

A Short Guide for Partnering with Developers and General Partners (GPs)



Accredited investors can grow their portfolio by partnering with developers and general partners, leveraging expert management for large-scale projects with reduced risk and higher returns, often focusing on commercial, multi-family, or distressed assets.

What's the Role of a GP?

A General Partner (GP) manages the day-to-day operations of a real estate project, including sourcing deals, securing financing, and managing construction or asset operations. The GP typically invests a smaller portion of the total equity but is compensated with management fees and a share of profits. As an accredited investor, you participate as a **Limited Partner (LP)**, providing capital without taking on management duties, though you benefit from the profits generated.

Evaluate Investment Opportunities

Before investing, review the specific deal structures proposed by the developer or GP. Pay close attention to the projected returns, timelines, risk factors, and exit strategies. Common structures include:

- **Equity Partnerships:** You invest directly into the project and receive a share of the profits, typically after the GP takes a management fee.
- **Debt Investments:** You provide capital as a loan, secured against the property. In this case, you earn interest on the loan but don't have ownership or upside from the property's appreciation.
- **Joint Ventures:** You and the GP co-own the property and share profits based on predefined terms.

Perform Due Diligence

Conduct thorough due diligence on both the developer and the property. For the developer, review their track record, prior developments, reputation in the industry, and financial health. For the property, analyze the local market conditions, zoning laws, and the financial model of the project (e.g., projected cash flow, development costs, and expected sale price). It's advisable to consult with a financial advisor or attorney specializing in real estate investments to ensure you fully understand the deal.

3-Step Process for Partnering with Developers and Real Estate GPs

1. Identify and Research Developers/GPs

Begin by researching developers and GPs with a solid track record. Focus on those with experience (or backed by experience) in your target real estate sector. Use networking, industry platforms, and referrals to find potential partners.

2. Conduct Due Diligence and Negotiate Terms

Review the developer's financial health, project portfolio, and the specific deal structure. Ensure you negotiate key terms such as profit splits, fees, and exit strategies.

3. Sign Agreements and Monitor the Investment

Once terms are settled, review legal documents, sign the partnership agreement, and monitor the project's progress through regular updates from the GP, ensuring you stay informed of any developments or risks.

Key Terms

General Partner (GP): The managing entity in a real estate project responsible for daily operations and decision-making.

Limited Partner (LP): An investor who provides capital without managing or controlling the project.

Equity Partnership: A structure where investors receive ownership shares and a portion of profits in return for their investment.

Preferred Return: A guaranteed return paid to LPs before GPs earn a share of profits.

Capital Call: A request for additional investment from partners, typically triggered by project needs.

Carried Interest: GPs' share of profits as a performance-based incentive, beyond their initial capital investment.

Waterfall Structure: A system dictating how profits are distributed among partners, often in tiers or phases.

Exit Strategy: The planned method of cashing out of a real estate investment, such as through selling or refinancing.

Operating Agreement: A legal document outlining the roles, responsibilities, and rights of partners in a real estate venture.

Net Operating Income (NOI): The income generated from a property after deducting operating expenses, excluding mortgage or tax costs.

Return on Investment (ROI): A measure of profitability, calculated as the percentage of return from an investment relative to its cost.

Partnership Agreement: A contract outlining the terms, roles, and responsibilities between General and Limited Partners in a real estate venture.

Subscription Agreement: A document that formalizes an investor's intent to purchase shares or invest in a project, specifying the investment terms.

Operating Agreement: A legal agreement outlining the operational guidelines, profit distribution, and decision-making structure of a real estate partnership.

Private Placement Memorandum (PPM): A detailed document provided to prospective investors, outlining the risks, terms, and details of a real estate investment offering.

Loan Agreement: A contract between a borrower and lender detailing the terms of a loan, including interest rates, repayment schedule, and security.