SHANNON ROBNETT

5 RED FLAGS

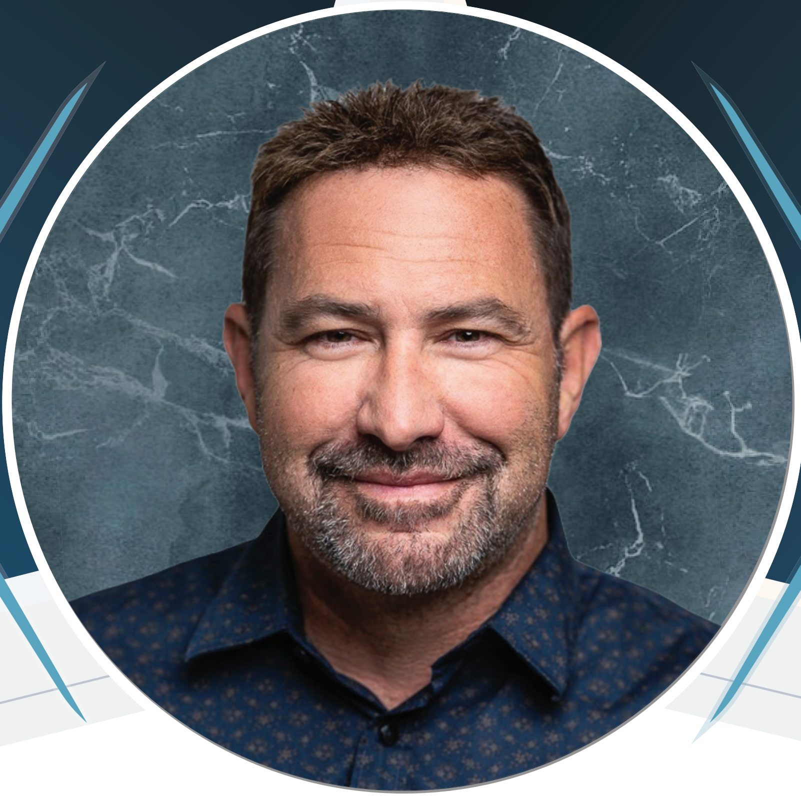
IN PASSIVE REAL ESTATE INVESTING

PASSIVE INVESTING IN REAL ESTATE SYNDICATIONS

A real estate syndication is a group of investors poolingtheir capital to purchase a large real estate property jointly.

Syndications help investors achieve the benefits of owning an investment property without the work, stress, or liability being in charge.

The syndicator handles everything from locating the property to finding the investors and executing the business plan to deliver strong returns to the passive investors.



FROM SHANNON

I spend a lot of time talking with both my current investors and new ones and I am constantly getting asked one question more than any other.

"How do I know who is a legit operator?"

I have been in the real estate business for over 27 years and have done over $350M in transactional volume in 5 states, one commonwealth, and one other country. And while all real estate is similar, it's all extremely nuanced. So how do you figure out who knows enough to handle your money?

I have seen the good, the bad, and the ugly in my time, and I wanted to share with you from bothpersonal experience and observation what I feel are the "absolute NO GO" signs to watch out for. These are things that I believe in strongly enough that theyare total deal breakers. I mean, I would not walk I would RUN from a deal if I saw one of these. You should not allow your hard-earned money to be anywhere near a deal with one or more of these.

RED FLAG #1

The Part-Timer

Real Estate Syndication is not a hobby, it is a business and must be treated like a business.There are many hobbyists and part-timers that are getting into the real estate syndication business because they "think" they can do it, but they want to keep their day job "just in case."

You worked hard to get where you are. You worked hard to have the income to invest and should not want someone who is not all-in to manage your investment dollars.

Think of it this way, if they have not been in the business as long as it took you to earn the money you are giving them, it's time to seriously rethink investing. This type of business cannot be run like a hobby, after hours, or on weekends. You should expect full-time efforts to watch over your investment. I mean, didn't you put in full-time effort to earn the money to invest?

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RED FLAG #2

No Successful Business History

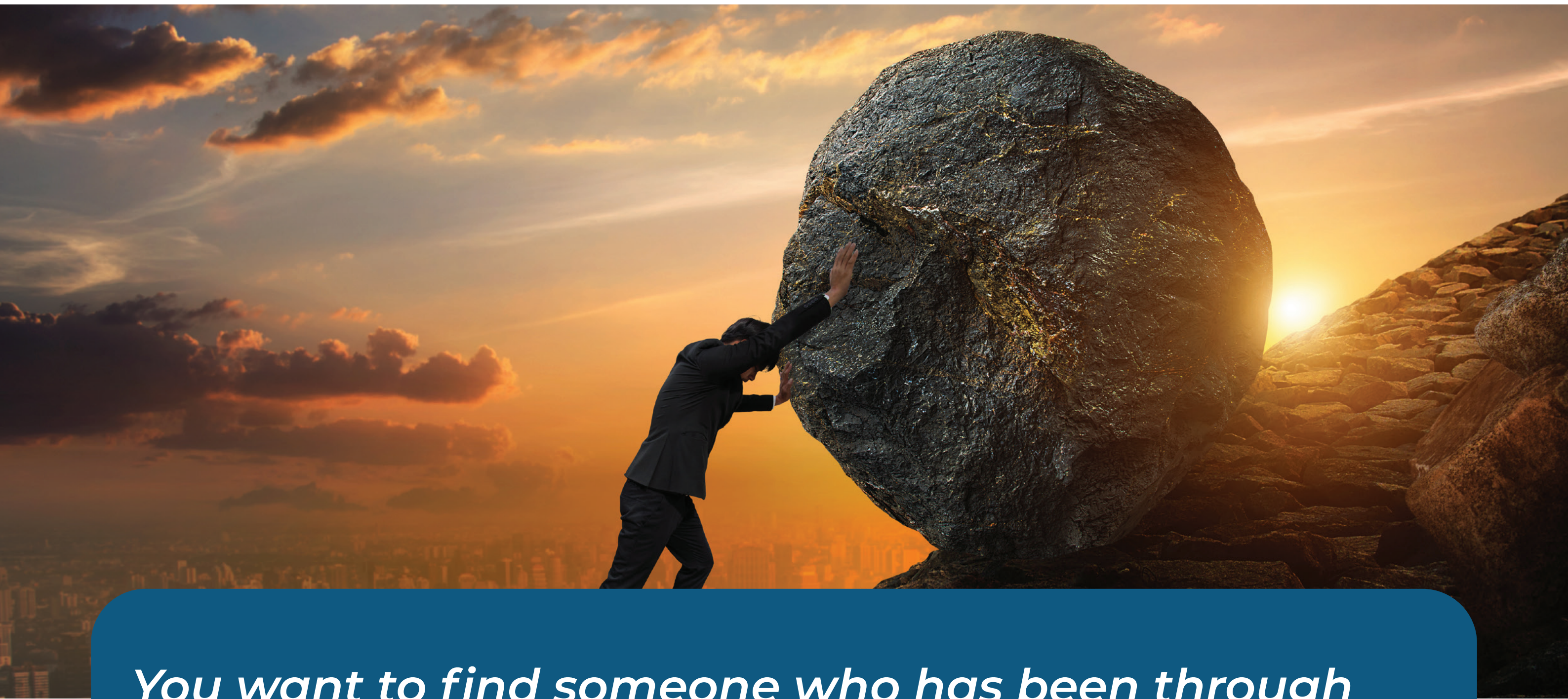
What did the sponsor of the syndication do before they were doing syndicated deals? They surely have a history showing a successful business background, right? This does not mean they worked a 9 to 5 and have a pretty resume, but that they have actuallybeen a successful business owner. The keywords you are looking for are “successfuland business.”

Anyone can successfully work for others, but it takes something extra to run your own business. Do they have the chops to weather the storms associated with business? There are both disasters and the day-to-day grind that one must overcome to be successful in the long run for business.

No Successful Business History - Continued

You want to find someone who has been through the fire, someone who can still be successful through pandemics, world-changing events, times of uncertainty, or labor shortages. Someone who doesn't have to Google "recession" to know what it takes to plan for market climate change.

This is important when buying a large multimillion-dollar asset because it is truly like purchasing a fully operational business. They must know not only how to set key performance indicators in place to monitor performance but must also be able to put systems and contingencies in place, manage people, and create procedures and processes to keep it all running smoothly. As a rule of thumb, they need to have as many successful performance years in real estate as the years it took you to earn the money to invest. Otherwise, what could they really know?



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RED FLAG #3

No Skin in the Game

Does the Sponsor running the show and offering the deal have their own money in the deal? Do they have skin in the game? Or is all the financial risk to your wallet and the wallets of the other investors?

"If their risk is commensurate, they are more likely to make better decisions for all of us in the deal."

If your minimum investment is $50,000 or $100,000 to go in as a limitedpartner, do they have at least that much in the deal themselves? It only makes sense that they have money to make or lose in this deal right along with you. If their risk is commensurate, they are more likely to make better decisions for everyone in the deal.
It's also important to look at how they are paid. Do they get paid before you do? What I mean by that is are they taking large fees out of the project before or after preferred returns are paid? If they NEED the paycheck they will be collecting before the preferred return is paid and that means they do not have the ability to ensure you are their main priority.

> “A more intelligent investor createsa better investment market.”- Shannon Robnett

Limited partners, LPs, do not take part in the active management. This is the number one function of the General Partners. LPs are protected from losses beyond their original investment as well as any legal actions taken against the investment.

In the interests of the investors, the deal should be written with preferred returns and distributions of cash flows going to the limited partners first. Because, in most instances, the deal could not move forward without the capital of the investors, and the sponsor(s)/ General Partner(s) should be willing to provide the preferred returns to maintain a successful relationship.

The preferred return allows the investor to receive 100% of the cash flows and sale proceeds to meet their projected investment returns first, with the General Partners receiving any payout only once that hurdle has been met. This aligns the efforts of the GP and LP for maximum gains with minimum friction. The better the GP does at managing the project, the better the returns for everyone.

"The better the GP does at managing the project, the better the returns for everyone."

RED FLAG #4

Distributions as Return of Capital

When distributions are paying out, they should be classified as a return ON capital rather than a return OF capital.

This is a very important distinction, and you should read the private placement memorandum very carefully to fully understand how they classify the distributions. Remember, Return on Capital is the amount of money that you receive each year as the product of making your initial investment, while the Return of Capital is reducing the amount of your investment. The preferred return calculation is based on the unreturned capital contributions.

Distributions as Return of Capital - Continued

For example: If you had a $100,000 investment with a preferred return of 15%, you would get $15,000. If that is a Return ON Capital then next time your distribution is still based on the initial investment of $100,000. If your distribution is classified as a Return OF Capital, your next return is
based on a reduced amount. If your syndicator pays you distributions based on Return of Capital, then you will get lower returns each year, as your investment balance shrinks over time.

This is great for the syndicator because they realize cash flows faster as the preferred return amount to the LPs goes down. But this makes the passive investors' return on their investment, ultimately, lower. Remember to pay close attention to those tiny little words.... OF....ON...

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Founder & CEO of SRI with subsidiaries:
My Vertical Equity, Phoenix Commercial Construction, and EMS Property Management
Host of Robnett's Real Estate Rundown

Real estate is a complex industry that offers almost anything to anyone. It provides outstanding opportunities for investors both active and passive. But many steer clear of it because of two major factors: lack of proper education and inclusivity. Shannon is on a mission to change this. He inspires people to step up to the challenge through education and also in his podcast, Robnett's Real Estate Run Down.

Why Invest in Real Estate Syndication with SRI?

Shannon Robnett Industries is composed of experts who:

- Know how and when to develop commercial investment property – eliminating the need to pay retail.
- Have resources for cost-effective land development and construction
- Have experience in lease-up and stabilized property management.
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We know real estate development inside and out so you don't have to. We are always excited\to work with investors who share our passion for this industry, but we also are
prepared to take on the responsibility of our client's investments–to grow them into something they could not have grown by themselves. We enjoy being the factor that takes investing to the next level for all of our partners.

Thank You

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OUR PODCAST

Our Values

Integrity - Passion - Excellence - Experience

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