

ACTIVE & PASSIVE INVESTORS IN SYNDICATIONS

Both are necessary, but WHO does WHAT?

Who is a **passive investor**?

A syndication typically has many passive investors. A passive investor is someone who supplies the money needed to fund the deal.

Passive investors are also known as limited partners. Depending on the deal, passive investors receive all of the benefits of owning real estate---such as *cash flow, forced appreciation and a tax sheltering asset*. This comes without the headache of finding the deal, getting it under contract, financing the deal through a bank, raising the extra money needed for closing/repairs, hiring a property manager, and managing the team to make sure your vision is met.



In other words, a **passive investor** supplies the money, reaps the rewards of personally owning real estate while avoiding the whole “tenants and toilets” downside of real estate investing!



Who is an **active investor**?

A syndication can have many active investors.

Active investors in a syndication are also known as general partners (GP).

General partners complete all of the necessary work to offer a deal to the limited partners.

However, once the deal is found, negotiated, legal paperwork has been drawn up, due diligence has been completed, and money has been raised for the apartment complex, the real work begins.

The **active investors** are responsible for completion of the business plan.

This involves dealing with the city, managing the property managers, K-12 sent to LPs, monthly/quarterly distributions, obtaining projected rents, dealing with banks for refinance in order to return investor monies, handling multiple contractors to find the best price to turn over units, and dealing with any other unexpected problems such as changes in city requirements, and insurance claims due to natural disasters, and fires (*or other damages*) caused by tenants.

What's the difference between **active** and **passive** investors?

The difference between active and passive investors is **who has control of the deal**. If you are an investor that wants a say on how things should be run, passive investing in a syndication is not for you. Passive investors want their money to work for them --- *without having to manage all the details of real estate*. Passive investors receive all of the benefits of owning real estate without the hassle of finding the deal, tenants, toilets, contractors, emergencies or managing the property managers.



A Small Rant by the Editor, Lisa Daconta:

When one thinks of investing, they *typically* are not passionate about the act of investing ---but they *are* passionate about what investing can DO for them. **For example, most investors are not passionate about real estate --- but they ARE passionate about the freedom & passive cash flow it can provide them.**

Quote

"Imagine life is a game in which you are juggling some 5 balls in the air. You name them -- **work, family, health, friends, and spirit** -- and you're keeping all of these in the air. You will soon understand that work is a rubber ball. If you drop it, it will bounce back. But the other 4 balls-- family, health, friends, and spirit are made of glass. ***If you drop one of these, they will be irrevocably scuffed, marked, nicked, damaged, or even shattered.*** They will never be the same. You must understand that and strive for balance in your life."

- *Coca-Cola CEO Brian Dyson*

For those who don't understand certain vocabulary words in this article. We recommend checking out Article #1: "Real Estate Syndications: What Are They?"

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