

# CHECKLIST FOR PASSIVE INVESTORS



<b>DEAL NAME</b>		<b>DEAL ADDRESS</b>	
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	<b>FACTORS</b>	<b>ITEM</b>	<b>NOTES</b>	<b>GUIDANCE</b>
<b>1</b>	<b>SPONSOR</b>	TRUST		Do you know and trust the sponsor/sponsorship team?
<b>2</b>		TEAM COMPOSITION		Does the sponsorship team consist of people with complementary skills, and do they work well together?
<b>3</b>		TRACK RECORD		What's the sponsorship team's track record as a GP? How many years of experience? How many units as a GP? How many deals have they gone full cycle on? (Exited)
<b>4</b>		EQUITY CONTRIBUTION		Sponsor equity contribution of $\geq 8\%$ of total raise is desirable. Skin-in-the-game
<b>5</b>		HOW MANY DEALS IN PIPELINE		How many deals are going on at the same time?

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<b>6</b>		NUMBER OF UNITS		60 units and up for full-time manager and maintenance, efficiencies of operation
<b>7</b>		PRICE PER DOOR		Price Per Door, generally 50-90K for B/C in a strong market. 110+ for A.

8	<b>PROPERTY</b>	CLASS OF PROPERTY		Class A, B, C- Make sure it's not a D positioned as a C
9		LOCATION CLASS		Class A, B, C- It could be a Class C in a Class B neighborhood. Generally, prefer higher location than the apartment class
10		CURRENT OCCUPANCY		90% or higher is desired, less than 90% does not qualify for an agency loan, /bridge can come with risks
11		MARKET TYPE		Primary (Strong, Lowest Risk), Secondary (Good, Medium Risk), Tertiary (Highest Risk)- Cap Rates must reflect this. Can range from 5.5-10 Market Cap Rates in most markets. Landlord friendly state
12	<b>MARKET</b>	POPULATION GROWTH		> 20% increase in Population since 2000 Large Cities (NY/LA/SF)> 10% Submarket should also show growth
13		INCOME GROWTH		> 30% since 2000 desirable; HH income >= 40K preferably
14		MEDIAN CONDO/HOME VALUE		Median Home/Condo value> 40% since 2000 desirable
15		CRIME RATE		Look at Crime rate data on city-data.com to look for decreasing crime index and crime index< 500, Inversely proportional to education levels

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16	<b>PROJECTED RETURNS</b>	CASH-ON-CASH RETURNS		COC: Min 7% annual average cash-on-cash return is good, generally range 7-10%
17		TOTAL RETURNS		Projected >70% total returns are desirable. Value-add deals may be higher due to greater returns at the exit.

18		INTERNAL RATE OF RETURN		16% IRR or greater is desirable
19		DISTRIBUTION FREQUENCY		Quarterly or monthly distribution of cash-on cash returns
20		INITIAL DISTRIBUTION		6 months for stabilized properties, If there is heavy rehab, 9-12 months, new construction 2-3 years look for decreasing crime index and crime index < 500, Inversely proportional to education levels

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21	<b>FINANCING</b>	TYPE		Fannie Mae / Freddie Mac Non-recourse is desired. Generally, comes with I/O period Bank Loan, Commercial loan- Usually recourse. Bridge loan, Bridge to agency- Maybe Higher risk/higher interest rates but required on deep value add projects/extensive repositioning
22		LOAN-TO-VALUE (LTV)		Ranges generally from 65%-80%. Higher leverage means higher returns generally but can also be riskier.
23		LOAN & IO TERM		Bridge loans- Usually shorter, 1-3 years for extensive rehab/repositioning Agency Loan-5-10 years, prefer longer loans due to impending downturn and rising interest rates Interest Only (IO) Term is generally 1-5 years.
24		PURCHASE CAP RATE		Can range generally from 5-10%. Will be higher for secondary/tertiary markets than primary markets. Could be higher when the property is repositioned

25	<b>DEAL ASSUMPTIONS</b>	EXIT CAP RATE		Same as market historical cap rate or AT LEAST 50-100 bps higher than purchase cap rate
26		PROFORMA RENT INCREASE		For stabilized, 10-15% guideline. If it's a deep value add/heavy rehab, it can be as high as 25%
27		REHAB BUDGET PER DOOR		\$3K per door is usual might be up to 5K-6K for Class B
28		ANNUAL RENT INCREASE		1-3% isa conservative assumption, 3% okay for Y1-2 if rent bumps, lower for Y3-5.
29		YEAR1 REVENUE INCREASE		6% or higher is desirable. Too high revenue increase due to rent bumps should be a red flag

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30	<b>PROFIT SHARING &amp; FEES</b>	SPLIT-TYPE		Straight or waterfall split; Straight all profits get shared at a certain rate LP/GP like 80/20
31		SPLITS		Ratio of LP/GP Returns <= 80/20 desirable unless preferred LP return If GP>20% then LP returns should be preferred
32		PREFERRED RETURN		Pref return >= 6% is desirable and Split could be 75/25 or 70/30 (If straight split and GP <= 25% then there is usually no pref return)
33		ASSET MANAGEMENT FEE		Preferred 3% or less
34		ACQUISITION FEE		Generally, 1-2%

35		DISPOSITION FEE		No disposition fee is desirable but it's not out of the norm to see a fee here
36		BANK FEE, GUARANTEE FEE		We don't like to see other fees here unless the returns are substantially higher than average MF deals

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37	<b>TERMS</b>	HOLD TERM		Generally, 5-6 Year hold. If the loan term is 5 only years, the hold term should be shorter. Want to generally see long loan terms now
38		MINIMUM INVESTMENT		What's the minimum investment that the sponsor requires? This can most times be negotiated. Also consider forming an LLC and investing as an LLC with multiple partners so each of you can contribute a smaller amount
39		BUSINESS PLAN		Does the sponsor have a well-laid out business plan. Does it seem achievable and reasonable given market conditions, rehab budget and other factors
40		STRESS TEST		How did the sponsor stress test the deals? Do their assumptions seem reasonable?
41		EXIT STRATEGY		Parameters to exit the deal are clearly defined. How and when does the sponsor team plan to exit?
42	<b>DUE DATES</b>	COMMITMENT DATE		Most GPs will require you to provide some type of commitments after the webinar to gauge interest level
43		FUNDING DEADLINE		Deadline for transferring your funds, remember to wire before 2 pm for same-day wires to most US banks

## OTHER PROPERTY NOTES

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