The Passive Investor Toolkit

This toolkit will be a guide for the investor who recognizes the opportunity in multifamily investing, yet may be too busy or have other things going on in their life to be active in the space. Instead, they choose to deploy their capital and make their money work for them rather than working for their money. The Passive Investor Toolkit shows the desiring investor how to intelligently put their money to work in multifamily syndications to achieve all the benefits of investing in real estate without all of the effort and time commitment required by the operator.

First, what is a multifamily syndication?

- A multifamily syndication is a vehicle to invest in real estate where investors pool their money together to purchase an asset. There are General Partners (GPs) and Limited Partners (LPs). The GPs manage and operate the asset while the LPs provide the capital.

In this model, GPs do all the work and LPs get all the benefits of investing in real estate without doing the ongoing work.

As lucrative as investing in multifamily syndications can be, you first need to understand the asset class - the benefits, and risks, and what to look for in a syndicator to partner with so that you can make the best decision for your financial future. Yes, it’s true that investing in syndications can help you create wealth, or supplement your retirement, or provide enough passive income to make you financially free, yet so do other investment vehicles. All have pros and cons, and you should pick the one, or a combination, that is best for you. I will try to explain why multifamily *may* provide the best avenue to invest or to diversify your portfolio but I won’t try to pitch you - it is a decision you will have to make on your own.

The Benefits of Investing in Real Estate - The IDEAL Investment

1. **I**ncome - Cash Flow, income in your pocket every month (or quarter)
2. **D**epreciation - Overtime the asset depreciates and loses its value.The IRS recognizes this and allows real estate investors to capture the depreciation and gives a tax break for it.
3. **E**quity Pay Down - The tenants pay down the mortgage every month, building your equity in the deal (your wealth)

4. **A**ppreciation – There is both Forced Appreciation (which is a result of physically adding value to the property by completing repairs) and Market Appreciation. Let me give you an example of the power of multifamily when it comes to appreciation. Imagine you purchased a 100 unit apartment complex for $5M at a 8% cap rate. That means the net operating income (NOI) of the asset is $400k. Now imagine you made slight renovations for $100k, and increased rents by $100/ unit over the next year. By doing so, you created an extra $10k/month in income, or $120k/year ($100/unit x 100 units). At an 8% cap rate, you just increased the value of the property by $1.5M (value = NOI/cap rate) for spending $100k in renovations. That's powerful wealth building!

	At Purchase	After Repairs	Value Created
Price	$5,000,000	$6,500,000	$1,500,000
Net Operating Income	$400,000	$520,000	
Cap Rate	8.0%	8.0%	
Repairs	$100,000		

5. **L**everage - The amazing ability to use other people's money (OPM) to buy real estate such as getting loans from the bank.

These are the 5 ways to make money in real estate, all of which you can achieve by investing passively. See, when you invest as an LP, you own a percentage of the asset and with that comes a percentage of all the proceeds, benefits, and upside of the deal.

The Risks Associated with Multifamily Real Estate

Every investment has a certain degree of risk associated with it, real estate included. If you invest in stocks, a rumor of the CEO having an affair could plummet the stock price in an instant. If you invest in bonds, however safer, the entity that backs the bonds could fail. And if you invest in real estate, the housing market could crash like it did in 2008.

In these instances, however, multifamily real estate takes the cake for risk mitigation. For example, during the Great Recession, Freddie Mac single family loan delinquencies peaked at 4% while delinquency for Multifamily loans hovered around 0.4%. The multifamily delinquency rate, at its peak, was 90% lower than the residential rate in the Great Recession! It is for this reason why commercial real estate, and multifamily in general, is a major asset class for the super wealthy who are seeking to preserve their capital as much as they are seeking to grow it.

Choosing the wrong asset can negatively affect your investment and create added risk. Be careful to:

1. Choose an asset in a favorable market - favorable is subjective based on your real estate goals. But in general you want a market that is:
    a. Desirable - People want to be there.
    b. Diversified - Has diversified industries supplying jobs.
    c. Growing
        i. Population - Increases housing demand.

    ii. Jobs - Brings more quality tenants into the market, jobs are what drive multifamily performance.
    iii. Rents - Rising rents add directly to your bottom line.

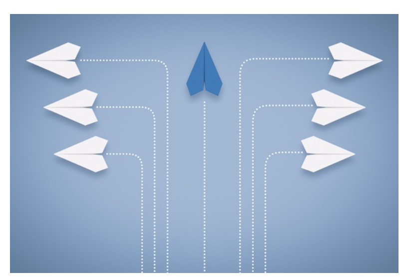
2. Choose a favorable asset type - By this I mean one that is not grossly underperforming, with large capital expenditure items (roofs, furnaces, etc.) or that requires a large reposition. This kind of investment can produce a bigger payoff, but it also provides a high degree of risk because of the many things that could go not as planned, especially with an inexperienced operator.

3. Choose a favorable syndicator - The syndicator you partner with should have solid values, integrity, and be someone who you can trust. This is your financial future and they should be here to help you, not pitch you.

<u>What to Look for in a Syndicator</u>

1. Values - Do they have strong values that are represented in how they interact with others? They don't always have to be touted because that may appear insincere, but you should be able to pick up on their values by their actions. And if you ask, they should be able to tell you theirs. The main point here is, are they a good person? Do their values resonate with you.

2. Strategy - What is their investment strategy? Are they targeting large repositions, value-add, or turn-key? Are they buying to hold or buying to exit relatively quickly? Their strategy will affect your investment so make sure their strategy will help you reach your goals.



3. The Team - Who do they work with? What people do they surround themselves with? The people they work with and have mentor them through the process is an important piece of the puzzle. This is how they can leverage the knowledge and experience of others to supplement their own in order to safeguard your investment capital and produce the best results with it.

4. Track Record - What is their background in real estate? Also, what is their professional background? If they haven't previously syndicated multifamily, have they operated at a high level with a high level of responsibility in their career other than real estate? These are important things to consider. Obviously experience in multifamily syndications is an important thing to consider, but all of the successful syndicators I know started with a successful first multifamily investment because they had either 1) a background in residential real estate or smaller multifamily, or 2) a high level position with responsibility within their organization, or 3) a coach, mentor, or advisor who has successful walked the path before them and are now helping them do the same while avoiding common mistakes.

I lay all of this out for you to help you make an informed decision on how to best pursue investing in multifamily real estate. I think the opportunity it presents is extremely beneficial for your financial future. And I hope I outlined all of those benefits, while also explaining the risks, and all while not sound pitchy. These are guiding principles, not all inclusive. You will want to dig down within yourself to figure out exactly what it is you want to achieve through investing, and then decide if investing in multifamily will be a good fit. I think for the reasons above it can be a great avenue, but there are many roads to financial freedom so choose what is best for your goals. My goal is to add value to you, whether you choose to invest with me, someone else, or not at all. I'll explain below what I look for in multifamily, and if that does not fit your goals let me know and I will point you in the direction of another syndicator, or real estate provider, in my network of mostly military investors who can meet your needs.

My Investment Criteria

I am currently looking for value-add, B-C class multifamily assets that are around 50 units or less, in growing markets with strong demographics.

- Value-add consists of systematically increasing rents by renovating vacant units and filling with thoroughly screened tenants at market rent and doing the same as units turnover while optimizing the operation of the property to decrease expenses. This makes a significant impact in ROI, which as explained in the example earlier under Appreciation, contributes to massive equity creation.
- I target B-C class properties because I believe this is a sweet spot for value-add opportunities. A class properties are likely priced out and the value already added. D class properties provide too much risk for my liking and require too large of an effort for me to feel comfortable deploying investor capital.
- I decided on an asset around 50 or less as an entry level size because assets in this size range are achievable for one person with a fair amount of capital. For this reason there are more owner-operated assets in this size range, often referred to as mom and pops. Most mom and pops don't have specialized knowledge and systems implemented into their assets, they simply bought for the income stream and do little to maintain the asset after that. This is, of course, a generalization: but certainly not uncommon in this space. It provides an opportunity to purchase an underperforming asset at a discount, add value by increasing the rents (which have most likely not been kept up to market) and decreasing the expenses that may have crept up on the owner over time. Another good point is that they have likely owned the property for quite a while, meaning they will likely have equity to cash out or potentially provide some type of creative financing.
- Selecting assets in strong markets is a must for me. The market has to be growing, with that growth centered on the demographic that will likely live in nice, fixed-up apartment complexes - younger professionals. This means I target markets with positive job growth in multiple industries, so that the market will be flooded with young

working professionals who can afford to pay market rent for a nice, safe place to live. I also like markets with a growing military population, so as long as the market is diversified and a single base is not the only large job provider. Growing markets in military areas create a higher Basic Allowance for Housing (BAH) for military members, which can further support rent growth. These are reasons why I chose markets like Huntsville, Alabama and Panama City, Florida, to name a few, as favorable markets for future growth and stable returns.

- I pursue all of this with the same military discipline which has served me well to this point in my career. I grit through the hard times and celebrate with my team in the good times. Grit, integrity and service are among my core values; instilled into me through my time in the service. I am proud to serve and also proud to have the opportunity to serve investors in helping them achieve the same thing I am out to achieve - financial freedom, the ability to spend time with my family, and the ability to produce generational wealth.

If you want to learn more, or are ready for the next step in taking your investments to the next level, schedule a call with me on the connect page at multifamilyjourney.com. If you think my investment model is not right for you but you still want to invest in real estate because of the power it holds for your financial future, reach out to me at blake@multifamilyjourney.com and let me know and I can point you in the direction of another military investor I know who can serve your needs to help you build wealth.