What is

Multifamily Syndication?

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Simply stated, syndication brings multiple investors together into a single entity, pooling money to collectively purchase a larger asset. In this case, investment capital is combined to purchase a real estate asset typically out of reach for most individuals investing alone. Syndications are typically structured as limited partnerships, with the syndicator group acting as the general partner (managing partner, also referred to as GPs) and the investors acting as limited partners (LPs). LPs typically invest between $25,000 and $1 million, and they receive a proportionate share of the profits or losses generated by the investment into the syndication (not all investors necessarily need to invest the same amount).

Investing in a Multifamily Syndication

There is no shortage of investment vehicles available for investors, and with the rise of online trading and social media, many are bombarded with investment ideas. Stocks, bonds, and even cryptocurrency may all have a place in a diversified portfolio; however, many overlooks (or may simply not understand) the powerful tool that is Multifamily syndication-- and, perhaps more importantly, the additional benefits it may provide over other vehicles.

The GP is responsible for all aspects of the investment, including acquiring and analyzing the investment opportunities, securing financing, raising capital from qualified investors, and stewarding the acquisition process through to closing. After the acquisition is made, the GP group is also responsible for managing the asset throughout the full lifecycle of the deal. The GP group generally receives a fee for this upfront work, and sometimes a continued fee for management of the project. LP investors are truly passive investors in the sense that all of the work and heavy lifting is managed by the GP, but the LP side still receives a large share of the benefits of investing in real estate. This may be particularly attractive to investors that have available funds to invest but may not have the time (or desire) to spend time on the day-to-day details of operations.

What are the benefits?

While each vehicle has interesting facets, investing in real estate provides many benefits that are either difficult to realize or not found in other strategies. These include tax benefits, passive cash flow, appreciation, and a solid hedge against inflation.

Tax Benefits

Perhaps above all else, the tax benefits realized by investing in real estate are worth investigating. Investors are often able to reduce taxable income through depreciation. Most properties can be depreciated over a 27.5-year timeline, and depreciation deduction can offset income as well as reduce tax liability. Essentially this means the owner can deduct 3.64% of the purchase price on taxes for the value of the building (land cannot be depreciated. There are additional facets and nuances to depreciation that are worth exploring with your GP team, including cost segregation and bonus depreciation. Additionally, passive investors will likely be able to deduct costs of doing business within the syndication, including expense deductions, interest expenses, etc. These deductions are passed on to investors through an annual K1 tax return. This often results in a shown negative income on the tax return. So while an investor may receive distributions from the investment, the tax return may show a loss, essentially negating that income as taxable.

Inflation Hedge

While the rate of inflation ebbs and flows (and the concerns that come along with it), inflation is a very real aspect of money management. The dollar does not go as far today as it did last year, or 5 years ago, and likely won't go as far next year as it does today. When an investment is made in real estate, when inflation goes up, so typically does the price of real estate. This means that instead of money losing value in savings, or another investment vehicle, real estate protects the value of that money as inflation continues.

Passive Cash Flow

Receiving distributions on a regular basis may be one of the most attractive aspects to many syndication investors. As mentioned above, once the deal closes, the management of the investment and progress is handled by the GP group. This means there is very little requirement of time or energy by the LPs, beyond receiving and cashing checks. This is why passive cash flow is often referred to as "mailbox money."

Research is key.

It cannot be understated how important it is to be diligent in researching both the offered syndication deal, as well as the GP group. The GPs are responsible for finding and managing deals that will provide a good return on investment, and not all are created equal. Ensure they are knowledgeable and trustworthy before investing with them. Ask questions, and discuss with trusted financial advisors. Working with a talented group that is aligned with your goals can lead to not only creating passive streams of income but will enable you to keep a lot more of that income.

Appreciation

Historically speaking, real estate assets generally appreciate in value over time. This is why more millionaires have been made in real estate than any other vehicle. Additionally, many multifamily syndicators utilize a business model that incorporates "forced appreciation," which can be extremely powerful. While the value of single-family homes is based on the value of surrounding comparable sales, multifamily properties are valued based on the Net Operating Income (NOI) created by the property. This is a calculation of property revenue minus operating expenses of the property (not including debt service). This means that the GP group can effectively increase the NOI (and the value) of the property by effectively implementing a strategy that will reduce expenses and increase rents. This effectively forces the appreciation of the asset and increases the value.

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