

APARTMENT SYNDICATION DUE DILIGENCE FOR PASSIVE INVESTORS






Notes

It is important to write down your apartment investment goals before evaluation a deal to ensure they meet your minimum requirements and stay focused on your goal.



SPONSOR

 KEY FACTORS	 QUESTIONS	 NOTES
1 KNOW, LIKE AND TRUST	Do you know, like, and trust the lead sponsor or group with your money? This is the most important factor. If you answer no here, you can stop here, and pass on the deal.	
2 TEAM	Who are the key members on the team? And what are their roles?	
3 TRACK RECORD	What is the sponsor teams track record as a General Partner? How many years of experience? How many units?	
4 EQUITY CONTRIBUTION (SKIN IN THE GAME)	How much does the sponsorship team put in the deal?	



MARKET



KEY FACTORS



QUESTIONS



NOTES

1

MARKET TYPE

Primary (Strong, Lowest Risk)
Secondary (Good, Medium Risk)

2

LANDLORD FRIENDLY

Is it a landlord friendly state?

3

POPULATION GROWTH

Do you see population growth in this market in the last 5 years? What is the projected growth?

4

INCOME GROWTH

Do you see income growth in this market in the last 5 years? What is the projected growth?

5

HOME VALUE

Do you see home value increase in this market in the last 5 years?

6




CRIME RATE

What is the crime rate in this market in the last 5 years?






SUB MARKET

	KEY FACTORS		QUESTIONS		NOTES
1	HOUSEHOLD INCOME	Good neighborhood? Higher income compared to surrounding neighborhood is a good indicator.			
2	UNEMPLOYMENT RATE	Is the trend of unemployment rate decreasing in the last 5 years?			
3	DEMOGRAPHIC DIVERSITY	Is there a concentration of ages more than others? Apartment renters tend to be 18-40 years old.			
4	MAJOR EMPLOYERS	Who are the major employers in the market and submarket? Look for diversification of different employers and sectors. Not all jobs are created equal.			
5	NEIGHBORHOOD RETAILERS	Check for retail stores within 5 - 10 miles radius. Starbucks, Walmart, Dollar Stores, etc.			



THE APARTMENT

KEY FACTORS	QUESTIONS	NOTES
1 NUMBER OF UNITS	How many units? Does it meet your minimum requirement?	
2 CLASS OF PROPERTY	<p>Class A: High end luxury apartment, <10 years old, high rent, white collar, low to none repair.</p> <p>Class B: 10-25 years old, well-maintained, mixed of white and blue collar, some maintenance required.</p> <p>Class C: 30-40 years old, need maintenance, blue-collar, low rents</p>	
3 LOCATION OF THE PROPERTY	Is the property residing within a good neighborhood or emerging neighborhood?	
4 OCCUPANCY	What is the current occupancy for the property? If less than 85%, how is this deal being financed?	



FINANCING



KEY FACTORS



QUESTIONS



NOTES

1

TYPE

What type of financing?
Agency, Bridge, Bank Loan,
Seller Financing?

2

LOAN-TO-VALUE

Range from 65% to 80%.
Higher the number means
higher leverage of debt.

3

LOAN TERM

Agency loan: 5-12 years.
Bridge loan: 1-3 years. Interest
Only (IO): 1-3 years.
When is balloon payment?

4

LENDER RESERVE

Are there any lender reserves
requirement for the selected
financing option?





ASSUMPTIONS



KEY FACTORS



QUESTIONS



NOTES

1

MARKET CAP RATE

What is the market cap rate?

2

PURCHASE CAP RATE

What is the cap rate that the property is being purchased at? And why?

3

EXIT CAP RATE

What is the exit cap rate if the property were to be sold or refinanced? Look for greater than Purchase Cap Rate for conservative assumption.

4

ANNUAL RENT INCREASE

1-3% for conservative assumption.

5

REHAB BUDGET

Is there any rehab budget? If so, is it reasonable?

6

REVENUE INCREASE




What is the plan for revenue increase once closed? List them out.





PROFIT SPLIT



 KEY FACTORS	 QUESTIONS	 NOTES
<p>1 SPLIT TYPE</p>	<p>What type of split on the deal?</p> <p>Straight: All profits are shared between LP/GP such as 80/20 split.</p> <p>Waterfall: All profits are shared between LP/GP to a certain level of percentage, and then split again at a certain percentage.</p>	
<p>2 SPLIT</p>	<p>What is the split? 80/20? 75/25? 70/30?</p> <p>80/20 means 80% for investors and 20% for General Partner.</p>	
<p>3 PREFERRED RETURN</p>	<p>Does the deal offer a preferred return?</p> <p>Preferred return pays investors first before GP is paid.</p> <p>For instance, 7% preferred return 75/25 split means investors will get paid 7% of return first before the remaining is split 75% to investors and 25% to GP.</p>	



TERMS



KEY FACTORS



QUESTIONS



NOTES

1

HOLD TERM

How long is the hold term for the investment?
Usually 5-7 years.

2

MINIMUM INVESTMENT

Usually minimum is \$50k, however, there are operators who accept \$25k minimum on a deal.





PROJECTED RETURNS ON THE DEAL



KEY FACTORS



QUESTIONS



NOTES

1	CASH ON CASH RETURN	<p>What percentage of cash on cash return is acceptable for you?</p> <p>If you put in \$100k, will \$5k/year or \$7k/year of cashflow be acceptable for you?</p>	
2	INTERNAL RATE OF RETURN	<p>How soon can I get my return based on time-value of money?</p> <p>If you get paid sooner than later, even with the same return amount, IRR is affected. The higher the number, the better. It means you get your return faster than later.</p>	
3	TOTAL RETURN	<p>What is the total return of my investment at the end of the holding period?</p>	
4	EQUITY MULTIPLE	<p>If the deal were to be exited, what is the equity multiple of my investment?</p> <p>For instance, \$100k invested, 5 years hold, \$6k/year, sale proceed is \$71k to you, EM=2.1. It means, you put in \$100k and got \$210k in total return during the holding period including sale proceeds upon the sale of the property.</p>	
5	DISTRIBUTION FREQUENCY	<p>Monthly, Quarterly?</p>	
6	INITIAL DISTRIBUTION	<p>When can you expect your first distribution? 2-3 months? Or longer?</p>	

FEES



KEY FACTORS



QUESTIONS



NOTES




<p>1 ASSET MANAGEMENT FEES</p>	<p>What will be the asset management fees? This is the ongoing management fee for the asset.</p>	
<p>2 ACQUISITION FEES</p>	<p>What will be the acquisition fees? One-time fee payment to GP upon acquiring the asset.</p>	
<p>3 ANY OTHER FEES?</p>	<p>Any other fees to the GP that you should know about? And why?</p>	





STRATEGY



 KEY FACTORS	 QUESTIONS	 NOTES
<p>1 BUSINESS PLAN</p>	<p>Does the sponsor have a business plan created? Is it reasonable given the current market situation such as Covid, rehab budget, and any other conditions?</p>	
<p>2 STRESS TEST</p>	<p>What type of stress tests have been used on the deal?</p>	
<p>3 EXIT STRATEGY</p>	<p>What conditions and how does the sponsor plan to exit the deal?</p>	
<p>4 INVESTMENT TYPE</p>	<p>What can you use to invest? Cash/IRA/401k?</p>	
<p>5 LIQUIDITY</p>	<p>Can you cash out early? If so, under what conditions?</p>	
<p>5 DEPRECIATION</p>	<p>Will a Cost Segregation study be completed on the property?</p>	



IMPORTANT DATES



KEY FACTORS



QUESTIONS



NOTES

1	CONFERENCE CALL	Will there be a conference call or webinar? If so, Date/Time.	
2	COMMITMENT DATE	How soon do you need to commit by?	
3	FUNDING DEADLINE	What is the deadline for you to wire transfer the funds?	
4	ASSISTANCE	Who will assist you if you have any questions?	



APARTMENT

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