

Top 10 Questions For Passive Investors Reviewing Opportunities

*Learnings From 17+ Years Of Passive Investing
(Plus 15 Tips!)*

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TWO IMPORTANT NOTES

1) I AM NOT A FINANCIAL ADVISOR

**** I AM AN EXPERIENCED
INVESTOR WHO IS SHARING MY
LEARNINGS AND PERSPECTIVE! ****

2) I AM NOT A POWERPOINT EXPERT

**** I AM ON FOCUSED ON PROVIDING YOU WITH
THE BEST CONTENT POSSIBLE – I DO NOT HAVE A
PROFESSIONAL POWERPOINT OR SALES PITCH! ****

My General/Corporate Background

- Originally From Montreal, Canada
- Currently In Los Angeles
- Wharton MBA (University of Pennsylvania)
- 10+ Years of Corporate World Experience
 - Toyota HQ, Disney HQ, GM HQ, Others
- Left Corporate World in 2007 Thanks To Passive Cash Flow!

My Investing Background

- 17+ Yrs - Cash Passive Cash Flow Investor
- 17+ Yrs - Manage A Private Investor Group (1,400+ Investors)
- 17+ Yrs – Reviewed 1000s Of Opportunities
- 12+ Yrs – Full-Time Passive Cash Flow Investor
- 12+ Yrs - Co-Founder - For Investors By Investors (FIBI)
- 7+ Yrs - Advisor - Realty Mogul
- Currently - In 70+ LLCs – Over 100 LLCs Total (17+ Yrs)
- Currently - Invested In Over \$1B Worth Of Assets

Presentation Assumptions

- *Discussing Syndicated Passive Opportunities*
- *Pooling Multiple Investors Together Into An Entity (Most Commonly An LLC)*
- *Private Placement Memorandum (PPM) Is Typically Being Used*

Question #1 - Does This Investment Match Your Risk Profile?

- *Different Risk Profiles*
 - *Lowest Risk = Stabilized / 100% Occupied Properties*
 - *Highest Risk = New Ground-Up Development*
 - *Value-Add (Minor To Major) = In-Between*
- *Where Is Your Comfort Level? It Could Span Across Different Risk Levels!*
- *TIP: Determine “Your Box” And Stay In It To Stay Out Of Trouble!*
- *BONUS TIP: You Might Want To Vary Your Risk Level Depending On Where We Are In The Real Estate Cycle*

Question #2 - Does The Purchase Price Make Sense?

- Purchase Price = One Of The Most Important Items To Consider For Any Opportunity (“You Make Your Money On The Buy”)*
- Assessing Whether You Want To Invest Based On The Purchase Price Is Absolutely CRITICAL*
- Be Sure To Review Comps Provided To You By The Management Team*
- TIP: Be VERY Careful With The Purchase Price At The End Of A Cycle (ie. Right Now)!!*

Question #3 – Do You Want To Make A Bet On And Give Up Control To This Sponsor?

- Passive Investors Give Up Control In Exchange For Diversification And Reduced Work/Effort
 - Lack Of Vote % Makes Question Critical!**
- Evaluate History And Experience
 - You Don't Want A Sponsor To "Learn Off Your Money"*
 - More Experience Can Increase The Probability Of Investor Success*
 - Not Just Past Performance But Longevity + Exposed To Previous Cycles?**

Question #3 – Do You Want To Make A Bet On And Give Up Control To This Sponsor?

- *Target Sponsors Who Are Trying To Underpromise And Overdeliver*
 - *Not Aggressive Sponsors Who Overpromise To Make The Numbers Look Good*
- *Assess All Key Principals*
 - *Not Just Investor Relations Contact*
 - *Meet In-Person (If Possible)*

Question #3 – Do You Want To Make A Bet On And Give Up Control To This Sponsor?

- *TIP: The Management Team Is THE Most Important Aspect Of The Opportunity – Even More Important Than The Property Itself!*
- *TIP: You Are Giving Control To The Sponsor And Have Limited Capital To Invest – Be Very Picky!*
- *BONUS TIP: A Track Record Can Be Deceiving!*
- *BONUS TIP #2: Background Checks Are A Must!*

Question #4 – Is There A Preferred Return For Investors?

- *The Preferred Return Is The Annual Return Threshold That Investors Must Receive Before The Sponsor Receives A Portion Of The Profits*
- *In The Case That The Preferred Return Is Not Met, It Accrues And Must Be Repaid In The Future*
- *TIP: Do NOT** Invest Unless Investors Receive A Preferred Return (Both For ROI And Downside Protection)!*
- *BONUS TIP: Set Your Own Preferred Return Requirement And Hold To It!*

Question #5 – Is The Profit Split Fair For Investors?

- *The Profit Split Is The Ratio Of Profits That Go To Investors Relative To The Sponsor*
- *Profit Splits Typically Range From 80/20 (In Favor Of Investors) To 50/50*
- *The Split Is Typically A Function Of:*
 - *Sponsor Experience*
 - *Work That The Sponsor Has To Perform For The Opportunity*

Question #5 – Is The Profit Split Fair For Investors?

- *Be Sure The Profit Split Is Fair (I.e. Market Rate) Or You Won't Be Getting Your Fair Share Of The Profit In Exchange For The Risk*
 - *But Also Ensure That The Sponsor Is Receiving A Fair Profit Split To Be Sure They Will Be Motivated To Perform*
- *TIP: NEVER** Invest If The Split Is Less Than 50% For Investors*

Question #6 – Are The Assumptions and Projections Conservative?

- Review All Assumptions And Revenue/Expense Line Items To Determine This
 - Vacancy, Inflation For Revs + Expenses, Expense Ratio, Reserves, Etc**
- Be Sure That You Agree With The Assumptions And Projections – Is Your Philosophy The Same As The Sponsor?*
- Look For Sponsors Who Underpromise With The Goal Of Overdelivering For Investors To Build Long Term Lasting Relationships With Investors*
- Stay Away From Sponsors Who Overpromise And Make The Numbers Look Good To Attract Investors By Setting Unrealistic Return Projections And Expectations*

Question #6 – Are The Assumptions and Projections Conservative?

- Be Sure That The Business Plan Is Realistic And Fits “Your Box” In Terms Of Risk Profile And Projected Returns*
- Real-Life Example – Unrealistic Business Plan For Mobile Home Community: Sponsor Raised Rents Far Too Quickly So Tenants Protested. The Media Covered The Story And The Incident Led To Statewide Rent Control!*
- TIP: Read Between The Lines To Determine If The Sponsor Is Conservative Or Aggressive*

Question #7 – Are The Location and Demographics Favorable Right Now AND In The Future?

- Basics: It's Better To Invest In An Area Where The Population And Local Economy Are Growing Vs Shrinking*
- Learn As Much As You Can About The Economic Drivers And Think 5-10 Years Ahead To Anticipate Demand*
- TIP: Ask The Sponsor For Their Location And Demographic Research But Perform Your Own Research As Well (Trust But Verify)*
- BONUS TIP: Study Projected Net Migration And Demand Trends To Identify The Best Location And Asset Class Mixes (ie. Retirees Heading South = Positive For Apartments And Self Storage)*

Question #8 – Did You Perform Background Checks?

- *Background Check Options*
 1. *TLO (Transunion) Or Accurint (Lexisnexis)*
 2. *Private Investigator*
 3. *Online Services*
- *BE SURE To Perform Background Checks On ALL Of The Managing Members*
- *TIP: Ask Each Managing Member: “Is There Anything You Want To Tell Me Before I Run Your Background Check?”*
- *BONUS TIP: Ask For Name, Date Of Birth, And Address***

Question #9 – Did You Review ALL Of The Legal Documents?

- *BE SURE To Review The Private Placement Memorandum (PPM), Operating Agreement (OA), Subscription Agreement, And All Other Legal Documents*
- *Be Sure That You Understand The Contents Of The Legal Documents (Especially The Operating Agreement) To Be Sure That You Agree With The Rules And Are Comfortable With The Risks*
- *Critical Operating Agreement Rules Include How To Remove The Management Team, Cash Call Provisions, Is There A Vote Needed To Sell The Property, Etc...*

Question #9 – Did You Review ALL Of The Legal Documents?

- TIP: The Operating Agreement Is Absolutely Critical - It Dictates All Of The Rules For The Management Team And Investors! If You Don't Read The Operating Agreement Then You Might Miss Something You Would NEVER Agree To.
- REAL-LIFE EXAMPLE – Capital Call Rule In Operating Agreement: If Any Amount (Without Limitation) Of Capital Was Called, Investors Had To Provide Their Capital Within 2 Days Or They Would Be Diluted By 50%!! This Is Highly Unusual And Borderline Egregious But Investors Did Invest In This Opportunity – They Just Didn't Read The Rules Or They Wouldn't Have Invested!!

Question #10 – Did You Perform The Final Step – The Gut Check?

- The Gut Check Is An Important Final Step - It Allows You To Synthesize Your Tangible And Intangible Observations To Determine Your Comfort Level With An Opportunity*
- Do You Believe The Sponsor Is Conservative, Detail-Oriented, And Will Execute Well On Their Business Plan?*
- Do You Trust The Sponsor With Your Hard Earned Money And Do You Want To Give Them Control?*
- TIP: If Possible, Don't Perform Your Gut Check Without Meeting The Sponsor In-Person!*

Thank You

***I Look Forward To Meeting Anyone
Who Has Any Questions And/Or
Would Like To Network!***

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