REAL ESTATE SYNDICATIONS: *WHAT ARE THEY?*

Syndication---a scary sounding word, yet a not-so-scary meaning, unless you're afraid of teamwork!

So...what is a real estate syndication?

A syndication is a group of people pooling money and resources to buy real estate to achieve something that would be difficult to accomplish alone.

How does a syndication work?

The teamwork between two groups of people makes this possible:

- **General Partners (GPs)**: the people who find the deals, get them under contract, underwrite them, and assemble the team to help them achieve their vision for the apartment complex.
- **Limited Partners (LPs)**: the people who invest their money into the deal but don't have to worry about the day-to-day operations of running the business. LPs receive all of the benefits of owning real estate: forced appreciation, cash flow and a tax sheltering asset.

One strategy used by the GPs is **finding a value-add apartment complex.** These buildings have room for improvement that will increase the cash flow or decrease the expenses. Once this building is under contract, the GP assembles a team to accomplish the value-add goal. The GPs create a Limited Liability Corporation (LLC) that holds the apartment complex. The LPs buy a piece of the LLC and receive the tax benefits of direct ownership, cash flow, and profits when the building is sold/refinanced.

Reasons for investing in a real estate syndication:

- You want to invest in real estate but you **don't have the time** to find deals, get them under contract, assemble a team, deal with tenants/toilets, or manage the property manager while working at your job.
- You want to **receive tax benefits** that come with investing in real estate without the hassle of obtaining another full time job.
- You want to **diversify your investment portfolio**.
- You want to hold physical assets instead of paper inside your retirement account.
- You want your money to stay in a deal while making good returns for a couple years so you don't have to think about how to reinvest it over and over.

Three Ways to Make Money in a Syndication:

1. Cash flow you receive either monthly or quarterly from the time the deal closes through the time the asset is sold.
2. A split in profits upon the sale or refinance of the apartment complex. This depends on each deal's specific business structure.
3. What you save in your yearly taxes. Most value-add syndications show "negative" cash flow until the sale of the property. Speak with your CPA on this benefit.

How do you get your money back?

By increasing the cash flow or decreasing the expenses for any commercial real estate, **you force appreciation**.

Commercial real estate is valued based on how much money it makes. Over 3 - 7 years the building is refinanced through a bank or sold to another investor at a premium price based on its cash flow. The monthly/quarterly cash flow and profit from a refinance/sale is how you get your original money back along with your returns.

How much does it cost to get involved in a syndication?

Every syndication deal is different but we typically see a minimum of $50,000 per person.

The most common ways we see investors fund this money is: cash, retirement accounts, or refinancing their home/other investments.

A Small Rant by the Author, Jesse Daconta:

The biggest investors in real estate are banks. Banks love real estate because they know it's one of the only asset classes that have the highest chance of being "recession proof". Think of it this way: ***When was the last time a bank reached out to loan you 80% of the money needed to buy a stock?***

Quote

"I would rather earn 1% off a 100 people's efforts than 100% of my own efforts."

-John D. Rockefeller

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