



SYNDICATION

A guide extracted from NNN Riches by Joel S. Owens

INVESTING IN A NNN SYNDICATE PASSIVELY

What is a syndicate?

A syndicate is usually a structure whereby *passive* investors that are limited partners (typically *accredited*) invest in a specific property where the syndicator is the general partner. The general partner is the one who makes most of the decisions with the syndication.

The syndicator puts out a flyer or offering about the specific property they want the *passive accredited* investors to invest in. The syndicator then fields inquiries about investing from the investors on their list. There usually is a subscription agreement followed by an operating agreement the investor signs that spells out the syndicate structure, any management fees, percentage ownerships, if someone wants to sell their share early, etc. Basically it covers a lot of possible events that may or may not happen in the future.

With a syndication it's important to know the experience level of the sponsor for the specific asset class offering the *accredited* investor wants to put money into.

Each syndicator has a different niche they focus on.

For **NNN INVEST** our main focus is *value add* STNL properties. We like to buy those for cash at good pricing and then work to lease up the property with a new tenant and improve the value of the property substantially. Our usual timeline is 1 year to stabilize and an exit in 3 years or refinance and hold.



We offer a 7% preferred return to ACCREDITED investors once the property has a tenant in and the property is cash flowing. Until then there is not a cash distribution. If someone needs a return payout in the first 30 days, we ARE NOT the right choice or option for an ACCREDITED INVESTOR to invest with us.

Our investors understand that we often get a higher cash flow and equity multiple once a tenant is in and leased up and they do not have to have the return right away when the overall return tends to be higher over time. So as an example if a stabilized *value add* NNN STNL property had a starting 14% cash on cash return then 7% would go to the *passive* investors first and then the remaining cash flow would be split 50/50 between the investor and the sponsor for **NNN INVEST**. So 7% *passive* investor plus 3.5% = 10.5% return to investor (limited partner) and a 3.5% to **NNN INVEST** the sponsor (general partner). The property upside after return of capital to the *passive* investors would be split 50/50 with the sponsor.

We like STNL because the property prices tend to be smaller and lots of the buyers on the exit tend to be all cash buyers or very low leverage. They are buying to be *passive* and or for retirement and estate planning so often will pay a premium for the property. Conversely there are other asset classes where the properties are so expensive and so big that they can be heavily affected on resale value in the future with interest rates as carrying a big load of debt. We like the *small ball* stuff as we call it. We like to be nimble and invested in multiple markets nationally for geo-diversification.

TYPES OF SYNDICATES

If someone is an *accredited investor* they often get on people's lists and get pitched all kinds of proposals for investments. Many are not even in the real estate realm. These companies are often wanting to talk an investor into buying anything at anytime.

The more important question is for the investor. Do they like the track record of the sponsor? Do they like the type of strategy the sponsor is wanting to deploy and execute on? Do they believe in the sponsors vision and how they want to create value?

Personally the way I set up sponsor deals can be different from other sponsors. I believe in keeping things vanilla and clear to understand. Some syndicators get into complex tranches of debt structures and waterfalls of when certain hurdles are met, they make more (and different) series, and rounds have different options for investors to buy into. The other sponsors also can have different stacks of debt with different lenders as well.

I just do not care for the headache all of that presents. I like keeping things simple. People can hide in complexity. When you do simple deals they either work or they don't. You have to watch out for syndicators that LIVE off of their fees going in to deals.

What do we mean by that?

Often people read books about how to become syndicators. They see it as a way to quit their J-O-B and get out of the *rat race*. The problem with that is in the beginning they have little money so the more properties they syndicate the more fees they make going in and the more they hope some of the deals actually work later on. That lends itself to not having the best interests aligned with the *accredited passive* investors because they can syndicate marginal deals in the name of taking fees upfront.

At **NNN INVEST** we are different. As a principal commercial broker I make a lot of money with my clients transacting to buy stabilized NNN STNL and MTNL assets. I take that money and put it into properties myself for value add to turn around with cash. If too much of my cash is tied up in projects at any given time I syndicate the deal with my *accredited investors*. So for me *I only* want deals where I think there is high upside potential for cash flow and equity multiple growth or I am not interested in the property. The fees are not the main driver for my syndicating so the *passive* investors and I have aligned interests both wanting higher cash flow and equity multiples on the back end when the property is stabilized.

I also like STNL NNN *value add* because as soon as a tenant is in and paying with a long term primary lease term, almost 100% of the value is fully realized. This sits in stark contrast to other syndicators in multifamily, mobile home parks, hotels, offices, building home subdivisions, etc. where the value is created (if all goes well) over typically a 7-10 year timeline. There are so many economic forces in a cycle that can happen during that time where the investment does not reach its full potential as expected. In those cases the property could break even or lose money over time.

There are still some amazing larger property syndicators out there that do a great job, you just have to know how to tell the good ones from the duds. Remember the sponsor can be good but a particular syndicate property could be bad. You are looking for a good sponsor and a solid deal you feel great about investing in. Make sure and ask how often the syndicator gives updates to their *passive accredited* investors and how accessible they are. The sponsor should take the investor's money very seriously and work to protect the money and help it grow. While the sponsor should do their best to make a project successful there are not guarantees of that happening. Any sponsor *guaranteeing* the investment—you should RUN from that sponsor—as they are not being honest about the business.

In addition to syndicates there are also *funds*. Funds are set up differently from syndicates. In a fund you are putting money into a pool of properties the syndicator selects. Basically the syndicator does not have to do a per property raise but rather give a general parameter for the funds goals and allocations.

So in a fund you do not have total control of what you invest in. You have to believe heavily in the company and the sponsor that they will make good choices and be a great steward of your money and help grow it safely over time.

Want to become a commercial syndicator? At **NNN INVEST** we do not focus on training people who want to be syndicators. To read a book that covers syndicating your own deals, we recommend downloading a free copy of a book by Joel's friend, Gary D. Rappaport, *Investing in Retail Properties* at rappaportco.com.

Why Investors LOVE Value-Add NNN

Business & Personal income growth	Stocks & Bonds Market	Residential Real Estate	Value-Add NNN Investing
30+ YEARS	5-10 YEARS	7-10 YEARS	1-3 YEARS
✘ High Activity Requirement	✘ High Risk/Volatility	✘ High Activity Requirement	Passive Investing
✘ Highest Taxation	✘ Vast Knowledge Needs	✘ Non-Scalable	Higher Cashflow
✘ High Time Investment	✘ Complexities & Pitfalls	✘ Residential Tenant Woes	Higher Equity Multiple
✘ HEADACHE	✘ HEADACHE	✘ HEADACHE	Tax Advantages
			Hands off
			NO HEADACHE RECOMMENDED

ACCREDITED INVESTOR



INVESTS \$200k



VALUE ADD PROPERTIES STNL & MTNL

With real estate there are stabilized full value properties for purchase and then there is *Value-Add*.

With STNL NNN there are lots of ways to add value to a property.

Ground lease — Buy the land only. Since only buying the land the rents are typically 50% below market value. If tenant ever leaves, you can release to market absolute NNN rents because usually you get the building the tenant constructed for *free*.

Buying an absolute NNN STNL property with an in-place lease and tenant but has way below market rate rents for that building space size. You can often build in higher annual rental increases because the tenant is paying so low of a rent per sq. ft. they can make high profit sales per sq. ft.

Blend and extend — The tenant might have a few years remaining on the primary term of the lease where you buy for cash as not usually finance-able for a higher cap rate like a 10 cap and then once you negotiate a 10 year or better extension with the tenant now you might sell for a 5 to 6 cap rate.

Subdividing an oversized lot. You could have an older building vacant on an oversized lot that can now be de-parcelized to become 2 lots.

Changing the tenant type. You could get out a mom and pop tenant and land a national tenant at much higher rents per sq. ft. that sells at a lower cap rate on exit.

With MTNL NNN there are lot of ways to add value to a property.

- Change the mix of tenants at the retail center
- De-parcelize some of the single tenant properties that came with the development. (example buy retail center with outparcels at an 8 cap and then de-parcelize and sell STNL pieces at 4 to 5 cap rates).
- Take extra parking lot spaces not being used close to pylon sign at front of the road and do ground lease, build to suit, etc. to single tenant businesses.
- Keep main anchor tenant but sell off smaller retail centers in the project.

(for **NNN INVEST** to help you facilitate buying a Value Add investment where you own directly, there is a \$3M minimum or higher purchase requirement.)

START TODAY

TO WORK WITH
NNN INVEST

www.nnninvest.com