TOWNCENTER

PARTNERS LLC

OUR MISSION IS JUSTICE

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Section 1

Your Why and Determining Your Financial Goals

Traditionally, investors have focused on generating the highest possible returns or beating the market, while staying within their comfort zones in terms of risk. My preference to wealth management is goal-based investing, which emphasizes investing with the objective of reaching specific life goals. Whichever approach you prefer, the important thing is to do something, and not just leave your financial health to chance.

Are you investing to:

- Build a nest egg for retirement?
- Buy a vacation home?
- Create an income stream during retirement?
- Donate to charity?
- Start a new business?
- Leave a financial legacy to your family?
- Pay for a wedding?
- Save a down payment for a home?
- Save for your children's education?
- Take a special vacation?
- Do all of these?

Next, arrange your goals by the time horizon for achieving them. Do some research and take advantage of financial and retirement calculators available to put a value/cost on each of your goals.

Short Term:

- Pay for a wedding ($30K)
- Take a vacation ($15K)

Mid Term:

- Buy a vacation home ($250K)
- Invest in a new business ($100K)
- Down payment on a home ($60K)
- Save for your children's education ($50K)

Long Term:

- Build a nest egg for retirement ($4M)
- Income stream for retirement ($500K/yr.)
- Leave a financial legacy for your family ($10M)

After you define your goals and figure out how much money you need and when, the next step is to reverse engineer an investment strategy that will make it happen. An investment strategy is basically a plan of attack that guides your decisions based on your goals, risk tolerance, and future needs for capital. Some keys to making a sound investment strategy:

- Start now. Seriously. Stop putting it off
- Know what your looking for so that you are anchored by the must-haves and not distracted by the nice-to-haves
- Take advantage of the power of compounding
- Think twice before investing in anything with high costs/fees
- Diversify your investments.

Investing for Cash Flow

If your number one goal is to eventually quit your job so you can spend more time with your family and in order for you to feel comfortable doing that you would need to have passive cash flow of roughly $2000/month or $24,000/year. You currently have $300,000 in a retirement savings account that you can invest. With that benchmark in mind, you will need to find an investment that yields an 8% or higher return in order to generate roughly $30,000 in passive income.

Investing For Appreciation

If you are more intrigued by the huge upswings in real estate values that have been seen in cities like San Francisco and can tolerate more risk because you are already generating plenty of income and you have a fair amount of assets generating multiple streams of passive income. Your willing to gamble on the chance that you can time the market correctly and benefit greatly when the market has a huge upswing. You know the risk, and are looking for investments in rapidly appreciating markets with a strong value-add component to maximize your chances for appreciation with a large lump-sum payout event even if you have to wait for it.

Investing for Cash Flow and Appreciation

Most investors are more comfortable with a combination of the two strategies. The best way to accomplish this is to look for investments that are in a growing market that provide some cash flow throughout the lifecycle of the investment, but there is also a chance to force appreciation by adding value to the property. This is the best of both worlds with less risk.

You have to be willing to put in some time and effort. It's important that you understand the various types of retirement accounts and investment vehicles before risking any money. Do your homework; research your options because there are many!

Real Estate
401(k)s
Exchange Traded Funds (ETFs)
IRAs and Roth IRAs
Mutual Funds
529 Plans
Stocks
Life Insurance
Bonds
Annuities
Health Savings Accounts (HSAs)

Why Real Estate Is the Smartest Investment In Our Opinion

Every dollar that you invest in real estate goes to work for you in more ways that one.

- Produces cash flow
- Uses leverage
- Gives you equity
- Can appreciate in value
- Amazing tax benefits

Example: You buy a single-family rental for $100,000. Your down payment for that property is $25,000 and your mortgage is $500 per month. You rent it out for $1000/month. You have $350 for expenses an reserves which leaves you with $150/month in passive **cash flow**.

In this example, you bought a $100,000 property with only $25,000. The bank or other lender brings the other $75,000 to the table. The nice thing about **leverage** is the cash flow is based off of the full
$100,000. You reap all the rewards even though the bank brought most of the money to the table. The bank is not going to give you 75% to buy stocks.

It gets better; every month you use the tenant's money to pay your mortgage, and thereby increasing your **equity** in the property. Lets take this a little further. Once you build up significant equity in the property, you can use strategies like the cash-out refinance or you can take out a home equity line of credit (HELOC) against your own asset. This is tax-free by the way! You can then use those funds to invest in another cash flowing asset. Now your money has been cloned and is working twice as hard for you.

Real estate values tend to go up over time. When this happens it is referred to as **appreciation**. This is not always the case, but in 13 years, every real estate investment we have had increased in value every year even during the real estate crisis that started in 2008. While appreciation is nice to have, it's not a guarantee, which is why we always buy for cash flow first and foremost.

Now, lets talk about the **tax benefits** shall we? The tax code is written to reward and encourage certain types of investments. The government realizes that it needs investors to help provide safe, clean housing. When you invest in real estate, you get to take advantage of depreciation and mortgage interest deductions as well as all other related expenses. This will often create a "paper loss" allowing you to make more income, but pay less overall taxes. This one thing has made us hundreds of thousands of dollars over the years. Most people forget to add the tax benefits to the ROI of a potential real estate investment; this is not something you want to overlook.

For all these reasons, real estate is our investment vehicle of choice.

Keep in mind, being your own Financial Advisor doesn't have to mean you go at it alone. I highly recommend that you find a mentor in each asset class that you choose to invest in. Education is the key!

If you decide that real estate is an investment vehicle you want to have in your portfolio, you need to decide if you want to be an active or passive investor. If you want to be hand-on and in complete control of your investment then you should consider rental property or fix-n-flips. If you want to be a hands-off passive investor where you are not dealing with tenants, turnover and toilets, you should really consider investing in real estate syndications of some sort.

We are here to help! Our mission is to help make it as easy as possible to invest in real estate. We know that the number one thing that all successful real estate investors say is that they should've started sooner! It is our goal to shorten the learning curve not only for our children, friends and family but also for anyone willing to follow our lead. We have done thirteen years and tens of thousands of dollars of hard work, education, mentors and seminars (life lessons) for you.

If you would like to invest with us, we would love to have you join our rapidly growing investor family!

The biggest thing, of course, is to approach your financial health with intention. Successful investing and meeting your short and long-term financial goals requires someone in the driver's seat and that someone should be YOU!

Section 2

The Top 10 reasons the Wealthy Invest in Real Estate, Particularly Real Estate Syndications

Real estate has been a staple in many of the wealthiest portfolios for decades and most considers it the fastest way to grow wealth. If you want to invest in what the rich do, get involved in real estate! Real Estate is a limited commodity that has a proven track record of lucrative returns, the offer of diversification, and resilience to economic recessions. One may hold a number of real estate assets from land to single family homes, and even Student Housing homes and storage buildings.

One type of asset structure that is often over looked, is real estate syndication, specifically for large Student Housing apartments, raw land development and self-storage facilities. Being a good real estate investor take lots of time, education, and networking. You also have to learn to either love or out source the property management. Not every investor has the time or desire to search and underwrite hundreds of properties to find a gem to acquire. By getting involved with trusted real estate syndication partners, investors like you can gain access to deal flow and the ability to invest in high quality real estate without the hassles of property management. Here are the top 10 reasons why real estate syndication is a great passive investment vehicle.

1) Diversification

One of the biggest reasons investors diversify their real estate in- vestment portfolio is to mitigate risk exposure.

Possibly the most beneficial reason to consider investing in real estate syndications is that you have the ability to be a passive investor.

The phrase “don’t put all your eggs in one basket” applies directly to this concept, as spreading your investment across a broad spectrum is how investors balance risk and reward in their investment portfolio. What I love best about investing in real estate syndications is that it’s relatively easy to build a framework around diversification by niche, region and sponsor.

Niche Diversification - Many investors consider investing in real estate syndications in order to get better diversification within real estate asset classes. Typically each sponsor has a specialty in a specific type of asset class that they have a competitive advantage in. One should be cognizant of diversification in your real estate portfolio, so spreading investments amongst apartments, self-storage, mobile home parks, single family residential, commercial and raw land development is a great way to achieve this. You must understand asset cycles and trends. Some areas like office may not do so well in a down economy where more stable assets like apartments, self-storage and mobile homes may hold up nicely.

Geographic Diversification - Another form of diversification within real estate syndication is geographically. Actively investing out of state can work, but passive investing through syndication deals is ideal for out of state investors looking for better value in top markets. Some of the best deals are out of state in growing markets. It can be very difficult trying to be an active out of state investor due to competition, relationships, market knowledge, etc., but if you align yourself with a reputable, successful operator in that local

market you can gain access to some great deals you otherwise wouldn't have had access to.

Sponsor Diversification - Vet sponsors carefully and don't stay married to one sponsor forever. Ensure they are growing their depth with key management for continuity and that they are staying true to their philosophy and model, which should always remain conservative and tested. When you invest with multiple sponsors you gain a perspective that allows you to sniff out the good deals from the bad deals since you'll see so much more deal flow.

2) Access To Large Investment Opportunities

Some of the best real estate investment opportunities in the world are in commercial properties. However, the purchase prices for this asset class can range from $5,000,000 - $500,000,000! Because real estate syndications give you the ability to pool your funds with other investors, you are able to get exposure to this asset class, without a seven-figure investment. When syndicators create investment opportunities like this, they allow investors with
$25,000 - $100,000 to invest in these large scale deals. Therefore when they create the PPM or operating agreement, there will be a minimum investment that can be as low as $25,000. This opens up the doors for all investors to invest in opportunities that they would never otherwise be able to invest in. Once you start using this pooled investment model, you can get exposure to apartment communities, self-storage deals, mobile home parks and many other amazing cash flowing opportunities.

3) Ability To Invest Completely Passively

In most investments like these, the investor is completely removed from the asset, the management, or the operational perspective of the investment.

When you invest in syndicated investments, the syndicator/sponsor will handle all aspects of the deal such as, doing due diligence, locating a profitable property (or properties), hiring and managing the property manager, sending out quarterly reports, handling investor relations, and so on. Investors will pay the syndicator via the performance of the deal with a split of the cash flow and appreciation. (Anywhere from 80/20 to 50/50 split for the investor is common but I typically see a 70/30 split.)

In exchange for the sponsor fee, you are able to be completely passive as an investor. Once you fund the opportunity, the only thing you need to do is sit back, relax, and collect payments in the form of quarterly or monthly cash flow distributions and lump sum payouts at refinancing and disposition.

4) Tax Deferred Status

When you invest in pooled investments that utilize Limited Partnerships and LLCs, a whole new world of tax-deferred status is open to you. This structure allows you to compound 100% of the fund's proceeds for years, as long as you do not distribute the gains outside of the fund. Under the new law, investors in pass-through entities like commercial real estate will greatly benefit from an additional 20% deduction. For instance, let's say you are investing in a syndication where the sponsor is purchasing a fully occupied apartment building and holding it for cash flow. Because of depreciation, interest payment write offs, expense write offs, and so on, your annual tax exposure for this opportunity will usually be zero or even NEGATIVE, even if you receive thousands of dollars in distributions from the property's cash flow. Of course, when the property is sold, the investors will pay taxes on the gains they receive

from distributions, but giving your money the chance to compound without paying taxes can completely change your portfolio's trajectory. Note: Savvy syndicators will utilize cost segregation, 1031 Exchanges and Deferred Sales Trusts (explained further in another module) to roll your investments into the next deal, thus pushing tax liability off even further!

5) Forced Appreciation

Unlike single-family homes, Student Housing apartment syndication is a business that is valued primarily by its Net Operating Income (NOI), not by property comps. Through physical and operational improvements, you can increase the value of the property by increasing NOI. Most value-add syndicators look for opportunities to capture appreciation through capital improvements or through streamlining known operational inefficiencies with current owners. One of the first things you will want to look at when considering an investment with an apartment syndicator is the general partners plan to reposition, or force appreciation on, the asset. There are three ways to force appreciation; increase income, decrease expenses, or a combination of both. Regardless of which approach is used, the result will be the same – an increase in NOI.

Let's look at how an increase in NOI will affect the value of the asset. Imagine we buy a 100-unit apartment complex for $5M that has a NOI at time of purchase of $250K, thus a CAP of 5% (NOI/Asset Value). Now say we invest $350K on improvements that garnish an average premium of $75/unit. This increases the NOI from $250K to $340K and thus brings the FMV (fair market value) from $5M to $6.8M (NOI/CAP = 340,000/.05). Investing $350K for a $1.8M FMV increase, a $1.45M return, is a very lucrative move. As you can imagine, a decrease in expenses will affect the numbers in the same way by increasing the NOI.

6) Risk Reduction

By investing with other investors through a syndicator with a proven track record, investment risk is dispersed among all the investors. Syndication allows you to adjust your investment to a more comfortable risk level.

We all know that using an entity such as an LLC is advisable when investing in real estate. However, when you invest in real estate syndication with a sponsor, you add another layer of protection between you and any liability resulting from the fund's managers or debt obligations. In real estate syndications, there are typically two sides of the operating agreement: the "A Side," which lists the managing members who are responsible for the decisions behind the fund, and the "B Side," which lists the investors who bring only capital to the table. Under no circumstance will "B Side" investors be responsible for making management decisions of the fund, and, therefore, under no circumstance would a judge find the "B Side" investors liable for decisions made during the fund's performance. This way you are completely removed from any lawsuits that may arise due to fund-related activities.

7) Economies of Scale

This one is simple - the more units under management, the higher your ability will be to lower expenses (think cost per unit), thus driving up NOI. This is particularly true when using a property management company or undertaking renovations. Property managers will lower their cost of onsite management the more units that you have, even better if they're in a more condensed area (as opposed to 100 SFHs spread throughout town). When thinking of renovations, contractors price per unit will be lower the higher the number of units, and providers of renovation materials – flooring,

appliances, doors, siding, paint, etc. – often offer deals or discounts for ordering in bulk.

8) Consistent Returns And Less Volatility Than Stock Market

The long-term performance of commercial Student Housing real estate makes it a compelling asset class for many investors. If I could sum up that performance in two words, it would be consistent performance.

Consistency is really important. After all, anyone can have a great game, but true greatness comes from consistently high performance over a long period of time.

Since the great depression, commercial real estate has had far more up years than down years in comparison to both stocks and bonds. In fact, commercial real estate has three to four times fewer down years than the other two. If you look back even further at the historical performance of the S&P 500 you get a clear picture of the inconsistency of the stock market. In the last 90-years from 1927-2016 the composite index or S&P 500 has had 28 down years. That is one down year every 3.2 years on average. Now there are reasons to invest in the stock market, but it seems that far too many investors throw money at the market like they're swinging for the fences. Since commercial Student Housing real estate has 3x to 4x fewer down years than the stock market, it too has performed better. That is 3x – 4x more stability that has created more income, more equity, and more wealth for apartment investors. It is that consistency of performance that has more Americans saying that real estate is the best long-term investment and the statistics show it.

9) Principal Pay Down

Isn't it great to have other people pay down your debt? Imagine several hundred people doing that. That's what happens in large Student Housing apartment and self-storage deals. Rental income pays down the debt and builds equity in the property. Through the life cycle of the syndication, rental income from the property pays all debt service. Upon sale of the property principal reductions will be returned to investors.

10) Great Inflation Hedge

As inflation levels began to ramp up and the purchasing power of each unit of currency begins to take a hit, investors may be wondering how they can avoid this monetary backlash and avoid losing value on their investments to inflation. One way to do so is through investing in hard assets such as apartment buildings. Investing and building wealth through apartment buildings is a great way to hedge against inflation because rents, which is the source of an apartment investor's gross income in the investment, rise along with inflation. Real estate in general is always a great investment, but the benefits of doing so are greatly augmented during times of rising inflation. Because of the limited amount of land, in certain markets, and rising population growth, demand in the real estate apartment sector is high. This limited supply and high demand means that increased property values offset any deterioration in wealth caused by a rise in inflation.

Section 3

What is Syndication? Who is Involved? What is Their Role?

What is Real Estate Syndication? Simply put, real estate syndication is an effective way for a syndicator/sponsor and a group of investors to pool their financial and intellectual resources together to invest in properties and projects much bigger than they could afford or manage on their own. Over 90% of large Student Housing purchases are made through syndication.

The parties at the forefront of a syndication deal include the sponsor (also referred to as the general partner, operator, or syndicator), the limited partners (or passive investors) and the property management team. There are plenty of other team members involved that make the deal work behind closed doors, including, but not limited to, a commercial broker, a team of attorneys, CPAs, and lenders.

Role of a Syndicator

The sponsor/syndicator is the person who initiates the real estate syndication; they are responsible for identifying the market, under- writing the property, securing financing, overseeing the business

plan/renovations and the daily activity of the property management company, ensuring strong investor relations, and managing the asset in general.

Role of an Investor

The limited partner, or investor, is the individual (or group of individuals) that provides the equity to fund the deal. The role of investors in real estate syndication is very simple: they invest their money in a real estate project that is run and managed by the syndicator, and they earn a percentage of the project's profits based on a predetermined and agreed upon rate that is split between all investors and the syndicator.

Section 4

Understanding Potential Returns so You Can Make Strategic Investing Decisions

Sponsor-syndicated private real estate investments can be structured in many different ways. Some of the more typical structures used to divide the returns between the sponsor and the investors are as followed. In most private syndications, the sponsor provides a relatively small portion of the capital for the investment, but offers the investment opportunity and the time, expertise and team members to make the investment successful. The investors provide most of the money, but also get to take a relatively "hands-off" approach to the project.

For example: The typical project often has the sponsor providing investors with a "preferred return," often in the 6%-10% range, before the sponsor gets any proceeds outside of returns on his own personal invested capital and a predetermined split, say "70/30". With this structure, the investors are entitled to 70% of distributable cash, and the sponsor gets 30% following the say "8% preferred" return to the investors. Most syndicators still focus on transactions where the sponsor has some of "its own skin in the game," and this means that the investor funds will also include whatever money the sponsor contributes. Let's look at an example of how this might look:

- Investors contribute $900,000 of equity needed to close the deal
- Sponsor contributes $100,000 of equity needed to close the deal
- Sponsor gets 30% of distributable cash as his “carry” incentive

For a $10,000 distribution:

- Investors (including the sponsor) will receive $7,000
- Sponsor will receive $3,000 for his sponsorship role
- Of the $7,000 to investors, outside investors will get $6,300, and the sponsor (in his investor capacity) will get $700, based pro rata on everyone’s invested amounts

This structure is sometimes preferred for its straightforward simplicity and perceived fairness to all the project participants. Syndicated real estate investment opportunities can be structured in many different ways; the above summary merely reflects one of the many possible alternative methods that investors and operators can use to work together. From investors’ point of view, it is important that investments be made under a structure that helps to keep an operator’s and investors’ interests aligned. Keeping the financing and operating interests allied is important to the success of real estate projects as well as business ventures.

Your returns depend heavily on the investment strategy. A yield play will return a lower rate because it is already operating well and there is little upside other than inflation of market rents and perhaps some tweaking of expenses like water conservation. On the other hand, a value play is riskier and has the potential to return much higher rates. You may not see cash flow for 3-18 months on a value-play; however, the overall returns will be much higher. Returns also depend on the area and the ability of the sponsor to

either manage the property well or hire and manage a property management company that can capitalize on all up-side potential.

Typically, investors expect the Cash on Cash Return (COC) to be around 6% to 8% and the Internal Rate of Return (IRR) in the 12% to 20% range, depending on the perceived risk of the business plan. Return of capital in a relatively short period (3-5 years) is also a common goal of most investors unless they are more concerned with long term passive cash flow in which they look for a 5-10 hold. It's important to know what your goals are so that you can look strategically at each investment opportunity placed before you.

Section 5

Are You an Accredited Investor and Why It Matters

When you buy an apartment building with a syndicator, you are not buying real estate. You buy are buying a security. Yes, a security. Sound strange? Perhaps. The reason you buy a security is that the syndicator creates an LLC (Limited Liability Company), which they manage. The LLC owns the property, and each investor owns a portion of the LLC. Since it's a security, which normally requires registration with the Security Exchange Commission (SEC), most syndicators try to avoid going
through the registration process, which is long and expensive.

The SEC allows syndicators to "skip" registering their securities if
they offer them to accredited investors and use either a Regulation D either 506(b) or 506(c). Agree with their logic or not, the SEC believes
that Accredited Investors are capable of accepting economic risks associated with investing in unregistered securities. However, there are specific requirements for those wishing to qualify as an accredited investor.

What is an Accredited Investor?

Without getting into too many legal terms, according to Regulation D of the Securities Act of 1933 you are an Accredited Investor if you:

- Made at least $200,000 of annual income in the previous two years, or $300,000 for a married couple.
- Have a net worth in excess of $1,000,000, excluding the value of your primary residence.

Rule 506(c) allows syndicators to market their deals — but only to Accredited Investors. As an Accredited Investor, you have access to marketed passive investments, which non-Accredited Investors don't have access to. You will need to prove your eligibility as an Accredited Investor, but you gain an advantage many don't have.

What if I am not an Accredited Investor?

The other part of Regulation D — Rule 506(b) — allows investors who are not accredited, to participate in a syndicated deal, if they are "sophisticated." The law defines an investor as sophisticated if he or she has sufficient knowledge and experience in financial and business matters to evaluate the merits and risks of a prospective investment. Last year, over $36B was raised in syndications; and generally speaking, over 85% of all Regulation D offerings are Rule 506b.

The SEC limits each deal to a maximum of 35 sophisticated (and non-accredited) investors. Since syndicators cannot advertise investment opportunities for non-accredited investors, sophisticated investors who wish to invest should be active and network with syndicators to get access to deals. The law requires syndicators to have pre-existing relationships with sophisticated investors; so building relationships with syndicators is key to gaining access to passive investments.

Section 6

Four Steps to Vetting the Sponsor

Without a doubt, the sponsor is a critical component when it comes to real estate syndications. And if we're exploring partnering with another sponsor, we're looking for the same things a passive investor should be looking for - the sponsor's track record, team, knowledge/resources, and trustworthiness.

The sponsor is responsible for many aspects of what goes into a good real estate deal.

- Finds and sources deals
- Negotiate to put the deal under contract
- Does the due diligence on the property
- Puts together all the capital and financing
- Develops and executes a business plan
- Communicates with investors
- Oversees the operation and management of the asset
- Provides updates and financial reports
- Decides how and when the property will be sold
- Makes sure investors get paid

Step 1: Check the Track Record

When checking a sponsor's track record, you want to see success, but don't get blinded by impressive returns or projections. You want to understand what drove that success and determine if those factors can be replicated for future deals. Make sure you ask them about challenges in their business and to share with you a deal that didn't work out as expected. Pay close attention to their response. Do they point fingers and blame others or do they take accountability and acknowledge what they would do differently?

Experience is important, but there is a reason every investment prospective includes a warning that "past performance does not guarantee future success." There are simply too many factors that can vary from previous investments whether they are related to the market, economic climate, personnel, legislation, etc. With that said, it's the easiest and most tangible element to lean on. Sometimes operators won't have a long track record in syndications but have strong success in business or a related field with transferrable skills. Is that experience relevant when it comes to overseeing key aspects of apartment syndications such as project management, budget management, vendor relations and investor relations.

Step 2: Look for an All-Star Team

The sponsor/operator is the point person and their ability to assemble a remarkable team and oversee the business plan is critical. Besides the operator, other key positions we want to learn about are the property management company, contractors, lender, and any advisors/board members (amongst others). If the operator does not have a lot of experience, we're leaning more heavily on the team they've assembled. We want to know they've put together an all-star cast with motivation to see the project succeed.

If the business plan focuses on value-add and making renovations to the property, you want to pay particular attention to the property management team and contractor. We want to ensure these teams have the ability to execute the business plan and have the appropriate experience for the project. Often times the contractor will not be selected until after closing, but it's helpful to understand how the operator plans to approach filling these key roles.

Step 3: Assess Their Knowledge and Resources

A sponsor should have a strong knowledge of their market, deal structure, risks, financing and many other facets that can impact operations.

You'll want to assess the operator's knowledge and resourcefulness. What do they love about the deal, what concerns them and how do they plan to mitigate those risks? Have they consulted with other industry experts and syndicators? Do they have relationships with other syndicators? Where will they turn when something doesn't go according to plan? Have they navigated issues with property managers, contractors, tenants, and even local government agencies? Ultimately, you want to know that the operator is knowledgeable and resourceful enough to protect your money.

Step 4: Determine If You Trust Them & If They Respect You

The last area we look for is character and trustworthiness. I'm looking to understand who they are and what motivates them. What's their long-term plan? Are they transparent? Are they prioritizing investor returns over their own profits? It's important to listen to that gut feeling and ask more questions if something feels off. If you don't generally like them as a person, your not going to want to do business with them no matter how accomplished they are or what team they've assembled. You should only do business with

people you like and because these investments are generally held for 3-7 years, it's important to like and trust the people you will be investing alongside.

Even more important than "liking" someone is being respected by them. When you have questions, will they take the time to answer them or simply tell you not to worry about it? Many investors working with a new sponsor (especially those considering their first syndication) are cautious and have lots of questions when exploring an investment opportunity. A sponsor should be able to answer these questions and calm any normal trepidation without "selling" investors on a deal.

One question that investors tend to ask is if the sponsor is investing in the deal. This is a fair question, but should not make or break your decision. We like to see the general partners investing alongside limited partners, but it doesn't all have to come from the lead sponsor. Ultimately, this is another touch point to validate the operator's commitment to the deal.

Selecting a sponsor to work with is a critical step for any passive investor. This person should be someone who has a track record of success, surrounded themselves with a successful team, knowledgeable and resourceful, and someone you have gotten to know, like and trust. Once you've decided that you want to move forward with the operator, you can turn your attention to the market and the actual deal.

Section 7

Questions You Should Ask The Sponsor

Experience

- How long has the team been in place?
- How long have the principals been in real estate investing?
- How many assets have they acquired
- Do they currently own, manage, etc.?
- Have they gone through an up-and-down cycle?
- Did they go through the Real Estate Crisis in 2008?
- How familiar are they with the location?

Track Record

How many closed deals?
What was the projected vs. actual performance?
What is their experience and track record?
Can they explain their losses?

Leadership Team

Who are the major players on their team?
What do they do themselves, and what do they outsource?
Any criminal history or financial background issues?

Co-Investment

How much is the company putting into their deal?

Investors often like to see that the sponsor is co-investing along with them and putting their own money at stake. Having skin in the game demonstrates that the sponsor has faith in the deal. Sponsors will usually put in 5-10% of the investment. However, you can imagine that if a sponsor is doing a good number of deals, putting 10% in every deal might be untenable.

Conservative Underwriting

Are they conservative enough?

Another thing you want to look for in a sponsor is conservative underwriting. It helps to first understand things like Internal Rate of Return and Equity Multiples. Ideally, you want someone who will under-promise and over-deliver. You don't want the old bait and switch. It's great if sponsors can provide sensitivity tables or analysis. These are different models and projections that are affected by four key variables: vacancy, rent, interest rates, and cap rates. These variables can drastically change your returns. So it's nice to look at how more conservative assumptions might affect returns, but also at the potential upside.

Sponsor Compensation and Fees

What kind of fees are part of their deal?

When it comes down to it, sponsors usually require compensation in one of two ways:

1 Compensation regardless of performance – encourages operators to just do more deals.

2 Performance-based compensation, another name for a "promote" or carried interest – feels more aligned, but also may encouraging risk-taking.

There are pros and cons to both types. The goal is for the sponsors and investors to be as aligned as possible. This is active management and strategy. In this case, you often get what you pay for.

Acquisition or Organizational Fee

- Earned upon closing of the property. The justification for this fee is that sponsors will see many deals before closing and settling on one. They'll have spent a significant amount of time and resources on evaluation and cost analysis at their own risk.
- Also, some of the performance or co-investment returns aren't paid until the deal is closed, which could be 5-7 years down the road. It's sometimes said that these fees keep the sponsor's lights on.
- This fee is usually a small percentage of the purchase price of the property – typically 1-2%, but can be slightly higher for smaller deals because the overall dollar amount is lower.

Financing or Loan Fees

- Fees related to figuring out financing and refinancing
- Can be 0.5-1% Equity or Equity Placement Fees
- Paid to an internal or external team for raising funds
- Usually 2-3%

Asset Management Fee

- To reimburse the sponsor for overseeing management and making sure they're in line with their projections and business plan.
- Usually 1-3%

Construction Fee

- Some sponsors charge this fee if the deal includes a significant amount of renovation or development. Sponsors spend a significant amount of time acting as project managers overseeing the contractors and vendors. I've seen this hover around 3-5% of hard construction costs.

Expense Reimbursements

- Simply reimbursement for expenses pre-paid by the sponsors
- Some examples are legal, due diligence including reports, etc.

Promote or Hurdles

- This is essentially a bonus for hitting certain incentives
- Example: 20% over an 8% IRR Hurdle and 35% over a 16% IRR Hurdle
- There might be incentive-based fee for hitting certain markers when they refinance. For example, if the sponsors hit a certain refinance amount and are able to get a significant amount of capital return for their investors, the sponsors might get a small bonus.
- Usually 1-2%

Disposition Fee

- For all of the work involved with selling the property
- Around 1%

Fees aren't everything, but it's important to take them into consideration to understand how the sponsor operates. Again, the lowest fees don't always mean the best sponsor. It's important to know what the fees are for. At the end of the day, if you're happy with the returns, then the fees are just the cost of doing business. Understanding fees vs. promotes will also give you a good idea of what the incentives are for the sponsor and how they operate.

Section 8

Seven-Step System for Evaluating a Market

Successful real estate investing relies on several factors, but “location, location, location” is top of the list. But “location” is a broad term, and evaluating the right place to invest your dollars means identifying the right markets both geographically and economically.

Some cities simply provide better opportunities than others based on factors like the relative cost of housing to average incomes, availability of good jobs, and demographic trends. At the local level, factors like the quality of schools, neighborhood safety, access to amenities like parks, shopping and entertainment and a host of other variables come into play.

Here are some guidelines to help you ask the right questions as you determine where to invest.

Start with your Goals

Are you investing for the long term or trying to achieve a shorter-term boost in value? Various markets throughout the country will produce more consistent cash flow per dollar invested, but the properties may not appreciate much. Other regions will exhibit

strong trends for appreciation in value, but may not cash flow well due to the high costs of properties relative to rental rates. This is why it is very important to know your investment goals and understand what is going to take to get there.

Investing Locally vs. Remote Markets

Many investors want to be able to see their investments or rely on their own expertise and local network to manage properties. If you live in a high cost city like San Francisco or Washington, DC, the real estate market can produce some positive opportunities, but only if you have significant capital to work with. In many cases, it may be better to evaluate other markets that fit your goals more cleanly.

When looking at a metro region, there are a wealth of statistics available to help you determine the overall viability of that market. Here are several categories of data to look into:

Economic factors

- *How many people live there?*
- *Is the population expanding or contracting?*
- *Is the economy diverse?* A one company or one industry market can take a big hit if that one employer base goes through difficult times. A city with multiple economic drivers will be more stable and more likely to grow.
- *Are wages rising, falling or stagnant?*
- *What is the unemployment rate?*

Real Estate Factors

Once you find a market or couple of markets that look positive at the economic level, it makes sense to start looking at the general housing market in that area. Some of the questions to ask here include:

- What is the ratio of owner occupied to rental properties? Areas with a higher percentage of renters will obviously create a bigger pool for you to choose from and more demand for quality rental units.
- Rent-to-Value Ratios. A general rule is that monthly rents should be at least 1% of the property value. If you buy a property for $250K and can only rent it for $1,800/month, the likelihood that you will see positive cash flow if slim and you will be banking on appreciation.
- Vacancy Rates and Time on Market. A property purchased at a bargain rate does you no good if you cannot find a renter. Evaluating trends in the number of vacant properties and average time to fill a vacant rental can be critical.
- Housing Sales Statistics. Even if you are looking at a long term buy and hold, the ability to sell a property and receive a reasonable price is critical to your exit strategy. This can also be a solid indicator of the overall health of the real estate market. Look at trends in month' supply of inventory, time on market, and asking vs sales prices.

Regulatory Factors

Some markets are friendlier to real estate investors than others. If you take two individual properties with similar dynamics such as cost, condition and rental potential, you can see very different results based on things like taxes and whether landlord/tenancy laws are more or less favorable.

It really pays to understand the following factors:

- Property tax rates
- Property insurance rates
- Municipal landlord taxes (an IRA or 401k may not be exempt from certain local taxes)
- Local landlord/tenant laws – how easy is it to evict a tenant, for example.

Local Market Factors

In addition, you will want to look at things like neighborhood safety, quality of schools, access to transportation, proximity to shopping and recreation, and other factors that drive desirability.

Investing in real estate is not really that different than any other type of investment. You want to identify opportunities that present the maximum potential with the least risk possible.

The Seven-Step Market Analysis System

Step 1 Population Growth

Use city-data.com to research the city's population

Goal: Since the year 2000, has the city's population gone up at least 20% (Ex: Phoenix, Orlando, Las Vegas, Columbus Ohio)

Step 2 Income Growth

Use city-data.com or bestplaces.net to research the city's income Growth

Goal: 30% income growth since the year 2000. This implies that the city is keeping up with inflation. If it's not keeping up with inflation, than you end up with high levels of delinquency especially in Class C properties.

Step 3 Median House Value

Use city-data.com to research the city's median house or condo value

Goal: 40% increase in median house or condo value since the year 2000.

Step 4: Amount of Crime

Goal: Under 500 crimes in the previous year. You want to see that the number of crimes has come down over time.

If you apply these four principals, you will stay away from cities that will not flourish during an economic down turn. Next, you want to look into the neighborhood within that city.

Step 5: Neighborhood Household Income

Goal: Income needs to be between $40K-$70K

This is ideal in order to generate the cap rate necessary for a successful syndication and stay above the increase in delinquency marker. Under $40K household income is tied to increase in delinquency. Above $70K, the neighborhood demands a lower cap rate, therefore best for a REIT acquisition vs. a syndication.

Step 6: Neighborhood Poverty Level

Goal: Poverty Level below 20%

Never invest in a neighborhood where the poverty level is above 20%. Above the 20% mark, your unit churn expense will kill any and all profit.

Step 6: Neighborhood Unemployment Rate

Google unemployment rate for the city

Goal: Make sure that the neighborhood unemployment rate is not more than 2% higher than the city's unemployment rate. If it is higher, than the moment a recession hits, the unemployment for that neighborhood is going to skyrocket.

Step 7: Neighborhood Demographic Diversity

Goal: You want there to be at least two demographic races of people that make up the neighborhood.

Note: You don't buy for good times, you by for bad times and always stress test every deal!

Section 9

Exploring the Four Student Housing Asset Classes

When evaluating student housing properties, a grading system is used to classify different assets. Just like a report card, Student Housing assets get a letter grade, ranging from an A to a D.

Class A Student Housing Assets

Let's start at the top, with Class A. Class A is the top tier. These are the luxury apartments. They are located in the most highly desirable neighborhoods, with the best school districts. The interiors will have hardwood floors, granite countertops, and stainless steel appliances. Bathrooms will likely include beautiful tile work, and maybe even a rain shower.

Class A apartment communities often include top quality amenities as well. Full service gym, resort style pools, clubhouse, rooftop patios, dog parks, picnic areas, and covered or garage parking.

For all this luxury, you will be paying much higher rents.

Class B Student Housing Assets

These assets tend to be in nice neighborhoods as well, often around the corner from a Starbucks or Target. Often, you'll find hardwood look-alike flooring (high quality vinyl or laminate), black or stainless appliances, solid surface countertops, and nice cabinetry.

Class B assets tend to be a bit older, built within the last twenty to thirty years, the buildings tend to have little to no deferred maintenance. Amenities can vary. Often times they are similar in scope to Class A Amenities. As you can imagine, rents for Class B apartments are lower than Class A apartments, so these assets tend to appeal to more of a working class tenant profile, which can be a huge benefit to investing in Class B assets.

Class C Student Housing Assets

They often tend to be in more developing neighborhoods. They don't particularly stand out when you drive by them. They're not falling apart, but they're not sparkling either. There is typically some or a lot of deferred maintenance (e.g., older roofs, peeling paint, etc.). Inside these units, you'll often find more dated kitchens and bathrooms, as well as laminate flooring or carpets and they are usually sporting "vintage" appliances.

Class D Student Housing Assets

At the bottom are Class D assets. These are the types of places you would normally avoid. There's typically a lot of deferred maintenance and neglect, which is apparent even from a distance. They are in sketchier areas of town, where you probably wouldn't want to be caught alone after dark. The interiors of these units, as you can imagine, are consistent with the exteriors. Dated, worn, and poorly constructed.

To summarize, Class A apartments are the highest quality apartments you can find. They're in the best neighborhoods, with the best finishes, but also cost the most. On the opposite end of the spectrum, Class D apartments are those you wouldn't want to touch with a ten-foot pole. The buildings are often falling apart and are located in rougher areas of town. In the middle are Class
B and C assets.

The sweet spot!

We specialize in investing in Class B and C student housing assets because they provide the most potential value for investors, as well as the greatest potential impact for communities. Perhaps the biggest reason we invest in Class B and C student housing assets is because of the opportunity to add value. We look for properties that don't have huge maintenance issues, like the need for roof replacements and foundation fixes.

Ideally we look for properties that have strong bones, but that need some cosmetic upgrades. Perhaps the kitchens haven't been updated in 20 years, and bringing in some new flooring, cabinetry, and appliances would allow us to increase the rents to market rates, while also providing the tenants a home they can be proud of.

Perhaps our favorite aspect of investing in the commercial real estate space is the value-add strategy, as it gives us more control over the value of the property. Rather than relying solely on the market to appreciate, we can be proactive in improving the property, raising rents to market values, and thereby increasing the equity in the property.

Shortage of Workforce Housing

These days, any time you see a construction site for a new apartment complex, you can almost guarantee that a Class A apartment building will be going up there. It's too expensive to build Class B, and especially Class C. Labor costs have gone up, and with all the work that goes into the permitting process, developers tend to focus their efforts on building Class A assets, as they make the most financial sense for them.

As the population continues to rise, and more and more Class A buildings hit the market, we're seeing a shortage of workforce housing (Class B and C apartments), as compared to demand. As a result, occupancy in Class B and C apartments tends to be very high (90%-100%)

Risk Mitigation During a Recession

During a downturn, as markets contract, people are getting laid off and losing their jobs. As a result, people who have been living in Class A apartments start to move to Class B, and Class B to Class C, and so on. This creates high demand for Class B and C properties.

It's the Class A assets that are most vulnerable during a recession, since there's a smaller pool of people who can afford those rents during a recession. Since we tend to hold our investments for five or more years, we can't predict when the next recession will hit. So, investing in more recession-proof assets allows us to hedge our bets and mitigate those risk factors.

There is money to be made in all of these student housing asset classes. Some carry more risk than others, but with risk comes more potential upside. Each investor has to determine their own personal risk tolerance and make a decision about which asset class meets their investment goals.

Section 10

Navigating The Investment Offering Summary

No two-investment summaries are the same. Some will be a beautiful display of professional pictures, chart's and graphs that expand 10-20 pages or more of information, while others will be a one-page summary of the offering with more information available upon request. Whatever you do, don't allow the beauty of an investment summary camouflage what's hidden within and be the determining factor of whether it is an opportunity worth diving into or not.

It is important to know what your investment goals are. You should have a predetermined set of guidelines and non-negotiable screening items laid out prior to reviewing any investment summary. This will keep you from being sucked into a deal that doesn't meet your investment criteria.

Even though every investment summary is different, there are some basic elements that are pretty common across all Student Housing real estate syndication investment summaries:

- Project name (often the name of the apartment complex)
- Photos of the property and area
- Overview of the submarket

- Overview of the deal
- Details of the business plan
- Projected returns and exit strategies
- Detailed numbers and analyses
- Team bios

Let's take a look at a sample one-page investment summary so you can see what I look for at first glance.

STUDENT HOUSING INVESTMENT OPPORTUNITY

Sample Executive Summary

Photo of building exterior

Photo of apartment interior

Photo of common area (pool, office, etc.)

Alpha Investments is pleased to present Omega Apartments, an exclusive off-market value-add multifamily investment opportunity in the heart of the northwest submarket of Growthville.

Similar to Beta Apartments (acquired just last year and currently undergoing renovations), our plan is to renovate the majority of the 250 units and increase rents to market rates.

Investment Highlights

- The northwest submarket is the #1 fastest growing area of Growthville.
- Ten units have already been updated and are achieving $150 rent premiums.
- Beta Apartments, acquired last year, is in the same submarket and is surpassing original projections.

Investment Snapshot

Purchase Price	$20,000,000
Capital Improvement	$2,000,000
Units	250
Year Built	1985
Current Occupancy	93%
Equity Multiple	2.1x
Internal Rate of Return	16%
Average Annual Return *(not including sale)*	8.3%

Sample $100,000 Investment

	Year 1	Year 2	Year 3	Year 4	Year 5 (sale)	Total
Annual Percent Return	5.3%	8.2%	11.3%	14.7%	70.5%	**110%**
Return on Investment	$5,300	$8,200	$11,300	$14,700	$70,500	**$110,000**

Here are the things that I notice at first glance:

Off market

When an asset is acquired off-market, it means that the seller chose not to list the asset publicly. Maybe the seller didn't want the tenants to know that the building was being sold (this is quite common). Maybe the seller needed to sell within a set timeline. Or maybe the seller already had a buyer in mind.

Regardless, off-market is almost always a good thing. This means the deal sponsor team did not have to compete with other potential buyers on price. There's a good chance that the purchase price is low, or at least very reasonable.

Value Add

A value-add investment is an asset that presents an opportunity to add value in some way. Maybe the rents are significantly below market rates because the previous owner hasn't raised rents in 10 years. Maybe the kitchens are still from the '90s and could use some updating. Maybe there's an opportunity to add some brand new additional units. Value-add means more control is in the hands of the deal sponsor team. Rather than relying solely on market appreciation, there are things they can do to create additional equity, even if the market stagnates.

Because there's a chance to add value and improve the living conditions, as well as the returns for the investors, this is a true value-add. The team will go in, complete the renovations, and then rent out the updated units for $1,200 per month.

When you add up the $200 per month increases across all 250 units. That creates a ton of additional equity in the building, not to mention a ton of value for the residents who live there. Once

residents see the updated spaces, they're often happy to pay the higher rents and start to take more pride in their community.

Track Record of the Sponsor

They say here that they have done this before and are currently in the trenches with another asset nearby. I also see, that they've started implementing their business plan at Beta Apartments and that they're surpassing their original projections. This tells me that their business plan is working and that they would likely be able to continue to strengthen their track record through Omega Apartments.

The fact that this is an off-market deal tells me that they've likely built up a strong reputation in the area, amongst brokers, property managers, and other apartment owners. Otherwise, they wouldn't have been awarded this off-market deal.

Strong Submarket

I notice that this deal is in the "#1 fastest growing" submarket. I would then go to Google and research the market as well as the neighborhood the property is in using the market evaluation guide outlined in module 8. Much of this will be in the full investment summary, but I always like to do a little research on my own as well.

Proven Model

According to the summary, ten units have already been updated and are achieving rent premiums of $150. This tells me that the rent increase following the value add is not only possible, but probable. Very good news!

Equity Multiple

In this case, the projected equity multiple is **2.1x**. This means that during the life of this project, my money will be **more than doubled**. Therefore, for a $100,000 investment, I will receive $210,000 over the life of the investment. I typically look for an equity multiple of 2X. This one passes the test!

Unit Count

Because this deal has 205 units, means that the team would be able to take advantage of **economies of scale** (i.e., increasing efficiencies by leveraging shared resources across the many units). I will typically look at anything above 50 units. Ideally, to maximize economies of scale, I like to see over 100 units. It's important to me that third-party professional property management manages the properties I invest in. You need a unit mix of close to 100 units to maximize the expense of on-site property management.

Next Steps

If I like what I see, I'll request a copy of the full offering summary. In the mean time, I'll do my research on the market, sponsors, etc. to insure that no red flags appear.

Once you are comfortable with an opportunity, it is important to jump fast! If it is a good deal, they go fast and are awarded on a first come, first serve basis. Be ready to make a soft commitment to reserve your spot. There is no shame in back out of a deal prior to signing the Offering Memorandum and wiring your funds should a red flag come up during that time. No question is a stupid question, so get all the answers you need to make an educated decision and then get in the deal!

Section 11

The Step-by-Step Process of a Syndicated Investment

Step 1: The sponsor announces that the deal is open for funding, usually via email.

Step 2: You review the investment summary deck and decide to invest.

Step 3: You submit your soft reserve, telling the sponsor how much you'd like to invest. Real estate syndications are almost always filled on a first-come, first-served basis. Thus, sponsors use a soft reserve to help them determine who's interested in investing. By submitting a soft reserve, you are telling the sponsor you're interested in the deal and want to invest X amount. The soft reserve does not guarantee you a spot in the deal, nor does it lock you in. You can always back out or change your mind later.

Step 4: The sponsor will hold an investor webinar or in person meeting, where you can get more information and ask any questions you might have.

Step 5: The sponsor confirms your spot in the deal and sends you the PPM (private placement memorandum).

Step 6: After signing the PPM, you wire in your funds or send in a check.

Step 7: The sponsor confirms that your funds have been received.

Step 8: The sponsor notifies you once the deal closes and lets you know what to expect next.

Step 9: After you've sent in your funds for a real estate syndication deal, your active participation is done. Now you can sit back and wait for the cash flow to start rolling in. Depending on the particular deal, you may receive either monthly or quarterly cash flow distributions, and they may start immediately, or not for a few months.

Step 10: You should start receiving monthly updates as soon as the deal closes. These monthly updates will include information on the latest occupancy and progress on the renovations. Every quarter, you will receive a detailed financial report on the property, and every spring during tax season, you will receive a Schedule K-1 for your taxes, which will report your share of the income and losses for the property.

Section 12

Navigating the Private Placement Memorandum (PPM)

If you plan to be a passive investor in a Student Housing syndication, you need to understand what a Private Placement Memorandum (most commonly referred to a the PPM for short) is, why it is needed and what should be contained in it. The PPM is technical, lengthy (often more than 100 pages) and carries legal jargon and disclaimers that would pretty much scare anyone out of investing. As I like to say, it explains all the “side-effects” including all the ways you can die if you proceed.

All joking aside, the PPM is a document there to protect you as the investor and a necessary part of the due-diligence process for every investor.

The goal of this module is to help take away the mystery, overwhelm and to help you navigate the private placement memorandum efficiently as possible so that you can make a well-informed decision about a potential private investment.

PPMs will vary by the type of issuer, the size of the offering, and the number and type of investors being solicited, but each private placement memorandum should at least contain the five sections outlined below.

1. Executive Summary

This Executive Summary section presents a condensed description of the investment. It usually includes the investment thesis, pricing, minimum subscription amount, investor qualifications, disclosure of management fees, and a brief discussion of the issuer's governing documents.

Note: Be wary of disclaimers that allow management to have too much latitude or discretion and pay close attention to the conflicts of interest. This section should mirror what has been stated in the marketing materials and represented by company representatives.

2. Investment Strategy

The Investment Strategy section presents a thorough explanation of the issuer's investment strategy, process, and criteria, as well as its deal flow sourcing and exit strategy. Included in this section is a description of the issuer's key competitive advantages and resources in its specified markets. It will also discuss the industry, state and geographical focus of the investment.

Note: Investors should review this section to learn how the issuer intends to achieve its targeted results and assess whether the investment strategy supports the issuer's objective. Investment strategies that are well reasoned and clearly written will provide investors with information they'll need to make a fully informed investment decision. An offering with an investment strategy that is vague, unclear or that does not make sense is probably an offering that should be avoided.

3. Management and Experience

The Management and Experience section contains biographical and background information about the principals and key

employees. It provides a detailed overview of the issuer's history and how it has succeeded. This section often provides the issuer's investment manager's track record.

Note: The success of an investment will be dependent upon the management team, so it is imperative that team has the background and experience to implement the investment strategy. Prior experience successfully managing similar investments supports the proposition that the management team is capable of implementing the investment strategy with positive results.

4. Summary of Principal Terms

Perhaps the most important section of the private placement memorandum, is The Summary of Principal Terms which outlines the organization of the company, what fees investors will pay, what expenses the company will bear, how profits will be split, and a thorough summary of the business plan. A careful analysis of the Summary of Terms should provide most of the information necessary to fully comprehend the investment offer.

5. Risk Factors

Risk Factors seem to be the section that will truly make everyone's eyes glaze over. Few investors need to be advised that, "in the event of war, no assurance can be given that the investment will meet its stated goals." Nevertheless, this section is perhaps the most important component of the PPM because it outlines the factors that make the offering risky or speculative.

While there are certain risks that are present in nearly all investments (civil unrest, bankruptcy, natural disasters, etc.), investors should pay particular attention to those risks that are unique to the investment opportunity given the nature of the issuer, its investment plans and the trends within the issuer's industry.

In addition to risks inherent in the investment, there are risks associated with the offering entity and the management team. Perhaps the most significant of these are conflicts of interest.

Take note of the following:

Fees and expenses – Shifting expenses from management to the investor, charging management salaries and overhead to the fund, allocating transaction fees to the fund and not co-investors, etc.

Transactions with affiliates – Affiliate of management acts as creditor or lender to the fund, or the fund acquires an investment from a management affiliate

Competing funds – Management launches a new fund with the same strategy as an earlier fund, creating conflicts between allocation of investments between the funds

The above-listed sections are those commonly found in most PPMs, but it is not the exclusive list. As you are reading the private placement memorandum, if you find any information that seems odd, inconsistent, or otherwise incomprehensible, you should contact the issuer and the issuer's management team should be available to respond promptly.

Section 13

Tax Advantages of Student Housing Real Estate

Let's look at the great tax advantages of investing in student housing real estate. These benefits fall into five main categories – Depreciation, Cost-Segregation, Passive Income Tax Treatment, 1031 Like-Kind Exchanges, and Death.

*NOTE: I am **not** a CPA, tax attorney or tax expert in any way, so this article may contain erroneous information. Do not rely on it as accounting, taxation, or legal advice. The article is based on an interview Chris O'Neal of Moody & O'Neal CPAs LLC of Mt. Pleasant, South Carolina, whose contact information is provided with his permission. Please consult a licensed professional before making any investment decisions, particularly in the complex area of taxes.*

Depreciation

Of all the great tax benefits for student housing real estate investors, the first and perhaps best is depreciation. Student housing properties often rise in market value over time. And, with proper maintenance, their useful lives are practically unlimited. However, without proper maintenance and capital spending, buildings will eventually become uninhabitable.

Money spent on capital items comes from after-tax dollars, which owners might be reluctant to spend. So to encourage student housing real estate owners to undertake necessary capital spending, the government permits them to take a depreciation deduction against current income equal to 1/27.5 (or 3.6%) of the building's value at purchase each year.

In other words, even though buildings practically have a limitless useful life, the government allows you to treat a student housing property as if the property will become obsolete in only 27.5 years. And, what's more, regardless of the actual age of the property, the depreciation clock resets every time the property is sold to a new owner.

For Example: If you purchase a property for $5,000,000 and the land is deemed to be worth $250,000, each year a student housing property owner is permitted to deduct 1/27.5th of $4,750,000, or $172,727, from current income each and every year. In most cases, particularly early in the investment's life, this deduction eliminates most or all of the current income. The investor might even put cash into her pocket and show a loss on their tax return. The depreciation in your passive investment LLC will flow through to investor's pro rata according to their ownership percentage.

Cost-Segregation

The ability to undertake a cost-segregation study is another great benefit of student housing real estate investment.

While the government considers the useful life of a student housing apartment building to be 27.5 years, it considers the useful lives of certain items on the property, like cabinetry, appliances, and fixtures, to be much shorter – as little as 7 years or less.

A professional cost-segregation study will separate these items out from value of the building, meaning you may realize even greater tax savings from the depreciation deduction.

In the earlier example, if you conduct a cost-segregation study, you may find that $1,000,000 of the value of your $4,750,000 building comes from cabinetry, appliances, fixtures, etc.

In that case, your depreciation deduction would be even greater for the first 7 years – $136,363 from the building depreciation ($3,750,000/27.5) and $142,857 ($1,000,000/7) from personal property depreciation, for a total of $279,220 in depreciation expense annually.

You'd almost certainly have tax "losses" during those first five years that you could offset against other investment income.

Cost-segregation sounds great, doesn't it? However, consider its use carefully, because aggressively taking depreciation deductions early could possibly result in a tax bill greater than the cash proceeds you generate when you sell. (See 1031-exchange section below.)

Passive Income Tax Treatment

Another great advantage of student housing real estate for investors is passive income tax treatment. As long as you are not a "real estate professional" (defined as someone who spends more than 500 hours a year working on real estate), your income from an investment in a student housing real estate is taxed at passive income rates, which are not subject to employment taxes and therefore are

lower than current income tax rates. Thus, even if there is taxable income left over after the depreciation deduction, it will be taxed at the lower passive income tax rate. In addition, appreciation is taxed at capital gains tax rates, which are lower than current income tax rates.

So, as long as you are not a "real estate professional," any income and gains you receive from participating in a student housing real estate investment will receive favorable tax treatment. Again, this is true even if you participate passively in a deal.

Section 1031 Like-Kind Exchanges

The depreciation deduction discussed above is subject to "recapture" on sale. That means your gain on sale is increased by the amount of depreciation deductions you took earlier. However, the government lets you defer taxes on the recaptured depreciation through what's commonly known as a "1031 like-kind exchange," after Section 1031 of the US Tax Code. On sale, your gain is calculated by subtracting your "basis" in the property from the sale price. The "basis" is the purchase price minus the accumulated depreciation over the life of the investment.

So, let's assume that after five years you sell the property for $6,000,000. Over that time, you take $172,272 annually in depreciation deductions, totaling $861,360. Your basis in the property would drop from $5,000,000 to $4,138,640. Subtracting that from the $6,000,000 sale price would give you a taxable gain of $1,861,360. (If you did cost segregation, your taxable gain would be $2,396,100.)

The government allows you to defer paying these taxes by using the proceeds for the purchase of a more expensive, higher-basis property within a set period of time. (A complicated process that requires a professional 1031 intermediary.) Though your basis in the next property is reduced by the amount of the taxable gain that was deferred, you are permitted to repeat this process as many times as you wish until you die. And, when you die, something very interesting happens . . .

Death

. . . your taxable gains go "poof" and evaporate into thin air!

Yes, death is a tax benefit for student housing real estate owners and investors!

Almost unbelievably, when you die, the government assigns a new tax basis to the properties when they are transferred to your heirs – the fair market value at the time of your death – meaning that all those accumulated gains disappear.

Thus, let's assume that, instead of selling the property for $6,000,000, you die when its fair market value is that amount. Your heirs do not inherit a $6,000,000 property with a $4,138,640 tax basis and a built-in taxable capital gain of $1,861,360 (more if you did cost segregation).

Instead, the tax basis is reset to the $6,000,000 fair market value, and all the previous capital gains vanish for your heirs!

Looked at this way, death is a benefit for real estate investors, and real estate is an excellent estate-planning tool!

An Important Caveat For Syndication Deals

Investors in syndicated student housing real estate investments should beware of one thing.

Their individual proceeds from a sale of the property are not eligible for a 1031 exchange. To avoid taxes on their capital gain, investors in a syndicated deal must keep their funds in the LLC. The LLC is the actual owner of the real estate, and is the only party eligible to attempt a 1031 exchange. Keeping in the LLC may not be an option under the circumstances. Investors contemplating investment in a student housing real estate syndication deal should keep in mind that, while they will receive tax-advantaged income during the life of the investment, it may not be possible to defer taxes on capital gains after the property is sold via a 1031 Exchange.

However, you can use a Deferred Sales Trust to help them gain tax deferral, liquidity, diversification and freedom to buy qualified real estate at any time tax deferred with your funds so you can create and preserve more wealth. What is the Deferred Sales Tax Trust you ask?

A Deferred Sales Trust (DST)

The DST offers an attractive and flexible tax deferral alterative to a 1031 Exchange. The DST is a type of IRC Section 453 installment sale, also known as a “seller carry-back”. Using this strategy, the seller can achieve significant tax deferral benefits by not receiving actual or “constructive receipt” of the proceeds at the time of the sale, instead receiving payments made to them over time. This is a complicated strategy that requires a qualified trustee to handle. In a nutshell, you as the owner would transfer the ownership of the asset to a dedicated trust.

The trust then would sell the asset to the buyer. As a result, there is no capital gains tax immediately owing from the initial transfer to the trust because of Section 453, and no capital gains tax liability from the sale from the trust to the buyer because there is no capital gain. You then become a note holder (creditor) and the trust makes the agreed upon payments to the note holder, pursuant to a payment agreement called an "installment sales contract." The only capital gain that will be recognized and paid to the IRS and the State is only that portion of the overall capital gains due from the taxpayer's sale to the trust, based upon the proportion of principal repayment established in the terms of the installment agreement. Upon the demise of the seller, the note payments and the capital gains tax deferral from the DST will continue to the next generation.

Death Tax Benefit

The Death Tax Benefit is available to real estate syndication investors, and your heirs' tax basis in your shares will be their fair market value at the time of your death.

While these great tax advantages are available to other forms of real estate besides student housing real estate, they are not available for most other investment assets. This is one reason why student housing real estate is such an attractive investment vehicle.

Section 14

What to Expect After You Invest In a Deal

After you invest in a real estate syndication, you will get regular updates on the progress of the project after the deal closes. At any time, you can ask for more information or clarification, but when a unit floods due to plumbing issues, you will not be the one the tenants call!

Here are the things you should expect from the time a real estate syndication deal closes through the time that the asset is sold:

Upon Closing

As soon as the real estate syndication deal closes, you can expect a note letting you know that the deal actually closed. Included within the notice will also be an Investor Guide, which will give you a high level overview of what to expect moving forward and answer some frequently asked questions, including questions about the timing and logistics of your cash flow distributions, how to set up your auto draft deposits, tax-related questions, and more.

Monthly

Every month after that, you can expect to receive an update on the progress of the real estate syndication project via email. Depending on the deal, you will also receive either monthly or quarterly cash flow distributions. The update emails include things like the current occupancy, how many units have been renovated that month, whether the renovations are on track with the business plan, and occasionally some photos of the latest progress. This will help you to keep a quick pulse on the project. The progress updates are mostly anecdotal and include a quick high level overview of the different initiatives going on at the property.

Quarterly

Every quarter you can expect to receive a detailed financial report, including the rent roll and the profit and loss statement from the trailing twelve months. Beyond the anecdotal updates you'd get each month, these quarterly reports are much more detailed and give you a line-by-line breakdown of exactly how the asset is doing financially. These quarterly financial reports are not exactly the most fun to read, especially if you're not a spreadsheet lover, but I highly recommend you at least crack them open to take a look. Even a quick scroll through the pages will give you a decent idea of the overall performance of the asset and the metrics used to assess the ongoing progress.

Annually

Every year, during tax season, you can expect to receive a Schedule K-1, which is a tax document issued for an investment in a partnership, like a real estate syndication. The purpose of the K-1 is to report your share of the income, deductions, and credits. A separate

Section 15

How Partnering With Us Can Benefit You

At Elevate Commercial Investment Group, we help busy people that don't have the time or desire to educate themselves and find the best opportunities available to invest in cash-flowing real estate, that will in turn impact local communities without the hassles of being a landlord. As a passive investor in a real estate syndication, you don't have to do any of the work, but you get to share in the majority of the returns. We do this by connecting our investors with the best passive real estate syndication opportunities (group investments) out there.

We are always looking for great deals to invest in ourselves. When we find them, we open those opportunities up to our investment club. Here at Elevate Commercial Investment Group, we are passionate about making real estate investing accessible to everyone.

When you become one of our VIP investors, you'll get access to our investment opportunities and will have the chance to invest alongside us to make an impact on the world and your personal wealth one investment at a time.

BONUS

Most Commonly Asked Questions

Can I invest in syndication with my retirement funds?

Yes! In fact, this is one way that many passive investors get started with real estate syndications. To invest in a real estate syndication using retirement funds, you need to first roll over your existing retirement funds (401k's, IRAs, etc.) into a self-directed IRA account. We like Provident Trust Group for their low fees and great customer service, but there are many self-directed IRA companies out there. Once your money is in the self-directed IRA account, you can choose what you want to invest it in, and the self-directed IRA custodian will invest it on your behalf. For a real estate syndication, you will need to provide your self-directed IRA custodian with copies of the legal documents for the syndication (private placement memorandum, operating agreement, and subscription agreement). Then, they will send in the funds on your behalf. Any returns you make on the investment must go directly back into the self-directed IRA account, never into your personal accounts.

Where can I find real estate syndication opportunities?

Many real estate syndication opportunities cannot be publicly advertised. The ones that you do see publicly advertised are for

accredited investors only. You can do a Google search, but how do you know that the opportunities that pop up are legitimate ones, put together by experienced teams with strong track records, who will safeguard your money over a period of several years? It's extremely hard to find great real estate syndication opportunities just by doing a Google search.

The best way to find real estate syndication opportunities is to get out there and talk to people in the real estate investing space, and particular those in the real estate syndication space. This community is quite small, and once you get connected, you'll easily be able to find sponsors and real estate syndication opportunities that fit with your investing goals.

We know how hard it can be to find great real estate syndication opportunities. So, that's exactly what we do. We have dedicated the majority of our time and resources to connecting investors with great real estate syndications. We work hard to find the best real estate markets to invest in and partner with experienced sponsor teams in those markets. We've been in this space for a while, so we know most of the larger players and work hard to vet all of the sponsor partners we work with, to make sure they have a strong track record and know what they're doing.

Once we find a deal with a great sponsor, we partner with the sponsor and open up that real estate syndication opportunity to our investors. Our investors will never pay any direct fee to work with us. We are merely the conduits between our investors and the sponsors. The main benefit we provide our investors is in the investing experience. We provide a lot of resources to our investors and make sure to make ourselves available at all times to answer any questions along the way (sponsors can often be busy with the acquisition of the property and might not have time to answer investor questions). We also invest in these deals right alongside

our investors. We will not open up a deal to our investors that we wouldn't consider investing in ourselves.

If you're interested in investing passively in real estate syndications, a great first step is to join our Investor Club. After we get to know you, we'll help you find real estate syndication opportunities that meet your specific investing goals.

How do private real estate syndications compare to real estate crowd funding sites?

In the past few years, real estate crowd funding sites have become quite popular as a way to invest passively in real estate. Sites like RealtyMogul, RealtyShares, and Fundrise have helped millions of people invest passively in real estate.

Real estate crowd funding sites can be a good place to find real estate syndication offerings. However, there are a few things you should keep in mind.

Most of these platforms require that you be an accredited investor in order to invest in their real estate syndication offerings. Some of these platforms do offer REITs (real estate investment trusts) as an alternative for non-accredited investors. Typically, you can invest in these REITs with a low minimum investment (you can invest in Fundrise's eREIT for just $500). If you're investing in a REIT, just be aware that you are not investing in a real estate syndication. Rather, you are investing in a fund. When you invest in a REIT, you're investing in a company that buys real estate; you don't have direct ownership of the underlying asset yourself, like in a real estate syndication. You would likely still get good returns, you would just be investing in a bunch of assets rather than a single one, and you wouldn't get the same tax benefits as with a real estate syndication.

What is the minimum investment?

Most often there is a $50K minimum investment, but this is not always the case.

How long will my money be invested?

Most often 3-7 years, unless it's requires a lot of rehab, in that case 7-10 years.

What kind of return can you expect from one of these deals?

We look for a minimum of 8% yearly COC return. Most deals are better than this! (More on this later) If you invest $50,000, each month you would earn $333. If you invest $100,000, each month you would earn $666. That is not it, however, the bigger return comes on the backside of the deal! When the sponsors sell or disposition the property after they have forced the value up by doing updates, increasing the income, decreasing the expenses, etc.; the big value comes. The profit from sell gets distributed to all the investors and sponsors according to their pro-rata share of ownership. Typically, the passive investors (that's you) will get the lion's share of all cash flow and profits. (EX: 70% investors/30% sponsors split) This often time results in a 18%-20% overall yearly return within 3-7 years!

BONUS

Student Housing Investing Glossary of Terms

A

Absorption Rate: The rate at which available rentable units are leased in a specific real estate market during a given time period.

Accredited Investor: A person that can invest in apartment syndications by satisfying one of the requirements regarding income or net worth. The current requirements to qualify are an annual income of $200,000, or $300,000 for joint income, for the last two years with the expectation of earning the same or higher, or a net worth exceeding $1 million either individually or jointly with a spouse.

Acquisition Fee: The upfront fee paid by the new buying partnership to the general partner for finding, evaluating, financing and closing the investment.

Active Investing: The finding, qualifying and closing on an apartment building using one's own capital and overseeing the business plan through its successful execution.

Amortization: The paying off of a mortgage loan over time by making fixed payments of principal and interest.

Apartment Syndication: A temporary professional financial services alliance formed for the purpose of handling a large apartment transaction that would be hard or impossible for the entities involved to handle individually, which allows companies to pool their resources and share risks and returns. In regards to apartments, a syndicated deal is typically a partnership between general partners (i.e. the syndicator) and limited partners (i.e. the passive investors) to acquire, manage and sell an apartment community while sharing in the profits.

Appraisal: A report created by a certified appraiser that specifies the market value of a property. The value is based on cost, sales comparable and income approach.

Appreciation: An increase in the value of an asset over time. The two main types of appreciation that are relevant to apartment syndications are natural appreciation and forced appreciation. Natural appreciation occurs when the market cap rate naturally decreases over time, which isn't always a given. Forced appreciation occurs when the net operating income is increased by either increasing the revenue or decreasing the expenses. Force appreciation typically occurs by adding value to the apartment through renovations and/or operational improvements.

Asset Management Fee: An ongoing annual fee from the property operations paid to the general partner for property oversight.

B

Bad Debt: The amount of uncollected money owed by a tenant after move-out.

Breakeven Occupancy: The occupancy rate required to cover all of the expenses of a property.

Bridge Loan: A mortgage loan used until a borrower secures permanent financing. Bridge loans are short-term (six months to three years with the option to purchase an additional six months to two years), generally having higher interest rates and are almost exclusively interest only. Also referred to as interim financing, gap financing or swing loans. The loan is ideal for repositioning an apartment community that doesn't qualify for permanent financing.

C

Capital Expenditures (CapEx): The funds used by a company to acquire, upgrade and maintain a property. Also referred to as CapEx. An expense is considered CapEx when it improves the useful life of a property and is capitalized – spreading the cost of the expenditure over the useful life of the asset. CapEx included both interior and exterior renovations.

Capitalization Rate (Cap Rate): The rate of return based on the income that the property is expected to generate. Also referred to as the cap rate. The cap rate is calculated by dividing the net operating income by the current market value of a property. Cash Flow: The revenue remaining after paying all expenses. Cash flow is calculated by subtracting the operating expense and debt service from the collected revenue.

Cash-on-Cash Return: The rate of return based on the cash flow and the equity investment. Also referred to as CoC return. Coc return is calculated by dividing the cash flow by the initial equity investment.

Closing Costs: The expenses, over and above the purchase price of the property, that buyers and sellers normally incur to complete a real estate transaction. These costs include origination fees, application fees, recording fees, attorney fees, underwriting fees, due diligence fees and credit search fees.

Concessions: The credits given to offset rent, application fees, move-in fees and any other cost incurred by the tenant, which are generally given at move-in to entice tenants into signing a lease.

Cost Approach: A method of calculating a property's value based on the cost to replace (or rebuild) the property from scratch. Also referred to as the replacement approach.

D

Debt Service: The annual mortgage amount paid to the lender, which includes principal and interest. Principal is the original sum lent to a borrower and the interest rate is the charge for the privilege of borrowing the principal amount.

Debt Service Coverage Ratio (DSCR): The ratio that is a measure of the cash flow available to pay the debt obligation. Also referred to as the DSCR. The DSCR is calculated by dividing the net operating income by the total debt service. A DSCR of 1.0 means that there is enough net operating income to cover 100% of the debt service. Ideally, the DSCR is 1.25 or higher.

A property with a DSCR too close to 1.0 is vulnerable, and a minor decline in revenue or minor increase in expenses would result in the inability to service the debt.

Depreciation: A decrease or loss in value due to wear, age or other cause.

Distressed Property: A non-stabilized apartment community, which means the economic occupancy rate is below 85% and likely much lower due to poor operations, tenant problems, outdated interiors, exteriors or amenities, mismanagement and/or deferred maintenance.

Distributions: The limited partner's portion of the profits, which are sent on a monthly, quarterly or annual basis, at refinance and/or at sale.

Due Diligence: The process of confirming that a property is as represented by the seller and is not subject to environmental or other problems. For apartment syndications, the general partner will perform due diligence to confirm their underwriting assumptions and business plan.

E

Earnest Money: A payment by the buyers that is a portion of the purchase price to indicate to the seller their intention and ability to carry out sales contract.

Economic Occupancy Rate: The rate of paying tenants based on the total possible revenue and the actual revenue collected. The economic occupancy is calculated by dividing the actual revenue collected by the gross potential income.

Effective Gross Income (EGI): The true positive cash flow. Also referred to as EGI. EGI is calculated by subtracting the revenue lost due to vacancy, loss-to-lease, concessions, employee units, model units and bad debt from the gross potential income. Employee Unit: An apartment unit rented to an employee at a discount or for free.

Equity Investment: The upfront costs for purchasing a property. For apartment syndications, these costs include the down payment for the mortgage loan, closing costs, financing fees, operating account funding and the fees paid to the general partnership for putting the deal together. Also referred to as the initial cash outlay or the down payment.

Equity Multiple (EM): The rate of return based on the total net profit and the equity investment. Also referred to as EM The EM is calculated by dividing the sum of the total net profit (cash flow plus sales proceeds) and the equity investment by the equity investment.

Exit Strategy: The general partner's plan of action for selling the apartment community at the conclusion of the business plan.

F

Financing Fees: The one-time, upfront fees charged by the lender for providing the debt service. Also referred to as finance charges.

G

General Partner (GP): An owner of a partnership who has unlimited liability. A general partner is usually a managing partner and is active in the day-to-day operations of the business. In apartment syndications, the general partner is also referred to as the sponsor or syndicator and is responsible for managing the entire apartment project.

Gross Potential Income: The hypothetical amount of revenue if the apartment community was 100% leased year-round at market rental rates plus all other income.

Gross Potential Rent (GPR): The hypothetical amount of revenue if the apartment community was 100% leased year-round at market rental rates. Also referred to as GPR.

Gross Rent Multiplier (GRM): The number of years it would take for a property to pay for itself based on the gross potential rent. Also referred to as the GRM. The GRM is calculated by dividing the purchase price by the annual gross potential rent.

Guaranty Fee: A fee paid to a loan guarantor at closing for signing for and guaranteeing the loan.

H

Holding Period: The amount of time the general partner plans on owning the apartment from purchase to sale.

I

Income Approach: A method of calculating an apartment's value based on the capitalization rate and the net operating income (value = net operating income / capitalization rate).

Interest Rate: The amount charged by a lender to a borrower for the use of their funds.

Interest-Only Payment: The monthly payment for a mortgage loan where the lender only requires the borrower to only pay the interest on the principal.

Internal Rate of Return (IRR): The rate needed to convert the sum of all future uneven cash flow (cash flow, sales proceeds and principal paydown on the mortgage loan) to equal the equity investment. Also referred to as IRR.

J

K

L

Lease: A formal legal contract between a landlord and a tenant for occupying an apartment unit for a specified time and at a specified price with specified terms.

Letter of Intent (LOI): A non-binding agreement created by a buyer with their proposed purchase terms. Also referred to as the LOI.

Limited Partner (LP): A partner whose liability is limited to the extent of their share of ownership. Also referred to as the LP. In apartment syndications, the LP is the passive investor who funds a portion of the equity investment.

London Interbank Offered Rate (LIBOR): A benchmark rate that some of the world's leading banks charge each other for short-term loans.

Also referred to as LIBOR. The LIBOR serves as the first step to calculating interest rates on various loans, including commercial loans, throughout the world.

Loan-to-Cost Ratio (LTC): The ratio of the value of the total project costs (loan amount + capital expenditure costs) divided by the apartment's appraised value.

Loan-to-Value Ratio (LTV): The ratio of the value of the loan amount divided by the apartment's appraised value.

Loss-to-Lease (LtL): The revenue lost based on the market rent and the actual rent. Also referred to as LtL. The LtL is calculated by dividing the gross potential rent minus the actual rent collected by the gross potential rent.

M

Market Rent: The rent amount a willing landlord might reasonably expect to receive and a willing tenant might reasonably expect to pay for tenancy, which is based on the rent charged at similar apartment communities in the area. The market rent is typically calculated by conducting a rent comparable analysis.

Metropolitan Statistical Area (MSA): A geographical region containing a substantial population nucleus, together with adjacent communities having a high degree of economic and social integration with that core. Also referred to as the MSA. MSAs are determined by the United States Office of Management and Budget (OMB).

Model Unit: A representative apartment unit used as a sales tool to show prospective tenants how the actual unit will appear once occupied.

Mortgage: A legal contract by which an apartment is pledged as security for repayment of a loan until the debt is repaid in full.

N

Net Operating Income (NOI): All the revenue from the property minus the operating expenses. Also referred to as the NOI.

O

Operating Account Funding: A reserves fund, over and above the purchase price of an apartment, to cover things like unexpected dips in occupancy, lump sum insurance or tax payments or higher than expected capital expenditures. Raising extra capital from the limited partners typically creates the operating account funding.

Operating Agreement: A document that outlines the responsibilities and ownership percentages for the general and limited partners in apartment syndication.

Operating Expenses: The costs of running and maintaining the property and its grounds. For apartment syndications, the operating expense are usually broken into the following categories: payroll, maintenance and repairs, contract services, make ready, advertising/marketing, administrative, utilities, management fees, taxes, insurance and reserves.

P

Passive Investing: Placing one's capital into an apartment syndication that is managed in its entirety by a general partner.

Permanent Agency Loan: A long-term mortgage loan secured from Fannie Mae or Freddie Mac. Typical loan terms lengths are 3, 5, 7, 10, 12 or more years amortized over up to 30 years.

Physical Occupancy Rate: The rate of occupied units. The physical occupancy rate is calculated by dividing the total number of occupied units by the total number of units at the property.

Preferred Return: The threshold return that limited partners are offered prior to the general partners receiving payment.

Prepayment Penalty: A clause in a mortgage contract stating that a penalty will be assessed if the mortgage is paid down or paid off within a certain period.

Price Per Unit: The cost per unit of purchasing a property. The price per unit is calculated by dividing the purchase price of the property by the total number of units.

Private Placement Memorandum (PPM): A document that outlines the terms of the investment and the primary risk factors involved with making the investment. Also referred to as the PPM. The PPM typically has four main sections: the introductions (a brief summary of the offering), basic disclosures (general partner information, asset description and risk factors), the legal agreement and the subscription agreement.

Pro-forma: The projected budget with itemized line items for the revenue and expenses for the next 12 months and five years. Profit and Loss Statement (T-12): A document or spreadsheet containing detailed information about the revenue and expenses of a property over the last 12 months. Also referred to as a trailing 12-month profit and loss statement or a T-12.

Property and Neighborhood Classes: A ranking system of A, B, C or D assigned to a property and a neighborhood based on a variety of factors. For property classes, these factors include date of construction, condition of the property and amenities offered. For neighborhood classes, these factors include demographics, median income and median home values, crime rates and school district rankings.

Property Management Fee: An ongoing monthly fee paid to the property management company for managing the day-to-day operations of the property.

Q

R

Ration Utility Billing System (RUBS): A method of calculating a tenant's utility usage based on occupancy, unit square footage or a combination of both. Once calculated, the amount is billed back to the tenant.

Recourse: The right of the lender to go after personal assets above and beyond the collateral if the borrower defaults on the loan. Refinance: The replacing of an existing debt obligation with another debt obligation with different terms.

Refinancing Fee: A fee paid to the general partner for the work required to refinance an apartment.

Rent Comparable Analysis (Rent Comps): The process of analyzing the rental rates of similar properties in the area to determine the market rents of the units at the subject property.

Rent Premium: The increase in rent demanded after performing renovations to the interior and/or exterior of an apartment community.

Rent Roll: A document or spreadsheet containing detailed information on each of the units at the apartment community, including the unit number, unit type, square footage, tenant name, market
rent, actual rent, deposit amount, move-in date, lease-start and lease-end date and the tenant balance.

S

Sales Comparison Approach: A method of calculating an apartment's value based on similar apartments recently sold.

Sales Proceeds: the profit collected at the sale of the apartment community.

Sophisticated Investor: A person who is deemed to have sufficient investing experience and knowledge to weigh the risks and merits of an investment opportunity.

Subject Property: The apartment the general partner intends on purchasing.

Submarket: A geographic subdivision of a market.

Subscription Agreement: A document that is a promise by the LLC that owns the property to sell a specific number of shares to a limited partner at a specified price, and a promise by the limited partner to pay that price.

T

U

Underwriting: The process of financially evaluating an apartment community to determine the projected returns and an offer price.

V

Vacancy Loss: The amount of revenue lost due to unoccupied units.

Vacancy Rate: The rate of unoccupied units. The vacancy rate is calculated by dividing the total number of unoccupied units by the total number of units.

Value-Add Property: A stabilized apartment community with an economic occupancy above 85% and has an opportunity to be improved by adding value, which means making improvements to the operations and the physical property through exterior and interior renovations in order to increase the income and/or decrease the expenses.

W

X

Y

Yield Maintenance: A penalty paid by the borrower on a loan is the principal is paid off early.

Z

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