



A GUIDE TO
Passive
REAL ESTATE
INVESTING

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Welcome

Welcome to "A Guide to Passive Real Estate Investing," an informative and comprehensive ebook designed to introduce beginners to the world of passive real estate investing. If you're looking for a way to grow your wealth, generate passive income, and diversify your investment portfolio, real estate syndications offer a compelling opportunity. This ebook serves as your roadmap to understanding the key concepts, strategies, and benefits of passive real estate investing through syndications.

Throughout this guide, we will explore the fundamentals of passive real estate investing, taking you step by step through the process, highlighting the advantages, and providing practical insights. We'll cover the core concepts, including the definition of passive investing and how it differs from active participation in real estate ventures. You'll gain a clear understanding of the roles and responsibilities of syndicators and passive investors, as well as the benefits of pooling resources through syndications.

In subsequent chapters, we'll delve into the process of passive real estate investing, starting from finding and evaluating syndication opportunities to making informed investment decisions. We'll explore the tax advantages that come with real estate investments, including depreciation benefits and the potential for offsetting passive losses. Furthermore, we'll examine the qualifications and eligibility criteria, helping you understand the distinctions between accredited and non-accredited investors.

Lastly, we'll shine a spotlight on the use of self-directed IRAs as a powerful tool to fund real estate investments, enabling individuals to leverage their retirement savings for passive real estate ventures. We'll provide insights into the benefits of self-directed IRAs, discussing how they can be utilized to invest in real estate syndications while complying with IRS regulations. By the end of this ebook, you will have gained a solid foundation of knowledge about passive real estate investing through syndications. Armed with this information, you'll be empowered to make informed investment decisions, seize opportunities, and embark on your journey toward financial independence and wealth creation.

So, whether you're a beginner exploring passive real estate investing for the first time or someone seeking to expand their investment horizons, this guide is your starting point. Get ready to embark on an exciting adventure into the world of passive real estate investing and unlock the potential for steady cash flow, long-term appreciation, and a more secure financial future.

Let's dive in and discover the path to building wealth through smart investments in passive real estate syndications.





Chapter 1: WHAT is a real estate syndication

Real estate syndications, sometimes known as private real estate funds, are a real estate partnership of multiple investors that pool their funds together to fund a single real estate investment. These types of partnerships open the door for individuals like us to invest in multifamily properties or commercial office buildings instead of an individual taking on all the operations, physical work, tenant calls and debt themselves. In a syndication, there are typically two primary roles: the syndicator (also known as the sponsor/operator) and the passive investors (you). The syndicator is responsible for identifying and evaluating investment opportunities, negotiating deals, managing the project, and overseeing the investment's execution. On the other hand, passive investors contribute funds to the syndication and rely on the expertise of the syndicator to handle the day-to-day operations of the real estate venture.

Real estate syndications offer several advantages for both syndicators and passive investors. For syndicators, they provide access to larger, more lucrative

real estate deals that might be out of reach as an individual investor. Syndicators can leverage their expertise and networks to source attractive investment opportunities, while also mitigating risk by spreading it across multiple investors. Passive investors benefit by gaining exposure to real estate investments without having to manage the properties themselves. They can enjoy potential cash flow, appreciation, and tax advantages associated with real estate ownership, all while relying on the syndicator's professional management team.

One of the key benefits of real estate syndications is the ability to diversify investments across various properties, locations, and asset classes. By participating in a syndication, investors can access a portfolio of real estate assets that they may not have been able to acquire individually. This diversification helps to spread risk and reduce exposure to any single property or market downturn. Additionally, syndications often provide investors with the opportunity to invest in commercial properties such as multi-family residential buildings, flex spaces, retail centers, or industrial complexes, allowing for potential cash flow and appreciation from these income-producing assets.

Real estate syndications also offer passive investors the advantage of leveraging the expertise and track record of experienced syndicators. The syndicator's knowledge of the market, deal structuring, property management, and exit strategies can help enhance the chances of successful investments. Additionally, syndications can provide investors with access to investment opportunities that offer tax advantages, such as depreciation deductions and potential 1031 exchange options. These tax benefits that can help optimize returns and provide additional advantages over other investment will be discussed in future chapters.



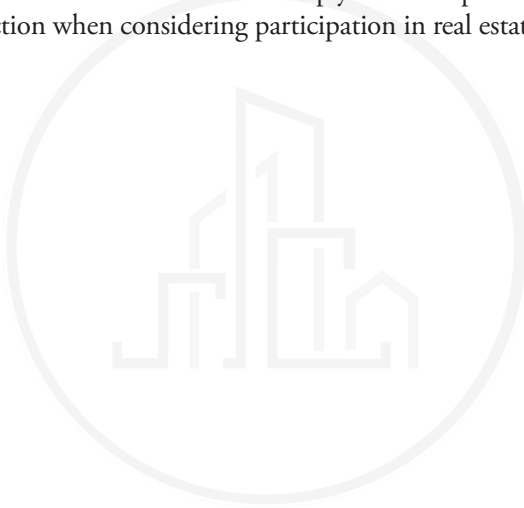
Chapter 2: WHO qualifies to participate

When it comes to investing in real estate syndications, there are certain qualifications that investors need to meet. One distinction is between accredited and non-accredited investors. An accredited investor is an individual or entity that meets specific income or net worth requirements outlined by securities regulations. In the United States, an accredited investor is defined as someone with an annual income of at least \$200,000 (or \$300,000 jointly with a spouse) for the past two years, or a net worth exceeding \$1 million, excluding the value of their primary residence.

On the other hand, non-accredited investors do not meet the income or net worth thresholds set for accredited investors. Non-accredited investors have a lower income or net worth and are typically subject to additional regulatory protections. Real estate syndications often impose certain limitations or require additional disclosures when accepting non-accredited investors to comply with SEC securities laws.

The distinction between accredited and non-accredited investors is significant because it can affect the types of investment opportunities available to individuals. Many real estate syndications are restricted to accepting investments only from accredited investors due to regulatory exemptions that make compliance requirements more manageable. These syndications may offer higher minimum investment amounts and access to larger-scale projects, given the presumed financial sophistication and ability to bear the associated risks of accredited investors.

It's important to note that regulatory guidelines regarding accredited and non-accredited investors may vary across jurisdictions. While the definitions provided above apply to the United States, other countries may have their own criteria or classifications for determining investor qualifications. It is essential for investors to understand and comply with the specific requirements of their jurisdiction when considering participation in real estate syndications.





Chapter 3: WHO runs the real estate syndication

Building on the information from chapters above, we'll provide a comprehensive understanding of how real estate syndications are structured. We'll explain the structure of syndications, the roles of general partners (GPs), you the limited partner (LPs), the intermediary called the capital raiser (Starting Point), and how they collaborate to achieve investment objectives. Drawing from the expertise of Starting Point Capital (www.startingpointcapital.com) we'll offer insights into successful syndication models and strategies.

Real estate syndications operate under a specific structure that involves three key roles: general partners (GPs), you the limited partner (LPs), and lastly the capital raiser. The general partners are typically the syndicators/ operators who initiate the investment opportunity and are actively involved in the day-to-day management of the real estate project. They assume greater responsibility, take on more risk, and contribute their expertise to ensure the success of the venture. General partners are responsible for sourcing deals, conducting due diligence, arranging financing, overseeing operations,

and executing the business plan. They also handle investor relations and communications, ensuring transparency and accountability throughout the syndication.

On the other hand, limited partners are passive investors who provide the majority of the capital for the syndication but are not involved in the operational aspects of the investment. Limited partners contribute funds to the syndication, allowing them to access real estate opportunities that they may not have been able to pursue individually. By acting as limited partners, investors can diversify their portfolio, leverage the expertise of the general partners, and participate in larger-scale real estate projects. Limited partners have the potential to receive cash flow distributions, benefit from property appreciation, and enjoy tax advantages associated with real estate investing, all without the responsibility of active management or ever speaking with a tenant.

The last party involved in the transaction is the intermediary called the capital raiser. These companies like Starting Point Capital are the ones that are approached by syndicators to bring opportunities to the market for individuals to invest in. Most capital raisers are approached by multiple syndicators around the country and it's the intermediaries role to vet which opportunities to partner with and release to their network. The two most important things to look for when investing with in a real estate syndication is the track record and experience of the GP and the market the property is located in.

So how does the capital raiser benefit? Most capital raising companies will have a 1-2% upfront acquisition fee on the funds that are raised which pays administrative costs and mostly attorney fees to put together the PPM agreement you will read about below. The capital raisers real benefit comes when the property flips and goes Full Cycle. At that time after the LPs are paid out, the capital raiser benefits from a percentage of the profits. Make sure to never invest in a transaction unless the capital raiser is investing their own personal money right along with you.

The relationship between general partners and limited partners in a syndication is established through a legal agreement, typically called a Private Placement Memorandum (PPM) agreement. This agreement outlines the terms, rights, and responsibilities of each party involved. It covers aspects such as the capital contributions, profit distribution, decision-making authority, voting rights, and the exit strategy. The agreement also establishes the fiduciary duty of the general partners towards the limited partners, ensuring that they

act in the best interest of the investors. By clearly defining the roles and expectations, the structure of syndications creates a framework that aligns the interests of both general partners and limited partners.

In summary, the general partners lead the syndication, managing the investment on a day-to-day basis, while limited partners provide the capital and benefit from passive investment opportunities. The legal agreement between both parties establishes the guidelines and obligations for a successful partnership.





Chapter 4: HOW does Passive Real Estate Investing work

Over the investment timeline, which can vary depending on the specific project, the syndicator and passive investors work together to maximize the property's value and generate returns. This may involve implementing value-add strategies such as remodeling older units, updating landscaping and amenities, managing cash flow more effectively, and ultimately executing an exit strategy to realize profits. Throughout the process, the syndicator plays a crucial role in managing the investment while passive investors benefit from potential income, appreciation, and the expertise of the syndicator.

Real estate syndications provide significant benefits for both the General Partner (GP) and the Limited Partner (LP). For the GP, they typically earn a share of the profits as a sponsor or syndicator fee, allowing them to generate income from successful real estate ventures.

On the other side, real estate syndications offer numerous advantages for the LPs as well. LPs can passively invest in real estate projects without the

need for active involvement in property management. They benefit from the expertise and track record of the GP, mitigating the risks associated with individual property ownership. Additionally, LPs gain access to a diversified real estate portfolio and the potential for stable cash flow, appreciation, and tax advantages. By investing in syndications, LPs can achieve diversification across various property types, locations, and investment strategies.

Common deal structures in real estate syndications include the General Partnership (GP) and Limited Partnership (LP) arrangement. In this structure, the GP assumes an active role in managing the investment, while the LPs provide the majority of the capital and have limited involvement in decision-making. The GP typically receives a share of the profits as a management fee and a promote, which is an additional share of profits after the LPs have received their preferred returns. This incentivizes the GP to drive the success of the investment and aligns their interests with those of the LPs.

Another common deal structure is the Preferred Equity structure. In this arrangement, the LPs invest as preferred equity partners, which means they have a priority claim to the cash flow and profits generated by the property. The GP, in this case, acts as the operating partner responsible for managing the property and executing the business plan. Preferred equity investors enjoy a preferred return on their investment, often at a fixed rate, before any profits are distributed to the GP. This structure provides the LPs with a predictable income stream but does not give the LPs any proceeds on the flip when the property goes Full Cycle and is sold.

Real estate syndications bring together the complementary strengths of GPs and LPs. GPs possess the expertise, market knowledge, and the ability to source and manage real estate investments effectively. By partnering with LPs, who contribute capital and benefit from passive investing, syndications create a win-win situation. GPs can grow their business and generate income through successful real estate ventures, while LPs gain access to diversified real estate portfolios, potential cash flow, appreciation, and the advantages of passive real estate investing.

As a passive investor, you will receive regular updates and communication from the syndicator regarding the progress of the investment. This may include financial reports, property performance updates, and any important announcements related to the syndication. It is essential to maintain open lines of communication with the syndicator to stay informed about the investment and address any concerns or questions that may arise.



Chapter 5: Tax Advantages of Passive Real Estate Syndications

Investing in real estate syndications offers several tax advantages for passive investors. One of the primary benefits is depreciation. The IRS allows investors to deduct a portion of the property's value each year as depreciation, even if the property is appreciating in value. This deduction helps offset taxable income and can result in significant tax savings over time. Most reputable real estate syndicators will additionally perform an accounting method known as an accelerated depreciation method. This will front load the properties normal depreciation schedule of 39 years on commercial property to the initial years for LP investors to obtain greater tax advantages.

Real estate syndications often generate passive income for investors, which is typically taxed at favorable rates. Passive income from real estate investments can qualify for the preferential tax treatment of long-term capital gains, resulting in potentially lower tax liabilities compared to ordinary income.

Investors in real estate syndications may also benefit from the ability to offset passive losses against passive income. If the syndication generates rental losses or other deductible expenses, these losses can be used to offset passive income from other real estate investments, reducing taxable income even further. When the property goes Full Cycle and is sold, the depreciation that was written off is recognized and the proceeds will be taxed if not reinvested into a future asset.

Another tax advantage of real estate syndications is the opportunity to utilize a 1031 exchange. This provision allows investors to defer capital gains taxes by reinvesting the proceeds from the sale of one property into the purchase of another "like-kind" property. By utilizing a 1031 exchange, investors can effectively defer taxes and potentially increase their investment portfolio without incurring immediate tax liabilities.

For individuals recognized as real estate professionals by the IRS, additional tax benefits may be available. The IRS considers someone a real estate professional if they spend more than 750 hours per year in real estate-related activities and meet certain material participation criteria. Being recognized as a real estate professional allows for the ability to deduct real estate losses against other income, even if the losses are considered passive. This designation can provide substantial tax advantages and further enhance the overall tax benefits of investing in real estate syndications.



Chapter 6: Unlocking the Power of Self-Directed IRAs for Real Estate

Self-directed Individual Retirement Accounts (IRAs) offer a unique avenue for individuals to take control of their retirement savings and diversify their investment portfolios. Unlike traditional IRAs, self-directed IRAs empower investors to go beyond conventional asset classes and explore alternative investments, such as real estate. In this paper, we will explore how individuals can utilize self-directed IRAs to invest in real estate, while highlighting the significant opportunity for equally engaging in passive real estate investing.

Overview of Self-Directed IRAs: A self-directed IRA is a retirement account that allows individuals to direct their investments into a wide range of alternative assets, including residential and commercial real estate, raw land, rental properties, and more. Unlike traditional IRAs, self-directed IRAs are administered by specialized custodians or trustees, such as Madison Trust (www.MadisonTrust.com), who provide the necessary expertise and guidance to navigate the self-directed landscape.

Investing in Real Estate through Self-Directed IRAs: To invest in real estate using a self-directed IRA, individuals must first establish a self-directed IRA account with a custodian like Madison Trust. Once the account is set up, funds can be transferred from an existing IRA or contributed directly to the self-directed IRA. With the self-directed IRA, investors can explore various real estate opportunities, such as purchasing rental properties, investing in real estate syndications, or even holding mortgage notes.

Passive Real Estate Investing and Self-Directed IRAs: One of the key advantages of utilizing self-directed IRAs for real estate investments is the ability to engage in passive real estate investing. With a self-directed IRA, individuals can invest in passive real estate opportunities, allowing them to earn income and build wealth through real estate without the need for active management. Real estate syndications, for instance, offer a prime avenue for passive investing, where individuals can pool their self-directed IRA funds with other investors to access larger-scale real estate projects.

Self-directed IRAs present a powerful tool for individuals seeking to diversify their retirement savings by investing in real estate. With the ability to invest equally in passive real estate opportunities, individuals can unlock the potential for steady income, potential appreciation, and the associated tax advantages. When navigating self-directed IRAs and real estate investing, it is essential to work with reputable custodians like Madison Trust, who provide the necessary expertise and support to ensure compliance with IRS regulations and maximize the benefits of self-directed IRA real estate investments.

Remember, it is crucial to consult with financial and tax professionals to understand the specific rules, regulations, and tax implications of using self-directed IRAs for real estate investing based on individual circumstances.



Chapter 7: Knowledge is key

Throughout this ebook, we have embarked on a journey to explore the world of passive real estate investing through syndications, equipping you with the knowledge and insights needed to make informed investment decisions.

By now, you understand the core principles of passive investing, the roles of general partners and limited partners, and the benefits that real estate syndications offer. You have gained insights into the process of passive real estate investing, from identifying opportunities and evaluating syndication offerings to making educated investment choices.

We have delved into the tax advantages associated with real estate investments, including depreciation benefits, the potential for offsetting losses, and the advantages of utilizing self-directed IRAs. By leveraging these tax benefits, you can optimize your returns and create a more tax-efficient investment portfolio.

Remember, real estate syndications allow you to access larger-scale projects, diversify your investments, and mitigate risks by relying on the expertise and track record of experienced syndicators. Passive real estate investing provides an opportunity for steady cash flow, potential appreciation, and the potential to build long-term wealth.

As you embark on your passive real estate investing journey, always conduct thorough due diligence, seek professional advice when needed, and carefully evaluate each investment opportunity. Building a strong network of trusted professionals, such as attorneys, accountants, and syndicators, will further enhance your investment success. Be cautious of advice from people making broad sweeping statements of the real estate market. Each city and market is completely unique and different just as there are always opportunities to be found at every economic market cycle. One of the most lucrative real estate purchase I've experienced was during the great recession. When everyone was running away from real estate, I saw that as a great opportunity to take advantage of commercial real estate at a reduced price which has turned out to be very successful.

Now armed with the knowledge and strategies outlined in this guide, you have the foundation to confidently pursue passive real estate investments, achieving your financial goals, and securing a more prosperous future. Remember that patience, diligence, and a long-term perspective are key to success in the real estate investing landscape.

Thank you for joining me on this educational journey into the world of passive real estate investing. I wish you every success as you embark on your passive investing endeavors and invite you to contact me personally anytime as you explore further resources, connect with professionals, and continue expanding your knowledge in the exciting realm of real estate syndications. Please feel free to share with friends and it would be greatly appreciated for any acknowledgement you leave me on LinkedIn. Here's to your prosperous and rewarding journey in passive real estate investing!



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Please note that the information provided above is for illustrative purposes only and should not be considered as financial or legal advice.

Glossary of Terms:

1. **Passive Investing:** An investment approach where individuals invest their money in real estate projects but do not actively participate in the management or operations of the property. Instead, they rely on professional syndicators or sponsors to handle the day-to-day activities.
2. **Syndication:** The pooling of funds from multiple investors to collectively invest in real estate properties or projects. Syndications allow individuals to access larger-scale investments and share both the risks and potential returns.
3. **Syndicator/Sponsor:** The individual or entity responsible for sourcing, evaluating, and managing the real estate investment on behalf of the passive investors. The syndicator/sponsor takes the lead in identifying opportunities, negotiating deals, and overseeing the operations of the investment.
4. **Limited Partner (LP):** A passive investor in a real estate syndication who contributes capital to the investment but has limited involvement in the decision-making and management of the property. Limited partners typically benefit from potential returns and tax advantages without active participation.
5. **General Partner (GP):** The syndicator or sponsor who takes an active role in managing the real estate investment. General partners often have more significant responsibilities and contribute their expertise and experience to ensure the success of the project.
6. **Capital Raiser:** The role of a capital raiser is to promote the investment opportunity and secure the capital to fund the purchase of the real estate transaction.
7. **Cash Flow:** The income generated from a real estate investment after deducting expenses such as mortgage payments, property management fees, and maintenance costs. Positive cash flow indicates that the property is generating more income than its expenses.

- 8. Equity:** The portion of ownership in a property or investment. In real estate, equity represents the value of the property minus any outstanding debts or mortgages.
- 9. Property Appreciation:** The increase in the value of a real estate property over time. Appreciation can result from factors such as market conditions, improvements made to the property, or economic development in the area.
- 10. Private Placement Memorandum (PPM):** The PPM provides detailed information about the investment opportunity, including the terms, risks, and other pertinent disclosures that potential investors need to consider before making an investment decision. It serves as a comprehensive offering document that outlines the investment opportunity and helps potential investors make informed choices.
- 11. Due Diligence:** The process of conducting thorough research and analysis on a potential real estate investment. This includes evaluating the property's financials, market conditions, tenant history, and legal aspects to assess the risks and potential returns before making an investment decision.
- 12. Distributions:** Periodic payments made to passive investors from the cash flow generated by the real estate investment. Distributions can be in the form of rental income, profit shares, or other agreed-upon methods.
- 13. Exit Strategy:** The predetermined plan for selling or exiting the real estate investment. This strategy outlines the timeframe and approach to sell the property, potentially realizing capital gains and completing the investment cycle.
- 14. Syndication Offering:** The comprehensive document that provides detailed information about a specific real estate investment opportunity. The offering includes property details, financial projections, terms of the investment, and other relevant information for potential passive investors to review before making an investment decision.
- 15. Accredited Investor:** An individual or entity that meets specific income or net worth requirements, as defined by securities regulations. Accredited investors are eligible to participate in certain investment opportunities that may be restricted to non-accredited investors.

- 16. Non-Accredited Investor:** An individual or entity that does not meet the income or net worth requirements to be classified as an accredited investor. Non-accredited investors may still have access to certain investment opportunities but may have additional limitations or regulatory requirements.



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