

Deal Syndication

Video 3: Raising Investor Funds

Part 2 - Offering a Deal to Your Investors

What's covered in this training?

Video 3-2: What's covered?

- Offering a deal to your investors: a private offering of securities
- Mechanics, order and timing of steps
- Overview of Private Placement Memorandum
- Legal structure/sponsor powers & duties
- Walk through some actual sample documents

Mechanics, Order & Timing

1. Accepted LOI – Mad scramble begins!
2. Send teaser to investors alerting them about new deal
3. Reach out to other syndicator friends to see if they will bring their investors and JV with you
4. If not done already, start talking to mortgage broker about debt
5. Sign contract
6. Get SEC attorney started on PPM, prospectus, and LLC agreement
7. Prepare and send full marketing materials to investor group
8. Schedule webinar(s) and/or start calling investors
9. Circulate PPM, prospectus & LLC Agreement ASAP
10. Have investors sign legal documents and send funds to escrow ASAP
11. Maintain close contact with mortgage broker and attorney to make sure you know how much you need to close
12. Do not rest until all funds needed to close are in escrow

Mechanics, Order & Timing

[Show timing chart here]

Marketing Materials

Three Parts:

- Teaser
- Full marketing package
- Discussions with investors

Marketing Materials

Teaser:

- One-two page summary of main deal points
- Purpose: whet investors' appetite and put on notice that a deal is coming so they don't spend the money elsewhere
- Sample in the supporting materials

Marketing Materials

Marketing Package:

- Marketing booklet with full description of deal, market, and business plan
- Purpose: explain deal in detail to investors and get them to commit
- Sample in the supporting materials

Marketing Materials

Discussions

- Can be webinar or one-on-one
- Unless they are very close to you or have invested with you before, most people will not commit to high-ticket item like this just via email.
- They need to be able to ask questions and feel secure you know what you are doing

Private Placement Memorandum

- Known as a PPM
- How the private offering of securities actually takes place
- Contains 3 main parts
 - Prospectus
 - Subscription agreement
 - LLC Agreement

Private Placement Memorandum

- Disclosures
 - SEC attorney knows the standard disclosures
 - Work with attorney on disclosures specific to the deal
 - Ex: known environmental issues; known conflicts of interest
 - **When in doubt, disclose!**
 - PPM is what protects you from future claims; if it's in there, investors had warning and cannot recover from you

Powers of Sponsor

You control basically everything

- All operations
- Hiring/firing manager
- Making distributions
- Refinancing the property
- Selling the property

Powers of Investors

Very limited

- Investors want to be passive
 - Too much management control causes them to lose passive tax status
- Basic right: the power to remove you as sponsor
- May consider “major decision rights” if you have only one investor in deal
 - Typically refinancing and selling property

Duties of Sponsor

You are a fiduciary, because you are in control of assets belonging to another person

- Highest legal duty in existence
- You are required to put your investors' interests above your own
- LLC Agreement limits your fiduciary duties; but you always owe a duty of loyalty and care to your investors

Walk Through Examples

- Examples are in the materials:
 - Investor deal room, containing marketing package and supporting materials
 - PPM

What's Up Next

Video 4: Managing the Syndication

- Communications
- Financial Reporting
- Tax Reporting