"Syndication: The Keys for Getting the Deal Over the Finish Line"

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There is much that goes into syndicating a multi-family transaction. Aside from the initial identification of the property and getting the asset under contract, performing due diligence, raising equity and securing debt financing, there are a plethora of issues to address.

Recently I was a panelist at the Middle-Market Multifamily Forum in New York City. The conference, described as "A Forum for Small & Mid-Sized Apartment Owners & Developers", was filled with multi-family investors, and, of course, service providers to the industry. The panel I was on was titled "Syndication: The Keys for Getting the Deal Over the Finish Line". I was joined by 3 other sponsors and one crowd funding platform representative.

There were four major topics discussed 1) Self vs Third Party Management; 2) Investor Reporting; 3) Deal Structure and Sponsor Compensation and 4) Capital Calls

1) Self-Management vs. Third Party Managers – Of the four sponsors on the panel, two self-manage their properties, and the other two use third party managers.

As one who typically uses outside third-party management companies, I made the point that as a sponsor, I can be more flexible about the markets in which we invest without having to have an entire in-house management infrastructure in place prior to exploring new markets. My experience over the years has borne out that a sponsor's time and energy is better spent on asset-management and supervising the property management firms rather than managing the morass of Human Resource issues as well as tenant evictions and lawsuits that come with self-management

On the one hand the self-managed sponsors argued that retaining complete vertical integration is beneficial to investors because by retaining management duties and responsibilities, sponsors have more control of the costs, as well as the timing and direction of their properties. One self-managed company referred to management as "a profit center". Interestingly enough however, the other self-managed sponsor said that the 'property management' aspect itself yields no profit per se, but is nevertheless a beneficial aspect of ownership for the control and direction.

2) Investor Reporting – Sponsors need equity to fuel the deals and usually, the choice comes down to "Institutional Investors" versus high net worth individuals.

It was agreed by all panelists that while institutional investors afford the potential for larger transactions, they are generally "high-maintenance" with respect to reporting. That usually means quarterly financial reports – with detailed narratives - are often picked apart by analysts with numerous questions every quarter.

On the other hand, high net worth individual investors rarely have any feedback on reports and focus more on the timing of their K-1s. The consensus of panelists was that quarterly financials with a simple summary of property activity is the most desirable from the sponsor's standpoint. Non-institutional investors tend to focus more on the General Partner than the deal itself.

3) Deal Structure and Sponsor Compensation – My fellow panelists and I had an opportunity to describe in general terms the way we typically structure our deals. Every deal is of course unique, but in my opinion, the most important point on this subject is that the deal should always be structured so that the investors' and sponsors' interests are co-aligned. For example, if a sponsor does not get paid until the deal is sold or refinanced, then the sponsor may be motivated to sell or refinance when the investors might be happy holding their positions.

Usually, a "typical transaction" has a basic pref and promote structure. That is, the investor receives some preferred return, e.g. 8% and then the excess distributions over the pref are split 70% to investors and 30% to the sponsor. In addition to the pref-promote aspect of the deal, each of the sponsors charge an acquisition fee. Those who self-manage their properties charge a property management fee and those who use third party property managers charge an asset management fee. Financing fees and disposition fees were cited as well as other forms of sponsor compensation

4) Capital Calls – All panelists agreed that capital calls are to be avoided. Sponsors try to hold ample reserves from the outset, but sometimes unexpected vacancies or repairs require more capital than the deal has on reserve. Two of the panelists, myself included, cited cases where we made the decision to invest more capital from the sponsor rather than to go out to the investors for a capital call. In our case, the documents never require that investors put in more capital; however, they have the option to make additional contributions if there is a capital call. Our documents further allow for the sponsor to invest additional capital or to raise additional capital from outside sources without having to go back to existing investors for approval, as long as the new investment is on the same terms as the original investor contributions.