

# 12 WAYS YOU CAN EARN MONEY AS A REAL ESTATE SYNDICATOR

## QUESTION: HOW CAN A SYNDICATOR EARN MONEY IN A REAL ESTATE SYNDICATION?

*NOTE: This information is of a general, educational nature and may not be construed as legal advice pertaining to your specific offering, exemption, or situation. Any such advice must be sought from your own attorney pursuant to an attorney-client relationship, after consideration of your specific facts or questions.*

### ➤ WHAT IS REAL ESTATE SYNDICATION?

A real estate Syndication is a means for a group of passive investors, organized by a 'Syndicator' or 'Sponsor', to pool money with which to acquire, operate, and dispose of real estate for profit. Real Estate Syndication is regulated by the federal Securities and Exchange Commission or state securities agencies (sometimes both) as it usually involves the sale of 'securities' in the form of an 'investment contract'. A securities offering must be registered (approved by the regulatory agencies) unless exempt, which generally requires following a strict set of rules and filing of exemption notices with applicable securities agencies.

The Syndicator will find a suitable property (or property type), form a real estate investment company (usually a limited liability company) to acquire it, and then coordinate a group of investors who will contribute cash to the company for the purchase price (less any bank loans), closing costs, operating capital and reserves. In exchange for their contributions, investors will receive a membership or ownership interest in the company and a return on their investment. The Syndicator will conduct due diligence on the property prior to acquisition and will manage the company on behalf of the investors during ownership of the property until such time as it is eventually re-sold.

### ➤ HOW IS CASH DISTRIBUTED?

After payment of expenses (including any loan payments), and setting aside reserves, any remaining cash leftover from operations, refinance, or sale of property is considered "Distributable Cash". During ownership of real property, Distributable Cash is generally evaluated and distributed on a quarterly basis. The proceeds from any refinance or sale of a property may first be used to return all or part of the investors' capital contributions, and any remaining Distributable Cash will be distributed to the members of the company and the Syndicator. The Syndicator will distribute cash to investors pro rata, in accordance with their respective percentage interests in the company. An investor's percentage interest is calculated by dividing the amount of an individual investor's capital contributions by the total capital contributions of all of the investors.

### ➤ THE 12 WAYS A SYNDICATOR CAN BE COMPENSATED

**Distributions.** Syndicators typically earn between 25-50% of Distributable Cash generated from operations, refinance or sale of a property, which may be paid as a direct split between the members and the Syndicator (i.e., 65/35) or as a preferred return.

1. Operations,
2. Refinance, and
3. Sale of the property.

**Fees.** Fees are an expense of the Syndication and may be collected by the Syndicator on a monthly, quarterly, or annual basis. The type of fees a Syndicator may earn are provided below:

4. Acquisition Fee (1-3 % of the Purchase Price)
5. Asset Management Fee (1-2% of gross collected revenue)
6. Refinance Fee (1-2% of the Refinance Loan Amount)
7. Disposition Fee (1-3% of the Sale Price)
8. Loan Guarantor Fee (1-3% of the loan amount or a flat fee)
9. Interest on loans made to the company (8-12% of the Loan Amount)

**Real Estate Brokerage Fees.** A Syndicator who is also a licensed real estate broker or agent in the state where the property is located may also earn commissions or fees for providing licensed brokerage activities to the Syndication, including:

10. Commissions on purchase of the property
11. Resale Commissions
12. Property Management Fees

**Expense Reimbursement.** In addition to the fees and Distributions a Syndicator may earn, the Syndicator can get reimbursed for payments it makes to third parties during organization of the company, due diligence/acquisition, or operation of the property.

### ➤ INVESTOR RETURNS

**Distributions.** Equity Investors will earn distributions periodically during operations, or on refinance or disposition of the property. A typical Syndication may offer equity Investors a preferred return (typically 6-10%) calculated against the amount of their initial investment, with any remaining Distributable Cash split between the Syndicator and the investors (e.g., usually between 25/75 or 50/50). An alternative structure is a straight split of Distributable Cash (e.g., 50/50 or 75/25) between the investors and the Syndicator. Debt investors may earn simple, preferred interest on the amount of their investment, while the syndicator and/or equity investors keep the rest.

**Fees.** In addition to Distributions, an investor who signs loan documents on behalf of the Syndication may earn a Loan Guarantor Fee, which could be 1-3% of the loan amount or a flat fee.

### ➤ CONCLUSION

In summary, the timing and amount of distributions and fees must be clearly spelled out in the offering documents. A Syndicator should hire an attorney experienced with private securities offerings to draft the offering documents and to file the required exemption notices, and to help them consider all the ways they can be compensated.

### WHAT'S YOUR QUESTION?

For a free 30-minute consultation, call (858) 349-8953 or email: [Kim@SyndicationLawyers.com](mailto:Kim@SyndicationLawyers.com).

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