan, communicating with the investors and eventually selling the asset. In other words, the general partner is responsible for the transaction from the start to the finish. The limited partner provides the equity and is not responsible for anything day to day.

It’s important as a limited partner to be sure that the sponsor/general partner is qualified and that the deal and market are a fit as well. So how do we protect our money by qualifying a Sponsor?

Experience: It is important to look at the history of the sponsor. You want to be sure they have dealt with investors’ money before and been able to provide them with returns. Have they done a deal using investor’s money that has gone full cycle? You also want to find out what kinds of issues they have had and how they handled those issues with the investors.

The other questions that I would ask, is how many investors have done multiple deals with their company. I am proud to say that I have investors that have been with me since my very first deal. Syndicators that have investors continue investing deal after deal, indicate that they are trustworthy and follow through. These are great referrals as well to call or email.

Look at other things like their presence online and how they handle themselves online and on forums. Do they appear well connected online and in real life? Doing a search online can reveal a lot about a person’s character and knowledge. If they have a lot of posts, podcasts, blogs, etc, their character will shine through.

The overall business plan: It is important that the sponsor has a detailed and well thought out business plan. You should be able to read through the business plan and understand why they like the deal, why they like the market and what they are going to do with the property that will make everyone involved money. The business plan needs to tell the investors what the problem with the property is, what the positives are and what are they going to do to make a positive impact on the tenants in order to provide a great place to live, while also providing good returns to the investor.

Underwriting: This to me is very important as the market continues on its upward cycle. I see sponsors that are projecting rent growth that is normal in today's market, but is very high by historical standards. The same thing happens with sale prices in 5-7 years (or whatever their hold time is). Many sponsors are using the cap rates they are buying at (this determines sales price) and then just adding a few points each year. This gives the illusion of being responsible, but it tells us nothing. The real question to ask is, what are the historical cap rates over the past 10 to 20 years in that market? Using this data is a better guide.

I recently viewed a deal the sponsor was promoting. They had an purchase cap rate of 4.7% and an exit 5 years later at 5.2%. They said that was them being responsible, by adding 10 basis points/year. The issue, however, is that the current market cap rate in the area was actually 5.5% in todays market. Talk about switch and bait.

In my opinion underwriting needs to be based on the current market with future projections based on historical data. If you follow that principal, you are less likely to be caught with your pants down during a downturn.

The other important factor to look at is the amount of reserve capital that the sponsor is raising. It is prudent to have 9 months of mortgage payment allotted as an initial reserve account. If the property needs capital improvements up front, it is important that the amount raised exceeds the budget by 10-15%.

I can't say enough about underwriting. Really look to see what scenarios could derail the investment. If a downturn happens and rents go down 15% as well as occupancy, can the investment weather the storm for a few years or will it go back to the bank, with your money being flushed down the drain? We can never predict every bad case scenario, but we do need to be aware of the breaking points on each deal we invest in. Make sure you and the sponsor both know that.

The team: As a limited partner, it is important to understand the experience of the property manager, contractors and any other members of the team. We want to make sure that they understand the type of property that is being purchased and they have the ability to execute the business plan.

Sponsor Investment: I think it important that the sponsor invests at the very least the minimum investment or $50,000, whatever is more. In my opinion it is ok if they don't put in the lions share, but having some money in the deal ties them to the property and helps incentivize them to make the deal a win.

Profit for the sponsor: It is important as a limited partner that you get paid, but you also want to be sure that the sponsor is getting fair compensation. If a sponsor is in a deal and not making any money, where is their motivation when things start to go wrong and take up more of their time? They know that working their tail off to be sure they right the ship will only make them a few measly bucks. The deal doesn't need to make them filthy rich, but there needs to be enough margin in the deal that you feel they will work hard for you at all times.

Is Passive Investing Right for You?

You need to ask yourself – Do I want to be active or passive? How I invest in real estate is work. I am running a business and work 60+ hours every week. I have employees and teams built to help ensure the success of my properties. I love every single day, however, to say that I own rental real estate and that it is passive, would be a hoax. It takes work and determination.

If you are thinking that being a passive investor in real estate is right for you, then you have a few options:

1. Investing in a REIT. A REIT is like publicly traded stock. You are giving money to a real estate investing company and they determine what to buy and sell and then provide you with dividends based on their profits. You own no real estate, but are investing in a company that owns real estate. No tax benefits come from this, but you can achieve healthy returns that often beat the Dow and S&P.

2. Investing in notes. This is not fully passive, but takes less work. Note buyers, buy a mortgage on a property, typically at some kind of discount and then collect on the monthly payments. This is easy, unless the payment defaults. Then you need to foreclose on the property and decide how to dispose of it. There are many note buyers that specialize in buying distressed notes, where the chances of default are high. They buy the note at a deep discount, try to work a plan for the borrower to pay and potentially foreclose if the borrower cannot pay.

3. Hard Money Lender (HML). This strategy is also a little more active. You lend on a short term basis – usually 6-12 months at high interest rate. Typical hard money terms are 2-3% of the loan amount in interest up front with 8-12% interest only during the loan. This money is secured by real estate. The borrower is usually buying a home to flip, which is the riskiest

real estate strategy, however, usually successful. The key in this strategy is to be able to keep your money moving from one project to the next. Also, of equal importance is to find developers/flippers with a good track record. You profit is short term, so it's taxed as ordinary income.

4. Investing in a syndication. This is the most familiar to me, as I currently put together syndications as a general partner on my multi-family investments. This strategy in my opinion is the safest and best, but I'm biased. With a syndication we are pooling investor money to buy an apartment building or other commercial asset in order to create cash flow distributions and eventually profit upon a sale. The good is that the investments are usually very safe with returns reaching between 15-20% annualized over the life of the investment. You are also very passive, with limited liability. The down fall is that your money is not very liquid – typically stuck for 3-10 years in the investment, depending on the business plan. Your returns are usually around 6-10% during the hold period (remember 15-20% annualized when you account for the future sale). The best part in my opinion, is that you get the depreciation and capital gains benefits of real estate, which can make for some nice tax savings.

In order to achieve success, first focus on one strategy and become an expert on that strategy before you diversify into other strategies. Some tips to achieve success:

1. Know the niche that you are investing in
2. Understand the numbers associated with the investment
3. Know your risk factors
4. Get comfortable with the company or person you are investing with. This is maybe the most important.
5. Have a sound business plan or invest with a company that has a sound business plan
6. Study several different offerings in the niche you chose to get familiar with the investments
7. Understand the market you're investing in and the sub-market within
8. Spread your money out into several investments. I tell my investors they should put their money into several deals and with a few different companies. That means less money on my deals, but ultimately, that means more financial security and opportunity for my investors.

It's tempting to want to go out and buy a house, small apartment or small commercial space. You know that there can be great profits with doing that and it can set you up for retirement or to pass down to you kids. Before you do that, though, think about how much time and energy you want to put into it. If you have a full-time job, you may be better off using one of the passive strategies above. That is for you to decide, not me.