



APARTMENT SYNDICATION DUE DILIGENCE FOR PASSIVE INVESTORS

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Notes

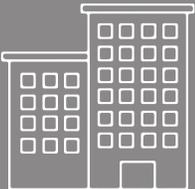
It is important to write down your apartment investment goals before evaluation a deal to ensure they meet your minimum requirements and stay focused on your goal.

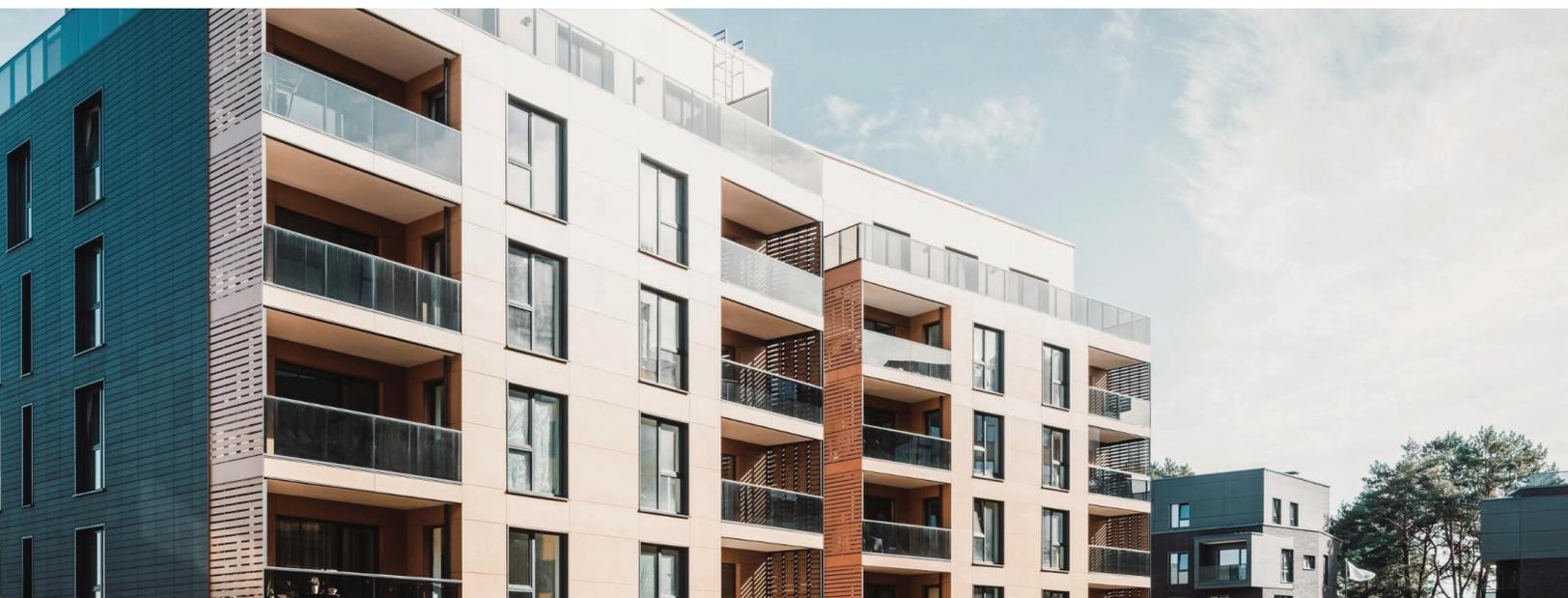
COMPONENTS	#	KEY FACTORS	QUESTIONS	NOTES
 SPONSOR	1	KNOW, LIKE AND TRUST	<p>Do you know, like, and trust the lead sponsor or group with your money?</p> <p>This is the most important factor. If you answer no here, you can stop here, and pass on the deal.</p>	
	2	TEAM	Who are the key members on the team? 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?	

COMPONENTS	#	KEY FACTORS	QUESTIONS	NOTES
 MARKET	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?	



COMPONENTS	#	KEY FACTORS	QUESTIONS	NOTES
 SUBMARKET	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.	

COMPONENTS	#	KEY FACTORS	QUESTIONS	NOTES
 <p>THE APARTMENT</p>	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	<p>What is the current occupancy for the property?</p> <p>If less than 85%, how is this deal being financed?</p>	



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 FINANCING	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?	



COMPONENTS	#	KEY FACTORS	QUESTIONS	NOTES
 ASSUMPTIONS	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.	

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 <p>PROFIT SPLIT</p>	1	SPLIT TYPE	<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>	
	2	SPLIT	<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>	
	3	PREFERRED RETURN	<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>	

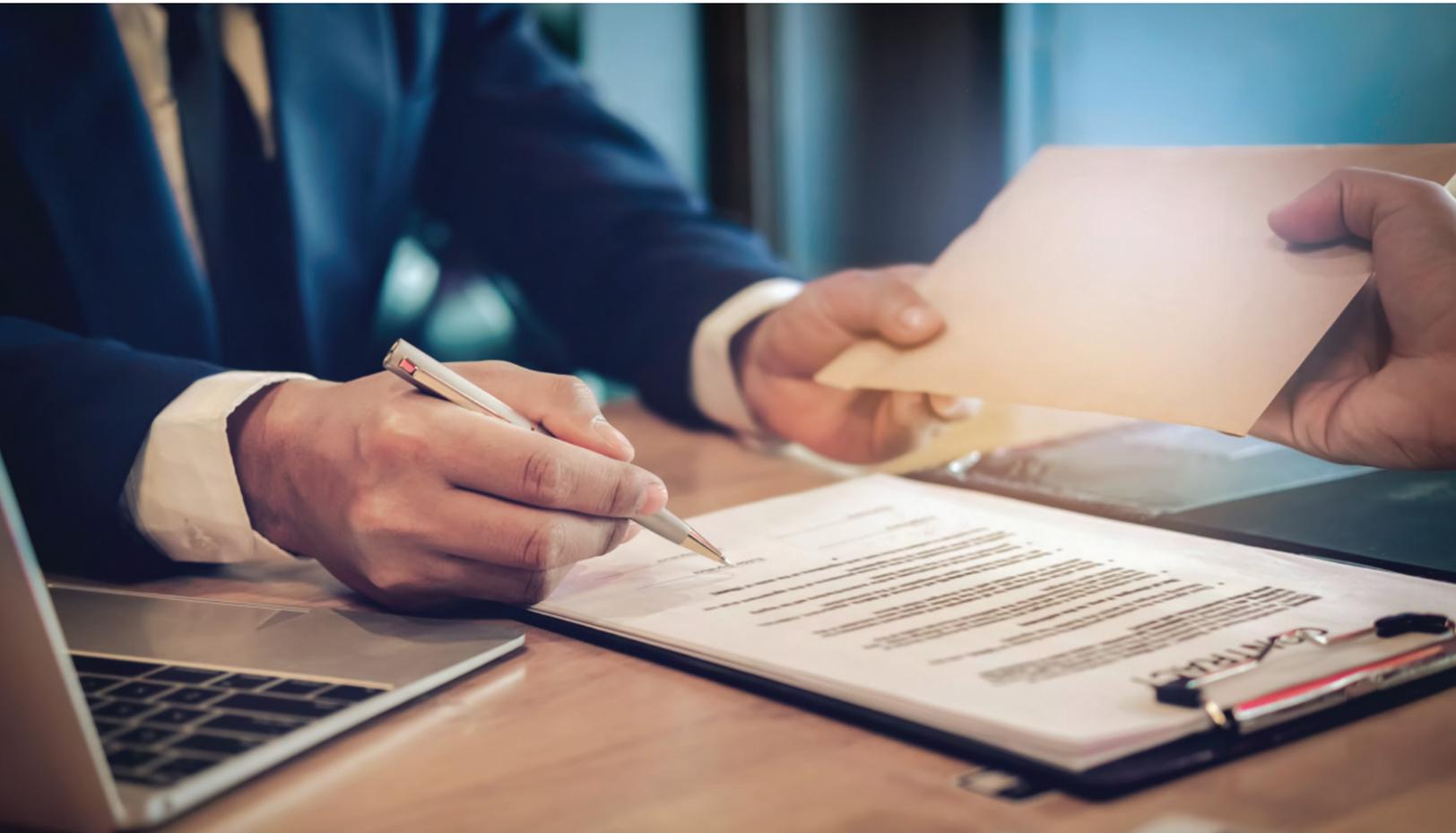


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 TERMS	1	HOLD TERM	How long is the hold term for the investment? Usually 5-7 years.	
	2	MINIMUM INVESTMENT	Usually minimum is \$50k, however, there are operators who accept \$25k minimum on a deal.	



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 <p>PROJECTED RETURNS ON THE DEAL</p>	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>	

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



COMPONENTS	#	KEY FACTORS	QUESTIONS	NOTES
 STRATEGY	1	BUSINESS PLAN	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?	
	2	STRESS TEST	What type of stress tests have been used on the deal?	
	3	EXIT STRATEGY	What conditions and how does the sponsor plan to exit the deal?	
	4	INVESTMENT TYPE	What can you use to invest? Cash/IRA/401k?	
	5	LIQUIDITY	Can you cash out early? If so, under what conditions?	
	6	DEPRECIATION	Will a Cost Segregation study be completed on the property?	

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 IMPORTANT DATES	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?	

