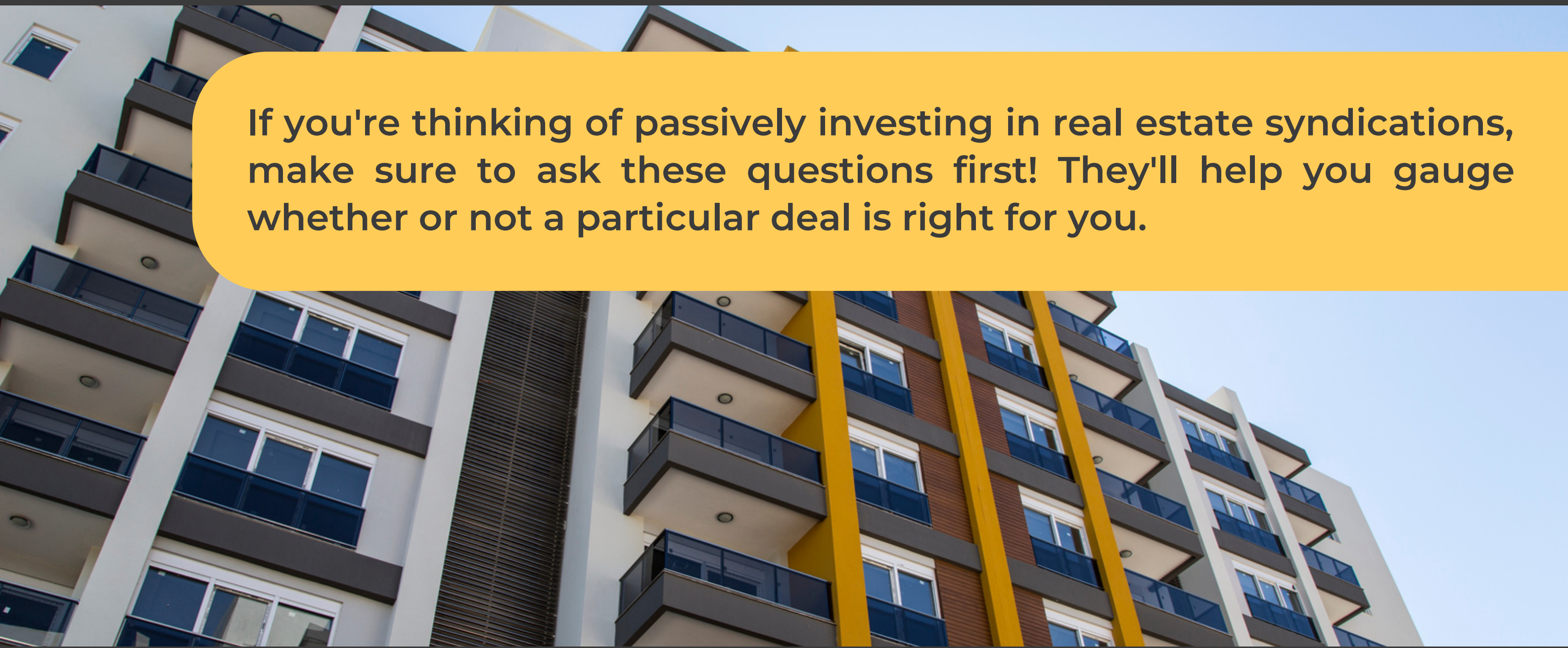
55 QUESTIONS TO ASK

before passively investing in

Real Estate Syndications



If you're thinking of passively investing in real estate syndications, make sure to ask these questions first! They'll help you gauge whether or not a particular deal is right for you.

Investing in Real Estate has numerous advantages for many investor when compared with other asset classes. These include: cash flow/ appreciation, exceptional tax benefits, as well as the ability to hedge against inflation. Passively investing in Real Estate through Syndication is a great option for many busy professionals, as it allows for a truly hands-off approach.

While trust in a syndication sponsor and his/ her team is paramount, this list will help investors properly investigate a potential investment. Each set of questions is designed to help investors get into the nuts-and-bolts of each deal, and help shine light on any potential pitfalls/ holes in the business plan.

We have broken these down into 5 specific categories designed to "zoom in" on the investment from the macro to the micro details: Market Demographics, Physical Property, Historical Performance, Lending Details, and Deal Structure.

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MARKET

When considering any investment, it is important to have a clear understanding of the proposed investment market. Each location has its own unique market conditions that will affect any specific property. For example, the desirability of an area can drive up prices, while a downturn in the local economy can lead to a decrease in values.

These questions will help provide some clarity on the overall market conditions, so you can make more informed decisions about individual properties.

1. Is this property located in a landlord-friendly state and municipality?
2. What is the population of the greater MSA (metropolitan specific area) as well as the specific municipality/ neighborhood?
3. What is the market's projected population growth rate?
4. What is the current job growth trajectory, and what are the growth factors?
5. What sectors of employment are present in the local and regional economy, and does one specific sector of the economy account for more than 20% of the employment?

MARKET

6. What is the median household income-to-rental rate ratio in the market?

7. How does the rental rate compare to the entry level house mortgage payment?

8. What is the building makeup and class of the surrounding neighborhood, and how many major competitors are within a three, five, and ten-mile radius of the property?

9. What is the crime rate and type of crimes in the market and neighborhood?

10. Are natural disasters common in the market, and if so, are there any additional insurance needs for these concerns?

PHYSICAL PROPERTY

Now that we have a good handle on the Market overall, it is time to assess the property as a whole. The physical property may be the most important factor in analyzing any deal– this is the product on which the business will ultimately thrive or fail. You will likely learn highlights of the physical property by going through the executive summary or offering a memorandum; however, these questions provide an ability to dive deeper into the due diligence of the sponsor.

11 What is the age of the property?

12 How many units does the property consist of?

13 Is the property in a flood zone, and are there additional insurance needs for these concerns?

14 What is the class of the property and how does that align with the surrounding area and tenant base?

15 Have the individual units been renovated and, if so, when (and how many units if only partially)?

16 When were the roof(s), plumbing, elevators/ staircases, HVAC, electrical, siding, and pavement/ parking lot most recently replaced and/ or upgraded?

PHYSICAL PROPERTY

17. What other/ additional capex repairs are planned, are any immediately necessary, and what is the planned budget for these considerations?

18. Is there a functional management office on the property, and does it need upgrades?

19. Will the property manager live on the property?

20. What are the security provisions for the property (cameras, lighting, etc)?

21. What amenities are offered on-property (pool, parking availability/ type, etc) and how do those compare with the competitors in the area?

22. What is the walkability score of the location, and is access to public transportation available nearby?

23. Where do the local schools rank compared to the rest of the market?

HISTORICAL PERFORMANCE

When evaluating the potential business model for any investment, it is important to not only look at the overall concept and potential for growth, but also to analyze the numbers involved. Are the financial assumptions conservative and realistic? Will the business be sustainable in the long run? These are all important factors to consider when making a decision about whether or not to invest in a particular business. By taking a closer look at the financials, you can get a better sense of whether or not a business is likely to be successful in the long term. Many of these terms can get into the technical realm of investing.

If you have any questions about what any of these terms mean, the Sponsor should be able to provide both a good definition and an understanding of why these terms are important.

24 What do the trailing three-month (T3) and trailing twelve-month (T12) financials tell you about the property's past performance and physical occupancy?

25 What is the operating expense ratio of the T12?

26 What are the major differences between the T12 and the Y1 projections?

27 What is the cap rate at purchase, and what is the exit cap rate?

28 What is the proforma occupancy rate compared to the market?

HISTORICAL PERFORMANCE

29 What is the proforma increase in rental rates, and how viable is that based on both the property and market?

30 Did the sponsor adjust the tax basis to match the new purchase price?

31 What are the underlying assumptions on the major determining factors of the property's performance and how are they justified?

32 What is the breakeven occupancy?

33 How has the project plan been stress tested?

LENDING DETAILS

The lending details are a crucial component of any syndication, as the lender will typically be providing 65-80% of the overall purchase price. While requirements and terms will vary by lender and by deal, it is important to understand how the deal is underwritten, what the loan terms will be, and how this may affect the return metrics overall.

34 Is the loan being assumed (if possible) or is it a new loan?

35 Has the sponsor worked with the lender before?

36 What is the interest rate?

37 Is the Capex factored in/ carried by the lender, and if so, is the completion of the capital expenditure factored into the loan-to value?

38 How much additional capital is being raised beyond the loan?

LENDING DETAILS

39 What is the duration of the loan term, what is the interest rate, and what are the specifics of the interest rate (i/o period, bridge, etc)?

40 Is a refinance part of the plan? If so at what point in time?

41 What is the assumed loan-to-value at the time of projected refinance?

42 What does the Net Operating Income (NOI) need to be in order for the refinance to be effectuated?

43 What is the assumed interest rate in the event of a refinance?

44 What is the projected debt-service-coverage-ratio (DSCR) over each year of the loan?

SPECIFIC DEAL STRUCTURE

When investing in a syndicated investment, it is essential to have a thorough understanding of the legal documents associated with the deal. This is because these documents outline important details such as splits and distributions, as well as fees and other members' rights. For example, the splits will specify what portion of the total profits each member will receive, while the preferred return will detail how any profits above this amount will be distributed. Additionally, the legal documents will give you information about any other relevant fees that may be involved in the deal, such as transaction costs or management fees.

Overall, understanding these aspects of the legal documents is crucial in gaining a complete understanding of a syndicated investment and making an informed decision about whether to participate or not.

45 Is a preferred return offered, and if so: what is the preferred return, is the return cumulative, what are the hurdles and splits?

46 What are the LP Cash on Cash (CoC) and Internal Rate of Return (IRR)?

47 A cash flow distributions considered as a return of capital or return on capital?

48 How is capital split in the event of a refinance?

49 Is it possible for investors to transfer shares?

SPECIFIC DEAL STRUCTURE

50 Do you recognize all parties outlined in the sources and uses?

51 Are there Co-GP partners? If so, how are they participating?

52 What percentage of the depreciation is passed through to investors?

53 Is it possible that investors will be required to contribute additional capital above the original investment amount?

54 If a capital call is made, under what circumstances/ conditions would this capital call be required, and what are the consequences if an investor can not/ will not participate in the contribution?

55 Under what conditions would additional capital from investors be required?

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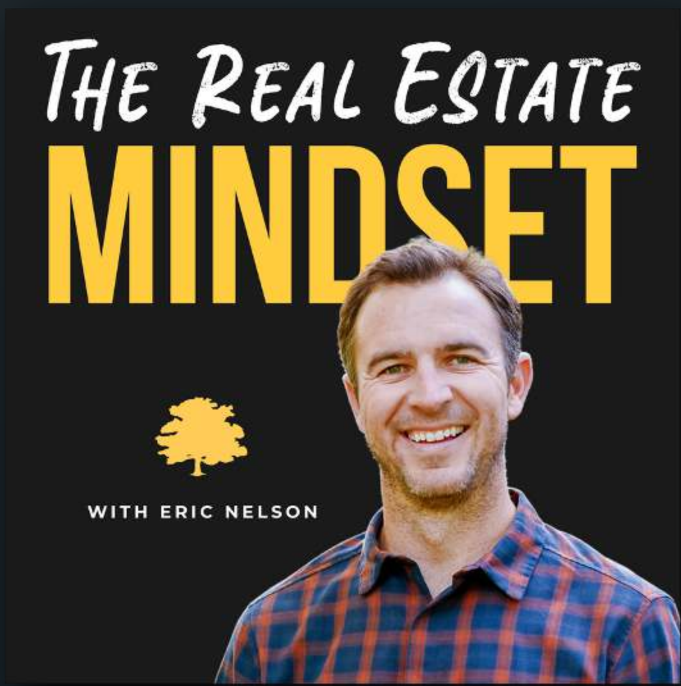

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