Monthly Meetup

August 2024

Syndication: The Five-Way Payday

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FOR LEVEL TWO MEMBERS

Disclaimer:

The information provided in this presentation is for educational purposes only and should not be construed as legal, financial, or investment advice. Real estate syndication involves significant risks and legal considerations, and individuals should conduct thorough research and consult with qualified professionals before engaging in any syndication activities.

The cost estimates and processes discussed are general guidelines and may vary based on specific circumstances and market conditions. The presenter does not assume any responsibility or liability for the accuracy, completeness, or reliability of the information presented. Always seek professional guidance tailored to your individual situation.

SYNDICATION VS REITS

This table highlights the key differences between real estate syndication, public REITs, and private REITs, helping investors understand which option might best suit their investment goals and risk tolerance.

Feature	Real Estate Syndication	Public REIT	Private REIT
Investment Focus	Single property or project	Portfolio of properties	Single Property or Portfolio of properties
Ownership	Direct ownership in a specific property	Shares in a publicly traded company owning properties	Shares in a privately held company owning properties
Liquidity	Low liquidity; tied to project lifecycle	High liquidity; shares can be bought and sold on stock exchanges	Low liquidity; restrictions on selling shares
Control	More control and involvement in specific projects	Minimal control over individual properties	Minimal control over individual properties
Returns	Income and profits from a specific property	Dividends and potential capital appreciation	Dividends and potential capital appreciation
Risk	Tied to the specific project's success	Diversified across multiple properties, reducing risk	Diversified across multiple properties, reducing risk
Accessibility	Often requires accredited investors and higher minimum investments	Accessible to anyone through stock exchanges	Typically requires accredited investors
Management	Managed by a sponsor or syndicator	Managed by professional REIT management teams	Managed by professional REIT management teams
Transparency	Limited; depends on the sponsor's reporting	High; subject to public reporting requirements	Limited; not subject to public reporting requirements
Tax Treatment	Pass-through tax benefits for investors	Taxed at corporate level but must distribute 90% of income	Pass-through tax benefits for investors

SYNDICATORS ESSENTIALS

These are the essentials for a syndicator to successfully establish and manage a real estate syndicate.

1. **Entity Formation**
    - Form a legal entity (e.g., LP) for liability protection and structure.
2. **Securities Compliance**
    - Comply with regulations and provincial/state securities laws.
    - Use exemptions for offering registration.
    - Prepare a Private Placement Memorandum (PPM).
3. **Investor Requirements**
    - Verify accredited investor status if using certain exemptions.
4. **Experience and Skills**
    - Real estate investment and management experience.
    - Financial modelling and market analysis expertise.
    - Develop a solid business plan and investment strategy.
5. **Networking**
    - Build a network of potential investors.
    - Communicate effectively with investors.
6. **Due Diligence**
    - Identify and evaluate potential properties.
    - Conduct thorough due diligence on investments.
7. **Management**
    - Oversee property management and operations.
    - Provide regular updates and reports to investors.
8. **Team Building**
    - Collaborate with real estate agents, attorneys, accountants, etc.
9. **Ethical Standards**
    - Maintain transparency and adhere to ethical practices.

SYNDICATE SETUP COSTS

The overall costs to set up a real estate syndicate can vary widely depending on factors such as the complexity of the deal, the size of the syndication, and the specific services required. Here's a breakdown of typical costs you might incur when setting up a syndicate:

1. Legal Fees

- **Entity Formation:** $1,000 to $5,000: **Costs for creating a legal entity (e.g. LP) include filing fees and attorney services.**
- **Securities Compliance:** $5,000 to $25,000: **Preparing a Private Placement Memorandum (PPM), subscription agreements, and compliance with government regulations can be costly, depending on complexity and legal counsel.**

2. Accounting and Tax Services

- **Accounting Setup:** $1,000 to $5,000: **Setting up accounting systems and processes for the syndicate.**
- **Ongoing Accounting and Tax Filing:** $1,000 to $5,000 annually: **Costs for bookkeeping, tax preparation, and filing services.**

3. Marketing and Investor Relations

- **Marketing Materials:** $1,000 to $3,000: **Creating brochures, presentations, and other marketing materials to attract investors.**
- **Investor Management Platforms:** $500 to $3,000 annually: **Software for managing investor communications and reporting.**

4. Due Diligence and Property Acquisition

- **Property Appraisal and Inspection:** $1,000 to $5,000 per property: **Costs for professional appraisals and inspections to evaluate potential investments.**
- **Market Research:** $500 to $2,000: **Expenses for market analysis and research reports.**

5. Syndicator Compensation

- **Acquisition Fees:** 1% to 3% of property purchase price: **Fees paid to the syndicator for acquiring the property.**
- **Asset Management Fees:** 1% to 2% of gross revenue annually: **Ongoing fees for managing the property.**

6. Miscellaneous Costs

- **Travel and Networking:** $500 to $3,000: **Expenses for travel, conferences, and networking events.**
- **Contingency Fund:** 5% to 10% of total budget: **Set aside for unexpected expenses or overruns.**

Total Estimated Costs

- **Small Syndication:** $15,000 to $50,000
- **Large or Complex Syndication:** $50,000 to $100,000+

These estimates provide a general idea of the costs involved in setting up a real estate syndicate. The actual costs will depend on specific circumstances, the scope of the project, and professional fees negotiated with service providers.