

# COMMON MYTHS REGARDING REAL ESTATE SYNDICATIONS

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## **1. The Syndicator is very successful so their deals must be performing well.**

Syndicators can be quite successful even if their deals perform poorly. For example, syndicators typically take “acquisition fees” at closing (usually in the 6 and sometimes 7 digits - from the Investors money) before the deal generates any profit. The Syndicator also typically earns income from “property management” and “Asset management” fees, which are not dependent on the deal’s profits. The syndicators might also be getting “kickbacks” from various vendors that are being paid by the deal.

## **2. The Syndicators are putting up their own money in the deal (and also rolling in their acquisition fee) so they must feel it’s a good deal.**

Just because the Syndicator says he is investing in the deal doesn’t mean he actually is (he may “change his mind” last minute). Additionally, it is possible that the Syndicator is making money from this deal “behind the scenes” which significantly outweighs the money he is putting back in the deal. For example, there may be an “internal flip”, which means that when the Offering Memorandum says that the purchase price is, for example, \$10MM, what’s really happening is that the Syndicator purchased the property for example, for \$6MM, and is now flipping it to the deal for \$10MM, thus earning \$4MM as the “seller”.

## **3. The one who introduced me to the deal is very experienced and he feels it’s a great deal.**

The one who introduced you to the deal is very possibly getting paid a commission for bringing you into the deal (these individuals - referred to as “equity raisers” – often do this in an unofficial capacity, and so this arrangement may not be readily apparent to you). Accordingly, his “opinion” would be biased.

## **4. I know the one running the deal personally and fully trust him with my money so it is therefore safe to invest money in his deals.**

Many times the individual who appears to be “running” the deal is just a front for the real syndicator. When a syndicator doesn’t have enough of a reputation to attract investors, he may “partner up” with a better-known individual. It is possible, that the only thing this individual is doing is speaking to investors, and your money is being fully managed by someone with no reputation (or worse).

## **5. There are other experienced and savvy investors, investing in this deal so it must be a good deal.**

Many times these experienced investors (because of their investment size or early commitment) are getting significantly better deal terms than you are. Just because it’s a good deal for them does not mean it’s a good deal for you.

## **6. The Syndicator told me he will personally guarantee my investment.**

This oral commitment is not necessarily binding, and if the syndicator is indeed personally guaranteeing the investment, why isn't it in a written contract?

## **7. I went thru all the detailed financial information supplied to me by the Syndicator and see that it's a good deal, therefore it is safe to invest in the deal even though I don't know the integrity of the syndicator.**

There are many ways that a syndicator could "spin" the numbers so that an unfavorable deal looks favorable. ("cherry picking" the comps or including artificial rent are some examples). The "numbers" are as good as the individual supplying the numbers.

## **8. I did my own independent due diligence on the deal and believe it's a good deal. Therefore, it is safe to invest in the deal even though I don't know the integrity of the syndicator.**

Even if the deal is fundamentally good, there are numerous ways that a syndicator could potentially divert profits away from the investors. Receiving kickbacks, taking "loans" from the deal, unfavorable allocations on expenses shared with other properties they own, taking "leasing commissions", lending to the deal at high interest rates, are some examples. Investors typically don't have access to the deal's books and records, other than summarized financials, which can easily be manipulated to cover up such actions.

## **9. The Syndicator is a nice G-d fearing individuals and so there is no reason to suspect any wrongdoing.**

Some of the conduct mentioned above, may be halachically permissible on the syndicators part (especially if the operating agreement grants them such rights), and therefore one can't assume that the syndicator won't take advantage of such rights.

Furthermore, even with regard to the practices that are not halachically permissible, the ones mentioned above are generally not perceived as outright theft. Even an otherwise, well-meaning individual, could (as a result of his bias) rationalize that such practices are fair and even beneficial to investors. Unfortunately, managing other people's money, with little or no outside oversight can present a temptation, which for some may be too hard to overcome.