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**WHAT'S A REAL ESTATE SYNDICATION?**

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Real estate syndication is one of the main ways in which real estate developers and **multi-family real estate investors** finance their real estate projects. It is essential to understand this concept of real estate financing because, as a busy professional, it is likely going to be your preferred method of investing in multi-family property. A syndicated real estate transaction involves bringing together a group of investors to raise money for real estate investment through the **commercial real estate market.**

**What does syndication mean?**

Real estate syndication is a capital aggregation of several participants to invest in real estate opportunities jointly. Simply, syndication means that a group of people join to buy a property. Syndication can be formed to acquire a property or several properties. In general, when we talk about syndication, we refer to the aggregation of the capital required for the purchase of a property. Real Estate Syndications are federally regulated in accordance with the [Securities Act of 1933](http://legcounsel.house.gov/Comps/Securities%20Act%20Of%201933.pdf).

**Regulation D**

Regulation D is a United States Federal program created under the Securities Act of 1933, influenced in 1982, which allows companies the ability to raise capital through the sale of equity or debt securities (private or public stock shares). It is designed to provide a release to sell securities in a private capital raise without registering the securities (any business transaction involving investors), and also to provide the appropriate documentation for accepting and using capital.

**Types of Regulation D offerings**

There are two basic types of Regulation D Offerings (which can also be combined):

An “equity” offering is where the company sells partial (or a majority) ownership in the company (via security, stock or LLC membership units) to raise capital. With equity offerings the investors receive a return when the company profits and those profits are shared.

A “debt” offering is where the company raises debt financing by taking out a loan.

With an equity offering investors own a portion of the real estate; with a debt offering investors own a Promissory Note.

**Who Can Invest in Real Estate Syndications?**

Real Estate Syndication investors must either be **Accredited** or **Sophisticated** investors. Accredited investors are investors that earn over $200,000 USD per year or $300,000 USD if filing jointly; or have a net worth of over $1,000,000 USD, not including a personal residence. Sophisticated Investors are non-accredited investors that have sufficient knowledge and experience in financial and business matters to make them capable of evaluating the merits and risks of the prospective investment.

**Rule 506 of Regulation D**

Control 506 of Regulation D is considered a “safe harbor” for the private offering exemption of Section 4(2) of the Securities Act. Companies using the Rule 506 exemption can raise an unlimited amount of money. A company can be assured it is within the Section 4(2) exemption by satisfying the following standards:

The company cannot use general solicitation or advertising for marketing the securities unless they only accept investments from Accredited Investors under Rule 506(c);

The company may sell its securities under Rule 506(b) to an unlimited number of Accredited Investors and up to 35 Sophisticated Investors;

Companies must decide what information to give to accredited investors, so long as it does not violate the antifraud prohibitions of the federal securities laws. But companies must give non-accredited investors disclosure documents that are generally the same as those used in registered offerings. If a company provides information to accredited investors, it must make this information available to non-accredited investors as well;

The company must be available to answer questions by prospective purchasers;

There are financial statement requirements;

Purchasers receive “restricted” securities, meaning that they cannot be sold for at least one year without registering them.

While companies using the Rule 506 exemption do not have to register their securities and usually do not have to file reports with the SEC, they must file what is known as a “Form D” after they first sell their securities. Form D is a brief notice that includes the names and addresses of the company’s owners and stock promoters but contains little other information about the company.

Source: Securities and Exchange Commission (2016)

**Who are the players?**

**Sponsor**

The sponsor is the owner(s) or developer(s) of the asset; the party that collects the funds, also known as the principal or **General Partners**. The sponsor is the party seeking the transaction and executes the purchase and operation of the property.

**Limited Partners**

Accredited and sophisticated investors are the Limited Partners. They are called as such, because they are passive investors in the acquisition of the asset, meaning they are not involved in the day to day operation of the asset(s).

**What are the risks?**

**Sponsor:** The sponsor(s) will generally be exposed to significant financial and reputation risk. Often, the sponsor will have personal guarantees of recourse in the acquisition loan.

**Investor:** the investor also incurs a significant financial risk to the extent that he/she provides the greater part of the capital. They have a marginal reputation risk. Generally, they will not commercialize the transaction and the asset.

If you are thinking about investing in a company making a Rule 506 offering, you should call the SEC’s Public Reference Branch at (202) 551-8090 or send an email to publicinfo@sec.gov to find out whether a Form D has been filed or to obtain a copy. If the company has not filed a Form D, this should alert you that the company may not be in compliance with the federal securities laws.