Syndication Basics

With a Trusted Wolf Pack

Lobo’s guide for passive investors, whether you're just starting your journey in multifamily real estate, or building your current portfolio.

LOBOS CAPITAL
INVESTMENTS

Dane Johnson

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Introduction

I’m Dane Marcus Johnson and I've been investing since 2020. I started my entrepreneurial journey by first starting my own concrete company in 2019. I was fed up working for someone else, making them rich so I took a big step outside my comfort zone and went for it. First as a day finisher helping pour and finish other concrete contractors projects then slowly getting my own customers and projects. My Spanish was a key component to building a team capable of accomplishing larger scale or complicated projects. Speaking another language is one of my most important investments. After a few successful years I was able to afford not working all winter. I decided to learn how to trade currencies through a mentorship program. This was the beginning of my financial literacy journey. Learning how the dollar was backed by gold and now it’s fiat, blockchain technology and cryptocurrency. I traded binary high frequency foreign exchange and used charts marked with trendlines and call confirmations, but the volatility was still so unpredictable. This was one of my last straw moments.. There had to be a better way to invest. Something stable and passive?

Introduction

As summer came around I got busy pouring concrete again. Blood, sweat and not a lot of tears but stress and frustration with competition and cut throat pricing and bidding. Concrete is already hard enough to finish without all the extra business logistics. Still made great money but as I had another last straw moment I wondered how long I could keep this up, how long will my body last? Then came fall and the mornings got bitter cold. Freezing temps hit and our boots and gloves became miserable to wear and work in. That was my LAST straw moment..

Even if I made thousands of dollars in one day, was it worth the pain of freezing fingers and toes? Fast forward a year.. It was time to reward myself with the car I decided I wanted. The challenger HELLCAT. I found a stick shift model in the color I wanted and sent a pic after the test drive to my uncles, family and friends. Almost immediately my Uncle Jed hit me up. "Dude be smart. That car isn't an asset, it's a liability" Sure i could have bought it cash. But 100k net cash spent on one transaction event. (not an asset that continuously generates income) As I slept on it I woke up with some questions. Jed recommended I read the famous Rich Dad Poor Dad books and several others about money and mindset. (Think and Grow Rich, It Takes What It Takes) Then he offered me the opportunity to invest in apartments. I knew nothing about multifamily or passive investing. I did some research but mostly I trusted my uncle because he had been extremely successful for so many years. Traveling the world and doing what he wants with his time. True freedom. He had been my role model since I was a little kid and saw him playing basketball and football (a true stud athlete).

Anyway, I made my first LP (Limited Partner) investment with him and have been loving the benefits ever since! Receiving cash flow and doubling my equity through stable and predictable assumptions. He and his partners have a proof of concept system that they rinse and repeat. Fast forward another year.. I wanted to get more involved on the active investing side of the GP (General partnership). I couldn’t expect my uncle to feed me with a silver spoon so I began looking into getting coaches and a mentorship program. Fast forward.. I am now involved in 3 masterminds with mentors and coaches so I can know and understand the ins and outs and thus accelerated my learning curve. Attending conferences and listening to a steady stream of podcasts. Now I help others just like yourself understand this passive investment vehicle with multifamily syndication. If you're here you may have read my blog articles which makes you a sophisticated investor and you possibly qualify as an accredited investor. Enough about me, let’s dive into what you're really interested in! Investing in the safest highest producing asset hands down!

1 The Path to Financial Freedom

90% of millionaires become so through owning real estate. Who owns all these buildings? Sure, some wealthy individuals and companies do but you'll be surprised that busy working professionals like you and I own these properties too! Most of these investors are completely passive and still benefit from all the things that make real estate such a powerful investment vehicle. Consider this a fast track education course to build your confidence and move forward while learning why multifamily is the best wealth generating investment asset.

Too good to be true?
Let's break down the aspects so you can come to your own conclusion:

First let's see if some of our goals align. The most important for me is principle preservation. Meaning protecting your capital at all costs. Throughout this ebook you'll come to see exactly how we are going to provide exceptional risk adjusted returns.

Second is honesty, integrity and transparency. I believe through those traits is the best resolution to conflict. Trust and respect. You're going to be betting on the jockey, not the horse. Meaning you're betting on the operators (wolf pack) in these deals to perform the business plan. A bad team can ruin a great deal, and a great team can save a mediocre deal.

That's why you invest with a wolf pack of experienced operators.

1 The Path to Financial Freedom

Alright now that we are aligned let’s move forward. Building up enough cash flow monthly to cover all your expenses and support your lifestyle is what I would consider being financially free. This may take several investments to build up enough passive streams of income but it's an amazing feeling to not be dependent on just one income like a W2. This is what allows you your time freedom. A passive income or mailbox money while your hard earned money is working hard for you and building equity until a cash out refinance or sell of the property.

2 Why Apartments

Real estate is historically the safest investment in the world.

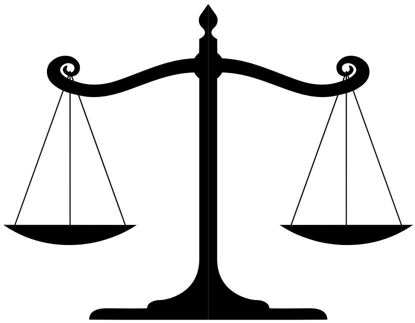
Two words will summarize this chapter. **Stability and Occupancy.**

We also recieve consistent cash flow, appreciation, control and tax benefits. Apartments don’t have a wildly fluctuating value like single family housing, stocks and other assets. They remain predictable and valuable because they serve the basic human need of housing. There is always a demand unlike other assets like bitcoin and gold.

2 Why Apartments

You'll need to ask yourself 3 important questions:

- What is your risk profile?
- Will you accept high risk for high returns?
- Do you want lower risk, and get lower returns?



Where do apartments land on the risk adjusted profile?
Every investment has risk but where does your tolerance stand on the spectrum, and what asset are you going to invest in. We aren't interested in single family homes, storage units, trailer parks and other real estate asset classes.

2 Why Apartments

During a financial crisis the single family gets crushed. Multifamily rent growth will slow down but we have more demand as there are less home buyers and more renters, like in the 2008 crisis. The public lacks the knowledge to invest in real estate and financial advisors only get paid to invest in stocks. Additionally stocks lose value to inflation but we can raise rents to keep pace with it. We have control over our assets even in the midst of something like COVID. With operational changes we can mitigate vacancy and reduce expenses to make sure we continue getting cash flow. Cash flow is what's distributed to the investors after all the debt and expenses are paid. And usually cash flow is tax deferred through depreciation. The tax code reduces our liability so we are going to take advantage of that. The government gives these incentives so we can benefit from providing a strong and stable affordable housing environment for citizens.

3 Syndications

Most people don't know how to buy, operate and sell a property. Or have the time, that's why you partner with other investors and world class operators to form a powerful wolf pack. Pooling together time, money and knowledge that not just one single person could have done alone. The alpha pack or (GP) team will know at what price, location and how to make sure the business plan is executed. The general partners or GP team will have done the market research, underwritten the deal, guaranteed the loan and found the diamond in the rough that will be able to provide amazing returns to the investors or LPs (limited partners). The syndication brings the active and passive investors together.

3 Syndications

We use debt to leverage the purchase. The capital stack refers to the debt and the equity together to purchase these large assets. It's structured with a non recourse loan so none of the LPs are liable if the deal goes wrong. All investments are risky. Also these deals are regulated by the SEC so the wolf pack is strongly motivated to execute the business plan. This is why you will want to vet the GP partners and make sure you are partnered with great operators. This is a team sport and you'll want to be a part of the best wolf pack. We are putting skin in the game and investing our capital alongside yours, another way to align interests between the partnership. So take advantage of partnering with world class experienced operators that have spent years building relationships with brokers, lenders, sellers and other investors just like you.

4 Returns

The capital stack and waterfall structure determines who gets paid first. The debt is collateralized by the asset. By default the bank or agency can take over the asset if it forecloses. They have the biggest part of the capital stack (60% to 80%) but the least amount of risk so they get the lowest returns. The equity holders (LPs) are at most risk to lose their principle so with the increased risk they stand to benefit the most.

Next is the preferred return, usually 7% to 10% paid to the LPs before any of the GP team gets paid their share of the equity split. This makes another alignment of interest between operators and investors. The splits can be structured many different ways but most common is a 70/30 split. 70% to LPs and 30% to GPs.

4 Returns

Your cash flow distribution is your portion of the split of profits after all expenses are paid. Cash flow is important and should be calculated to achieve your financial freedom. What's your TMI? (target monthly income)? How much do you average in monthly expenses? That should be your passive cash flow goal. Next are capital events like refinance and sale of the property. At a cash out refinance you should receive your initial equity invested and be able to reinvest it or walk away with it while still remaining in the deal. Then when the building is sold you'll receive the rest of your equity multiple. An exciting event knowing your money was just doubled. Taxes are another related topic but we will refer you to the blog articles I've previously written.

5 Value Add Strategy

Increasing the property's value through forced appreciation is the most common tactic. This is the key to our model. Increasing rent increases the revenue, but you can't just charge more for something without improving it. So we will find a property with below market rents and look for opportunities to implement a value add strategy. Usually the property is being mismanaged which is a score for us. Interior and exterior renovations are most common. Let's say we raise rents by 50 dollars over 200 units. That's 120k a year added revenue. And 1.2 million increase in equity! See why this is a popular strategy for syndicators? We are looking for mismanaged assets so we can also implement parking, laundry, storage, and pet fees. We can repair a building to save on water and electricity expenses.

5 Value Add Strategy

In conclusion to this chapter we need to understand the NOI (net operating income) divided by the cap rate gives you the value of the building. So when we increase the NOI we increase the value. NOI and Cap rate terms are explained in previous blog articles. Increase revenue and decrease expenses. A dollar saved is worth more than a dollar earned. That's the strategy to build wealth and lucrative returns to our investors. Again you'll want to vet the wolf pack and analyze the investor deck to make sure you believe in the business plan and capability of the operators. Ask us questions about your concerns. What's the projected entry and exit cap rate? How much are you raising rents? Have we worked with the property management company before or the other contractors doing renovations?

6 Your Job as the Passive Investor

Yes, you are passive and hands off but you have some responsibilities. Vetting the team. Setting your investment goals. What kind of returns are you expecting? What's the holding time frame? Do the operators communicate well? Are you willing to be in a relationship with them while your money is invested in the deal? What traits does the team have? Have they faced adversity? Do they express discipline and hard work? Have you verified the sponsor's track record? Do you believe these successes to be replicable? How do they handle unexpected circumstances? What's the exit strategy? Market questions? (population growth, job growth, job diversity, crime rate) Underwriting questions about projections. Get to know the wolf packs values. Again, you're betting on the jockey not the horse. So make sure your goals and values align, then you're ready to move forward with your investing journey.

7 Funding Options

There are lots of creative ways to fund a real estate syndication. Obviously your savings account. Many people don't have the minimum to invest but they can use other options. Retirement accounts are the most common. Self directed IRAs and former 401ks. HELOC or home equity line of credit.

8 Metrics and Terms to Know

Here are some common terms and metrics that you (the investor) should know. These terms are used both in this eBook, and as you invest in these properties in the real world.

Cap rate (capitalization rate)

The expected rate of return if the property was purchased in "All Cash." To calculate this, divide the net operating income by current market value of the property.

Cash on Cash return

Your initial investment divided by your annual return. Typically 8% to 10%p

ARR and IRR

ARR is your initial investment divided by your total profit divided by how long you held the investment. Typically 15% to 25%

IRR is about the same thing but accounts for inflation over time so it's more accurate. Typically 13% to 18%

Equity Multiple

Total received by total invested. Typically 2x to 2.5x

NOI (net operating income)

The NOI of a property is calculated by adding up all of the incoming revenue from a property and subtracting the operating expenses.

9 Signing Documents

Now you know the roles of the partnership. You've selected your risk profile. After you've chosen the right team and been notified of a quality opportunity you'll be able to view a webinar or be sent an investor deck to review with the offering summary. If you decide this is the right investment for you it's time to give your soft commitment. Sign up on the investor portal. There will be subscription documents to fill out and you'll put your referring partner's name down to reserve your soft commitment investment (how much you're planning to invest).

10 Signing Documents

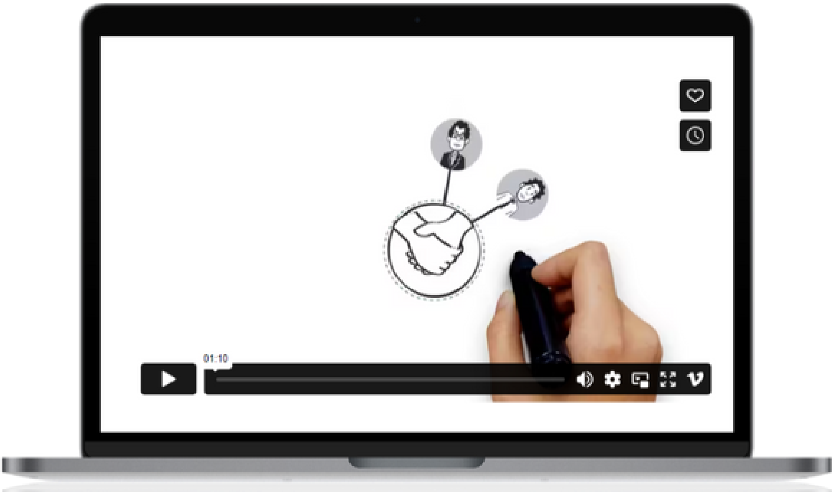
At this point you'll be sent the PPM for review. It's a very long document that outlines everything and was drafted by an attorney. You'll sign the subscription agreement and operating agreements then be given the wire information. After you've wired the funds you're officially and legally part of the partnership. Congratulations! Then you can expect to receive updates on the property and stay in contact with the team with any questions you have. You'll then receive your cash flow distributions and an annual K1. Each deal has its own structure and specifics but this gives you a general outline of the process.

10 Get to Know LOBOS

LOBOS Capital Funds connects you with passive income through equity gain and cashflow distribution.

We buy commercial multifamily real estate in the right location that generate cashflow, and provide the opportunity to force capital appreciation.

Watch this video to learn more about what it's like to work with LOBOS as part of a syndication team:



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Having successful partners in the real estate business has given me the advantage of studying the best books and immersing myself within a network of highly professional and successful individuals. My mentors and sponsors own north of 2000 thousand units and have 300M assets under management.

I first started with a passive investment and now have ownership in 272 units. My mentorships have allowed me to network with amazing people and cultivate a passion for real estate. Now I want to show everyone how their money can work hard for them!

I own a concrete company and played football so I can relate with those who understand that hard earned money can work hard and earn cash flow! Building your portfolio and adding streams of passive income is essential to your wealth development.