



“Multifamily Syndication Investing”

Article for BAM Capital

Investing in real estate is a good idea. However, not every investor is interested in being a landlord. But the good news is that there's a way to enjoy all the benefits of real estate investing without the downsides. We will talk about what it is, what its benefits are, and why you should try it for yourself. If you are an accredited investor who wants to invest in real estate but has been turned off by the idea of being a landlord, multifamily syndication might be the right fit for you. Real estate syndication is perfect for investors who want a more passive investment. Let's take a closer look. Multifamily syndication investing is a type of investment that has grown in popularity in recent years.



Investing in Multifamily Real Estate

For those who want to avoid the volatility of the stock market, real estate can be a great alternative. It lets investors take a more passive role in growing their capital. Rental property investing is a good source of additional monthly income. It also allows for a slow and steady appreciation in the value of an investor's portfolio. In terms of residential real estate investing, the two main property types are single-family and multifamily. Single-family properties have only one available unit to rent, while multifamily properties have more than one rentable space—these are most commonly apartment complexes and duplexes. For example, multifamily properties are more expensive but easier to finance. A bank is more likely to approve a loan for a multifamily property than the average home because it generates a consistent cash flow every month. It is therefore a less risky investment for lending institutions. But since you are looking for a more passive investment, multifamily syndication is the best way to approach real estate.

What Does Multifamily Syndication Mean?

A multifamily syndication is a type of real estate investment wherein multiple investors pool their money in order to purchase an asset. A sponsor locates the deal and manages the investment once the deal has closed. This sponsor serves as the general partner who coordinates the transaction throughout the process. [2] Although any type of real estate property can be used for a syndication deal, multifamily syndication is very popular because it is a low-risk investment. Not to mention they also provide consistent income. In exchange for equity in the multifamily property, passive investors provide some of the upfront capital required. Syndication is also known as crowdfunding for real estate. Sponsors are also known as syndicators. They can be individuals or companies who take charge of the deal. Sponsors, like BAM Capital, look for a deal, acquire the property, and manage the real estate. These syndicators have a ton of real estate experience. They have a deep understanding of due diligence for potential deals.

Why Would You Want to Invest in Multifamily Syndication?

Investing in multifamily syndication is a smart move for accredited investors who want passive investments. The investor doesn't have to be involved with the property, its management, or its tenants. This is the main benefit of investing in multifamily syndication.

Another benefit is that the investment is protected by the real estate asset. The investor can get profit from cash flow, equity build, and appreciation.

The fact that multiple investors pool their money means that some of them could participate in larger deals that they otherwise wouldn't be able to. On top of that, real estate is generally one of the best investments because of its tax benefits. If you want to enjoy the benefits of real estate without the hassle of managing a property, this is the type of investment for you.



Understanding How a Real Estate Syndication Deal is Put Together

Multifamily syndications usually follow a similar structure—but every single one has its differences. These investments may differ in terms of the fees, the deal, the investment strategy, and the way equity and cash flow are split. Most of the time, investors and syndicators will form a limited liability company, or LLC, for the syndication deal. The syndicator serves as the managing member, while the investors are all limited partners. [2]



A certain percentage of the property is owned by each party in the investment. While sometimes ownership is split equally, other times the syndicator takes a larger percentage of equity. Cash flow is also shared amongst the partners—this is based on the percentage that they own. A few deal structures come with preferred returns to investors. This means before the syndicator makes any money, the deal needs to hit a minimum return first. This adds an extra level of safety for the investors. BAM Capital's Series A and Series B Units are an example of a structure with a preferred return. Here's how a multifamily syndication deal comes together: first, a deal sponsor looks for a multifamily property for the deal and puts it under contract. The Sponsor then forms an LLC or a limited partnership. The specific details of the investment are then outlined in a private placement memorandum. This also details how the partnership is structured. The memorandum also discloses all fees associated and discusses all the risks involved. After this, the required SEC registrations and notices are filed. The syndicator secures a loan for the investment. Since the Sponsor signs the loan, this means the investors are not liable for the repayment of the loan. Once financing is secured, the sponsor looks for potential investors who would pool their money for the deal's capital requirements. Once enough money is raised to cover the down payment and the closing costs, the deal is closed. Although the sponsor is in charge of managing the investment, they may or may not manage the property. Sometimes a third party company is brought in to manage the property. The BAM Companies is a vertically integrated company consisting of BAM Capital, BAM Construction, and BAM Management. The BAM Management branch manages all of the properties in the multifamily syndication. The cash flow is distributed to the investors based on the structure they agreed upon. As for the exit strategy, it usually involves selling the property at some point—typically between 5 to 7 years in the future. The investors then receive their share of the equity from the sale.

How Much Money Can Investors Make from Investing in Multifamily Syndication?

The goal is to earn more money than the original investment—which means the investors should profit from equity and appreciation from paying the principal balance on the loan. The sponsor gets some of the equity for putting the deal together, signing on the loan, and also managing the asset. For specifics about the deal, always reference the private place memorandum provided by the sponsor. [2]

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Since many syndication deals are structured with a preferred return, the investors have to receive a minimum return on their investment before the syndicator gets their share of the cash flow. The method of distribution will vary depending on the deal.

What is an Accredited Investor?

Although there are multifamily syndication deals that anyone can invest in, there are those that are exclusive for accredited investors. An accredited investor is someone who is considered “financially sophisticated” enough to buy unregistered securities. [3]



Generally speaking, unregistered securities are riskier because they don't have the normal disclosures that come with SEC, Securities and Exchange Commission, registration. But since accredited investors tend to be more knowledgeable and financially secure, they are able to handle the risks of buying these unregistered securities. The SEC believes these accredited investors have a reduced need for the protection provided by regulatory disclosures.

In order to become an accredited investor, a person needs to have an annual income of at least \$200,000 for the previous two years or a net worth of at least \$1 million. The minimum income increases to \$300,000 for married couples. [3] Individuals and business entities alike may be considered accredited investors if they meet these requirements. Although there is no specific “accreditation” process, some companies ask investors to submit a questionnaire to determine if they meet the criteria. [4] The responsibility of determining whether or not someone is qualified to buy unregistered securities falls upon the companies that issue them. The reason these investors need to be “accredited” beforehand is because authorities want to make sure they are financially stable and knowledgeable enough about these more risky ventures. In 2020, the US Congress included registered brokers and investment advisors to the definition of accredited investors. [3]

Finding Multifamily Syndication Real Estate Investment Opportunities

Just like any other investment opportunity, you need to do your due diligence on any multifamily syndication deal that you come across. If you are interested in learning more about multifamily syndication deal in more detail, schedule a call with BAM Capital. BAM Capital prioritizes B++, A-, and A multifamily assets with in-place cash flow and proven upside potential. This mitigates risk and allows the fund to target consistent monthly cash flow. [5]

Picking the Right Syndication Investment for Your Risk Tolerance & Possibly Location

When picking a multifamily syndication investment, you should always ask for the sponsor's track record. BAM Capital's expertise is unmatched when it comes to vertical integration and transparency. BAM Capital handles all steps of the investment life-cycle, from purchasing to remodeling to management, yielding a higher return for investors.

Passive investors can benefit from BAM Capital's long-standing relationships with sellers, brokers, and builders, allowing them to gain expert knowledge on assets being purchased.

Understanding Fees & Costs

Multifamily syndication deals will usually involve various fees paid to the syndicator. That said, it is important for investors to understand these fees and costs.

These fees should be discussed in the private placement memorandum, similar to the splits and other financial matters. You should always consult your trusted CPA and/or attorney when looking at a new investment opportunity.



Equity & Profit from the Deal

Aside from the fees, you also want to pay attention to how the equity will be paid in the end. This will be based on the agreed equity split.

Learn about the equity and profit of your multifamily syndication deal through the private placement memorandum.

Weighing Positives & Negatives of Multifamily Syndication

The benefits of multifamily syndication include having a passive investment, and getting access to bigger real estate deals. It is also managed by an experienced multifamily asset manager. This means you can enjoy having a profitable real estate investment without having to be a landlord. The cherry on top is you get to add real estate into your investment portfolio. [4]

The downside is that you have limited control over the property and there's no liquidity. This means the money is tied up throughout the full period of investment. This also means there are limited options for selling your shares in the investment. [4]

Whether the pros outweigh the cons depends on your perspective and the deal itself.. This is a generally low-risk approach to real estate investment. Always consult your CPA for more information on your specific situation.

Why You Should Do Syndication Investments with BAM Capital

A multifamily syndication is the perfect investment for those who want to try real estate investing without the headaches of being a landlord. BAM Capital specializes in the acquisition and management of income-producing properties—primarily multifamily apartment communities. BAM Capital is trusted by investors because it provides an array of real estate services that achieve maximum benefit. Investors love the low-risk business model that the company offers.

This Indianapolis-based company has been focusing on buying the right assets and staying disciplined in its investment thesis. Currently, BAM Capital has \$593M AUM and 5,000 units. [5]

BAM Capital also focuses on B++, A- , and A multifamily assets to provide low-risk opportunities with lucrative assets. Investors reap the benefits of their cash flow-positive assets. Schedule a call with BAM Capital and invest today.





Sources:

[1]: <https://www.millionacres.com/real-estate-investing/articles/single-family-vs-multifamily-which-is-a-better-investment-strategy/>

[2]: <https://www.millionacres.com/real-estate-basics/real-estate-terms/investing-multifamily-syndication/>

[3]: <https://www.investopedia.com/terms/a/accreditedinvestor.asp>

[4]: <https://www.investopedia.com/articles/investing/092815/how-become-accredited-investor.asp>

[5]: <https://capital.thebamcompanies.com/>

