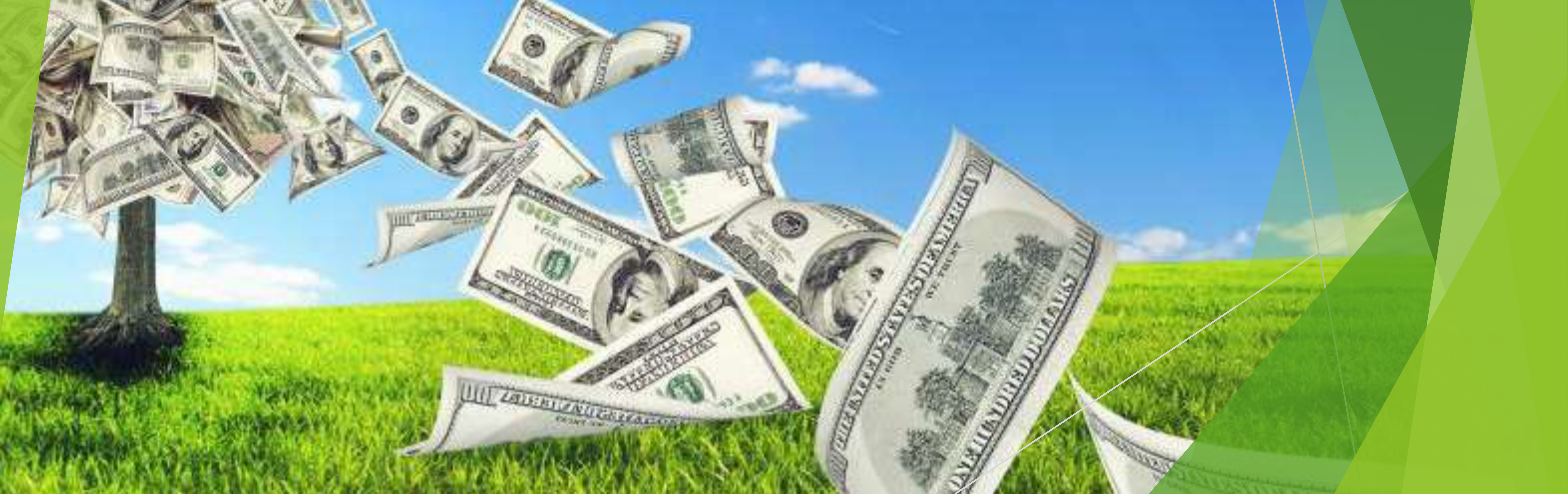
LIMITLESS
ESTATES

What every passive investor should know before investing in Multifamily Real Estate

A guide to help keep you safe on your journey to financial freedom



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DEAL SPONSOR

A **deal Sponsor** is an individual or company in charge of finding, acquiring, and managing the subject real estate property - essentially the Sponsor is the "deal captain" and may receive an outsized return based on value created (depending on the deal structure and performance)

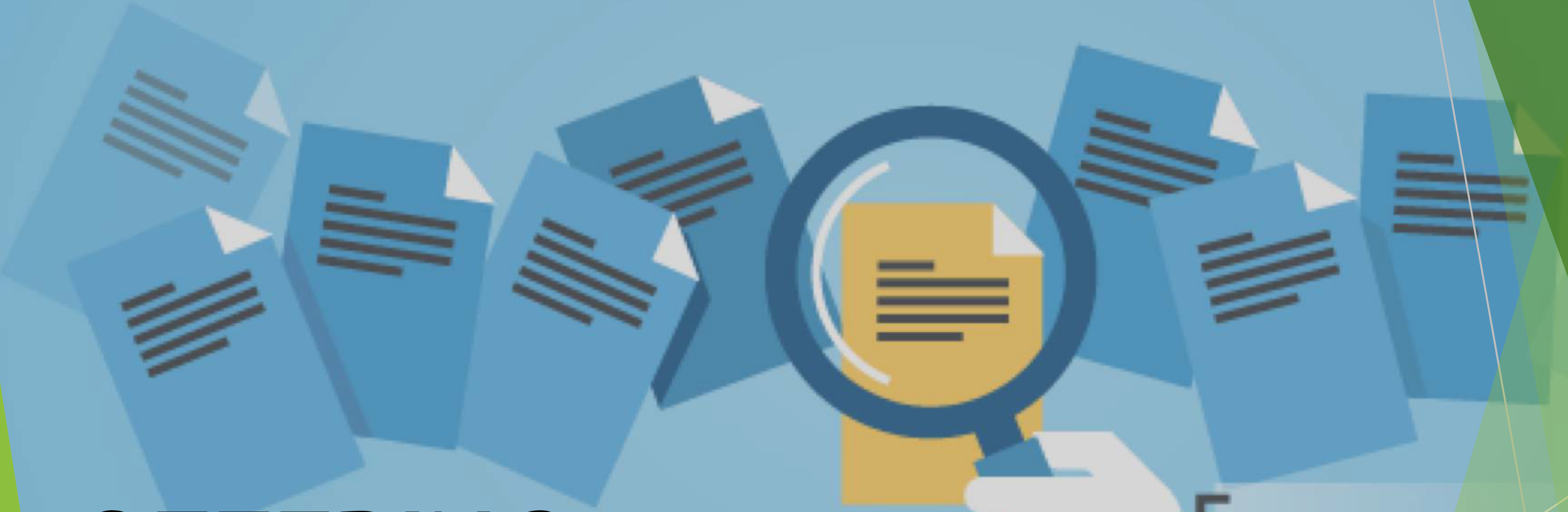
- **Track Record**
  - Does the Sponsor have a proven track record? Ask the Sponsor to provide you with past investment performance. Remember, past performance does not dictate future success. However, having someone with experience who has been successful in the past is a positive sign. Note: If a Sponsor tells you that they cannot provide you with any information on past performance that is a sign! Transparency, communication and trust are key! Know who you are investing with. Anyone can make the numbers on an excel spreadsheet or a PowerPoint presentation look great, the real key is who the person executing on the business plan is. Always do your due diligence on the Sponsor and key operators of a deal.
  - What if this is the Sponsors first deal? This is not necessarily a deal breaker but here are a few things to look for if this is the case.
    - 1.) Are there other people on the Sponsors team that does have Multifamily experience and if so, what is the source of that experience? Experience can come in many forms. Passively, raising money, putting up earnest money and/or due diligence funds, signing on the loan. However, the real source of where you want to see that someone in the deal has experience is in operating a Multifamily property of about the same size and scope as the subject property. There is a huge difference between owning a 15 unit Multifamily that is turnkey in a A class neighborhood vs. a 120 unit Multifamily that needs $10k/door in rehab and in a C class neighborhood. Make sure the experience level lines up with the deal.
    - 2.) Does the group have an Advisory board and if so, who are they? This is not necessarily the best option but if there is experience on the Advisory board in the form of mentorship, it is better than having a first timer Sponsor with no guidance.

- 3.) What is your level of trust with this person and how well do you know them? Regardless of these factors, if you do decide to move forward with a first time deal Sponsor it is highly suggested you invest the minimum amount to start until the Sponsor gains your full trust and proves that he/she knows what they are doing.

Team

- Here are some important team members and their roles:
  - **Property Management** – By far one of the most important roles on the team. Property management is the team who executes the business plan and either guides it to success or inevitably steers it to failure. Be sure to do your due diligence on the property management team that has been selected to run the subject property. More on property management later.
  - **Contractors** – There are times when the property management company will have an in house team who does all of the rehab but this is another extremely important team member who will help in executing the business plan.
  - **SEC Attorney** – This is the attorney that will be drafting up all of the documents including the operating and subscription agreements and most importantly the Private Placement Memorandum (PPM).
  - **Commercial Lender** - Responsible for the lending activities in banks, credit unions and other financial institutions. Sometimes referred to as commercial loan officers, these banking professionals work almost exclusively with businesses, reviewing the very complex financial activities of these lending applicants. In many cases they also serve as an advisor to the Sponsor.
  - Please note that due diligence on all of these team members may not be necessary, as the Sponsor needs to have these people on his/her team and needs to be able to explain who they are.

- **Due Diligence**
  - For one reason or another, passive investors tend to shy away from requiring the person who is going to handle their money for the next 3-7 years to tell them who they really are. Why?!?! This is your hard earned money we are talking about here, you have every right to perform due diligence and request for references and a background check. Remember, once you build trust with this Sponsor this becomes less and less a requirement, always remember to trust but verify.
- **Communication**
  - As I mentioned earlier, communication is key. Here are just a few of the questions you should be asking yourself as it relates to communication.
    - Does the Sponsor take several days or longer to get back to you? Or maybe they don't get back to you at all?
    - Do they answer your questions with full transparency or are they beating around the bush?
    - Do they know the answers to the majority of your questions? Does it sound like they know what they are talking about?
  - These are all signs and if this is how they present themselves before they have your money, you can bet that it will be the same or even worse after. Make sure you are receiving the kind of communication that you expect and that the Sponsor knows what they are talking about.



OFFERING

An **offering** is a legal document that states the objectives, risks and terms of an investment involved with a private placement. This document includes items such as a company's financial statements, management biographies, a detailed description of the business operations and more.

- **Fees**
  - There are many different fees a Sponsor can charge. Here are some of the most common fees you may come across;
    - **Acquisition Fee** - A fee the Sponsor receives at the formation stage of the offering. The fee compensates the Sponsor for time, effort, and expertise used in obtaining the investment opportunity. Typically, the acquisition fee is stated as a percentage of the price of the property acquired. Generally, this method uses 2% to 5% of the price of the property.
    - **Asset Management Fee** - The Sponsor receives payment for managing the company, apart from managing the real estate which they may not actually do. Asset management fees may be based on the amount of money raised from investors. If the company raised $2 million dollars, the asset management fee might be 1% to 2% of that amount, paid annually. Many Sponsors also set the amount of the asset management fee as a fixed annual dollar amount, paid monthly or quarterly.
    - **Refinance Fee – W**hen a property is a value add or a new construction project there can be a time when the property can be refinanced to return the investors a portion of their original cash investment without selling the property. If the Sponsor has ownership interests in the company, they may get a share of the refinancing proceeds. In addition, the Sponsor may get a percentage of the refinancing proceeds. It is common for the refinancing proceeds to go directly to the investors as a return of capital. If the proceeds exceed the investors' original investment, the Sponsor and the investors will split any excess. Sometimes the refinancing proceeds are simply split between the investors and the Sponsor without regard to whether the Sponsor has any ownership interests.

- **Disposition Fee -** Typically charged for services rendered in an investment disposition, including sales marketing, negotiating and closing of the deal.

- There are several other fees that can be charged, you want to look out for investments that are fee heavy, especially those that lean towards the Sponsor being paid first. That being said, you actually do want your Sponsor to get paid so there is an incentive for he/she to perform, just be sure that his/her interests align with yours and the Sponsor is not making money if the investment is not performing.

Splits/Returns

- The next thing to look for in the offering is the investor returns and the splits between the Sponsor and the investors. There are too many ways that the splits can be structured to label them all here, but here are a few ways they may be structured to give you an idea.
  - **Straight Equity Split** – These splits can range anywhere from 60/40 to 70/30 to even 80/20 with the investor getting the greater of the two and the Sponsor with the lessor. In the example of a 70/30 split the investor gets 70% of the equity and the Sponsor the remaining 30%.
  - **Preferred Return w/Equity Split** – This is a scenario where the investor receives the "preferred return" before the Sponsor gets paid anything. If the investment does not hit this preferred return (let's say 7%) then the remaining balanced is accrued until that payout is caught up. At that point there would be a split of equity as decided in the PPM.

- **Waterfall** – These splits can be structured in many different ways. One of these ways is as the investment hits identified markers the returns adjust. For example, you could have an 8%, 12%, 15% waterfall where once the 8% is achieved the split turns more in favor of the Sponsor, and again at the 12% and 15% marks. Although this seemingly does have a performance piece tied to it and your interests are aligned with the Sponsor, be careful with these. This falls under the same category of having too many fees. Typically, the more experienced and senior Sponsors are able to pull these off.

- Every Sponsor will have a different structure and none of them are better than another. Ultimately, it comes down to the returns of the deal and whether there is a sound operator and business plan in place to achieve those returns. Do not overthink the splits, again it's about the return on investment. Here is another thing to think about when taking a look at the returns.
  - **Cash on Cash vs Overall Return on Investment** – Be careful that the investment is not backloaded. Meaning you receive very little returns during the meat of the investment and only make the majority of your return upon sale. The sale is speculative as the Sponsor is not able to tell you where the state of the market and the investment will be in 5-7 years, so there is an assumption made here. These assumptions are well thought out and backed by data and several key factors. However, you want to be sure that your returns are made throughout the life of the investment and not just at the sale to ensure a stable, prudent investment.

- When you look at the returns of an investment it comes back to your goals and why you are investing in the first place. If you are not sure what type of returns you want to make then you are probably not quite ready to invest yet and need to educate yourself a bit more. Once you have a goal and a target return in mind you can go out and shop these investments and find the best one that fits what you are looking for.

- **Timeframe**
  - The timeframe of each investment will vary based on the business plan. These can range anywhere from several months to even as long as 10+ years. Most if not all of these investments are not liquid so your money will be tied up for a period of time. It will be important to ask what the expected timeframe of the investment will be and whether or not you will be able to sell your shares or pull your money out. Each deal will be different. Again, this goes with making sure the investment fits your goals.
- **Business Plan – operating agreement**
  - What is the business plan? Meaning how do they plan on getting the investment to perform the way they have projected? There are many types of investments from buy & hold turnkey, light, medium and heavy value add to ground up development. Each of them comes with their risks and rewards but typically buy and hold along with light value add would be on the more conservative side where as heavy value add and ground up development is more high risk. So back to the business plan. Multifamily is great because it literally is a business. If you operate it more efficiently than the one next door then your property will sell for more. The greater your Net Operating Income (NOI) the more the property will sell for, which is why having an experienced and focused operator is so important. So how do you increase the NOI? There are countless ways but typically it is by managing the property more efficiently (saving in expenses) or improving the property and increasing the incomes via rent increases or other income streams like charging for utilities, laundry, vending machines, etc.)

- When looking at the Sponsor's business plan you need to ask yourself if it makes sense. Can they really get the rent increases and the expense savings to where they say? There are several resources at the end of this document that can help you research some of these items but they will vary deal by deal. You can also call brokers, property management companies and other investors that are local to that area. Bigger Pockets and Facebook Groups are also a great resource for asking these types of questions.
- Next thing to look at is who the property management company (PM) is that the Sponsor has selected, is it 3rd party property management or do they provide their own in-house? Neither is bad, you just want to be sure that the PM being used has a good track record and has experience in managing the type of asset that is being purchased. For example, if the subject property is a class C value add project then you want a PM that has prior experience with this type of asset and work. A PM who only focus' on buy and hold class A properties would not be a good fit here.
- Next is the exit strategy. Are there multiple? What happens if there is a recession and the plan was to sell/refinance in year 3 and now that's not possible? What are the back up plans? At the very least there should be 2 exit strategies. Whether that is refinancing after stabilization and returning capital back to the investors, stabilizing and selling in year 5, or holding long term and taking advantage of the cash flow. It boils down to not putting all of your eggs in one basket, there needs to be multiple exit strategies just in case things do not go as planned.

- Along the same lines as exit strategies, one thing you will want to know is the CAP rate a re-sale or reversion CAP rate. This is the speculative piece we talked about earlier. The reversion CAP rate is the rate that is used to derive reversion value which is what the Sponsor expects to receive as a lump sum at the end of an investment. I know, fancy right! Basically, that is a fancy way of saying where does the Sponsor think the market is going to be when they plan on selling the asset or what does he/she expect to sell the property for. Again, this is all speculative which is why you want to be sure that the Sponsor is being conservative or has a very good reason for his/her assumption. There are so many variables at play here so a rule of thumb is not possible, just be sure to check with credible resources and ask the question of whether the CAP rate at re-sale is justified.

  Lastly, you need to make sure the business plan follows the 3 rules of Multifamily real estate investing.
  - 1.) Be sure the property cash flows
  - 2.) Be sure the Sponsor has raised sufficient funds to cover the cost of ALL capital expenditures, emergency reserves and working capital
  - 3.) Be sure the Sponsor is securing long term debt, preferably 10+ years

- **Private Placement Memorandum (PPM)**
  - A private placement memorandum (PPM) is a legal document provided to prospective investors when selling stock or another security in a business. It is sometimes referred to as an offering memorandum or offering document. A PPM is used in “private” transactions when the securities are not registered under applicable federal or state law, but rather sold using one of the exemptions from registration. The PPM describes the company selling the securities, the terms of the offering, and the risks of the investment, amongst other things. The disclosures included in the PPM vary depending on which exemption from registration is being used, the target investors, and the complexity of the terms of the offering.
  - The following are some questions you should be asking yourself as you read through the PPM.
    - Do I have to stay in the deal the entire time or can I sell my interest?
    - What happens if the project needs more capital?
    - What happens to your money if the lead Sponsor passes away?
    - What happens to your money if you pass away?
    - What are the voting rights?
    - Can the lead Sponsor be removed if they are severely underperforming?
    - What is the compensation structure?
    - What are the terms of the loan?
    - What is the funding and payout schedule?
    - How will I be updated on the project after closing?

- Make sure you read the entire document! You are giving your hard earned money towards this investment so you better understand all of the risks that come with it. These are just some of the many questions that should be asked before going into an investment. As mentioned earlier, if these questions cannot or will not be answered by the Sponsor then that is a clue and you should run for the hills!

Does the investment fit your goals?

- After you've done your due diligence the last question you should be asking yourself is does this investment fit my goals? Just because everything looks like a "good deal" does not mean it's the right investment for you. You have to take a look at where you are in your life and what your 1, 3, 5 and even 10 year goals are. If the investment fits your goals then great! If not, then pass and try to find one that does. Here are a few more things to think about when asking yourself if this investment fits your goals.
  - What is the minimum investment?
  - How long will my money be tied up for?
  - Do I trust the Sponsor?
  - Do I believe in the business plan?
  - Do my interests align with the Sponsors and their vision for the investment?
  - Will this investment bring me closer to achieving my goals?
  - Do I feel comfortable with the risks outlined in the PPM?

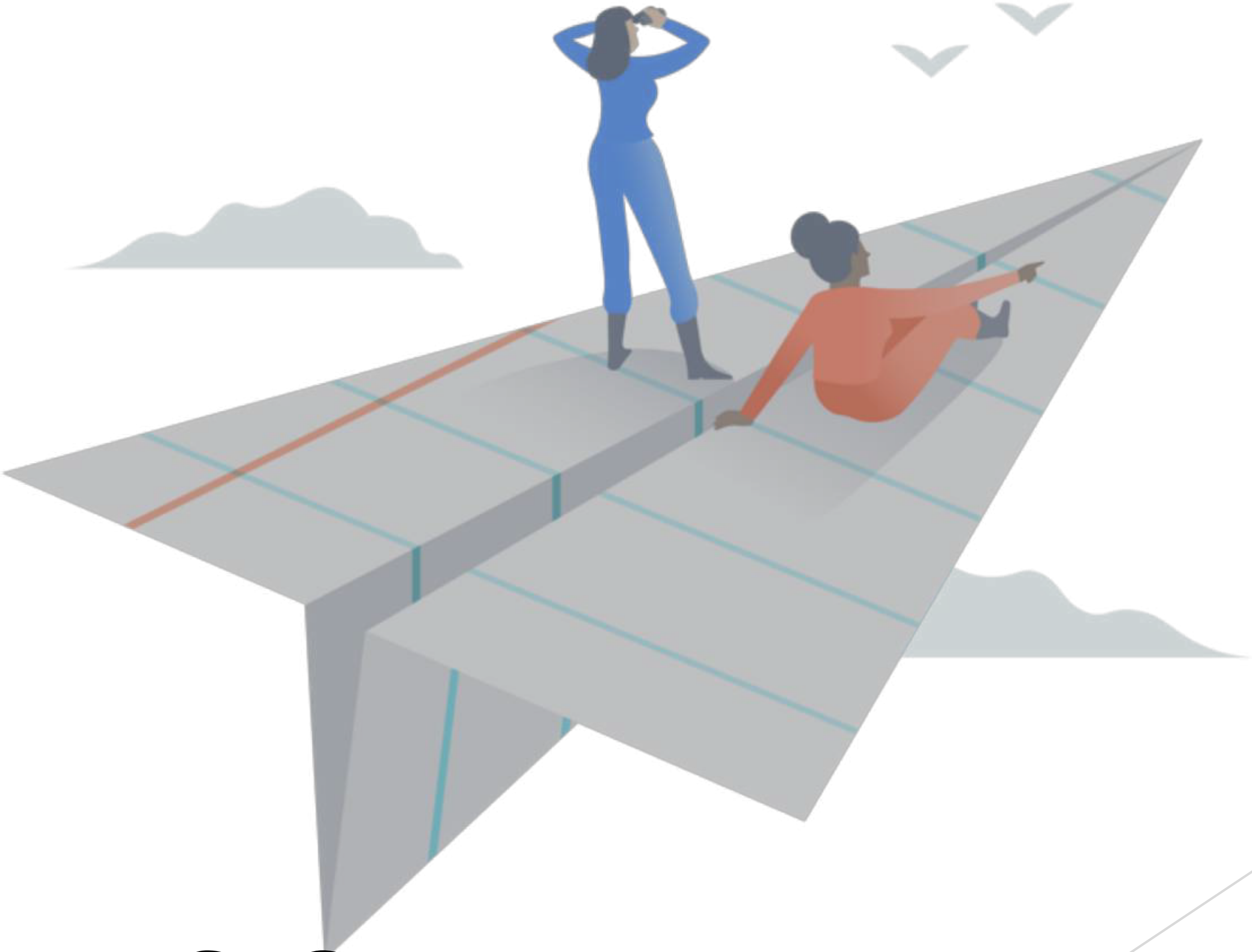
MARKET ANALYSIS

A **market analysis** studies the attractiveness and the dynamics of a special **market** within a special industry. It is part of the industry **analysis** and thus in turn of the global environmental **analysis.**

- **Real Estate is Local**
  - What market is the investment in? And not just what market, but what sub-market and what neighborhood? Real Estate is hyper-local and has almost 400 metropolitan statistical areas (MSA's). Just because Dallas/Fort Worth is booming does not mean that every real estate investment in DFW is going to be a good one. You need to know specifics about the investments. What neighborhood is it in, what is the median income of this specific area, is there any new construction or development going on, does this specific area have issues with crime, what is the HISTORIC trends of vacancy and rent growth in this market, is there job and population growth, etc. Use the resources at the end to help you find the answers to some of these questions.
- **Growth**
  - Plain and simple, you want to invest in an area that is seeing growth. This is as simple as it sounds, use the resources page to find out whether or not that particular market is and has recently seen job, population, wage, rent and even occupancy growth. Now, do you need to see growth in 100% of these areas? Not necessarily, but the more the better. You want to see that the market is growing, not shrinking. Generally speaking, you also want to be in MSA's that have a substantial population. If you go invest in a market with 30,000 people and it's seen 10% population growth year over year that isn't saying much. Make sure the market you invest in has good, sound economics.

- **Historical Data**
  - When looking at the assumptions made by the Sponsor be sure that historical data is being used. For example, if the market is on fire and is currently seeing rent growth of 5%, occupancy at 97% and CAP rates at re-sale at 5% does that mean it will always be like that? You better believe not! Assumptions need to take into consideration the HISTORICAL averages so that the investment can withstand a downturn in the market. In the same example above, if historical averages are rent growth of 1.5%, occupancy at 92% and CAP rates at re-sales at 7% and the Sponsor assumed the best case scenario then you better be prepared for a pretty sour outcome. Keep in mind that that in order for there to be an average, that means that there are times when the market is worse than that average. The longer the hold period of an investment the more conservative the assumptions should be and the more you will need to rely on historical data.
- **Job Diversity**
  - Not only will you need to look into job growth in the market and sub-market you plan to invest in, you should also be looking into the diversity of the job market. You do not want a market that is fully dependent on the success of one large company or industry. If a certain industry takes a hit there needs to be other industries within that market that are there to keep it from tanking. To be safe, there should be no more than 20% of a market that is made up of one industry and the diversity should be spread out into 3-5+ strong industries.

- **Net Absorption**
  - Net absorption is a measurement of the net change of the supply of commercial space in a given real estate market over a specific period of time. It is measured by deducting commercial space vacated by tenants and made available on the commercial space market from total space leased up.
  - Is there overbuilding happening? If too many properties are being built then eventually there will not be enough people to fill all the available units in the specific market, which ultimately results in lower rents, higher vacancy and more competition. Building is a good thing, but there is such a thing as too much of a good thing.
- **Market Cycle**
  - All markets have cycles much like the economy as a whole. Since real estate is local and has nearly 400 MSA's, each one is not in the same cycle as another. There are too many factors involved for each market to react the same way. Market cycles can be a tough thing to gauge and does not make or break a potential investment. The key is that there needs to be a solid business plan in place, and that business plan must take into consideration where the cycle currently is and where it is headed.



CONCLUSION

- Investing in real estate is not difficult. And you can build great wealth with it as a vehicle. However, you need to be educated and prepared just like you would with any other investment. Otherwise, it is just speculation and gambling. And when you play that game the house always wins!
- **Key Takeaways**
  - Be sure you know who are you investing with
  - Be sure the Sponsor has a solid and trustworthy team with a positive track record
  - Be sure your goals align with both the Sponsors and the investment itself
  - Educate yourself
  - Do your own due diligence, trust but verify!
  - Follow the 3 rules of Multifamily real estate investing

SCHEDULE A CALL WITH LIMITLESS ESTATES TEAM

RESOURCES & DEFINITIONS

- **Resources**
  - **Market Research - Free Resources**
    - City-data.com
    - Census.gov
    - Bestplaces.net
    - Milken best cities report
    - CBRE
    - Marcus & Millichap
    - Yardi Matrix
    - Ten-X
    - American Fact Finder
  - **Market Research - Paid Subscriptions**
    - Co-star
    - Neighborhood scout
    - Local market monitor (LMM)
    - Integra Realty Resources (IRR)
    - NCREIF.org

- Resources
  - Rents
    - Trulia.com
    - Zillow.com
    - Rentbits
    - Rentometer
    - Apartments.com
  - Crime
    - Trulia.com
    - Crimereports.com
    - Spotcrime.com
    - Lexis Nexis
  - Connecting/Networking
    - Bigger Pockets
    - Facebook Groups
    - Meetup.com

Terms & Definitions

- **Acquisition Fee** – A fee charged to cover commissions and expenses incurred in acquiring an asset.
- **Amortization** – Refers to spreading payments over multiple periods or allocating the cost of an intangible asset over a period of time.
- **Apartment Syndication -** A temporary professional financial services alliance formed for the purpose of handling a large apartment transaction that would be hard or impossible for the entities involved to handle individually, which allows companies to pool their resources and share risks and returns. In regards to apartments, a syndication is typically a partnership between general partners and limited partners to acquire, manage, and sell an apartment community while sharing in the profits.
- **Appraisal -** A report created by a certified appraiser that specifies the market value of a property. For apartments, the value is based on the cost, income, and sales comparison approach.
- **Asset Management Fee** – A fee charged to manage an asset.
- **Average Annual Return (AAR)** – A percentage used when reporting the historical return of an investment.
  Formula: Total yearly returns divided by the number of years invested
- **Bad Debt** - The amount of uncollected money owed by a tenant after move-out.
- **Capitalization Rate (CAP Rate)** – Rate of return on an investment property based on the income that property is expected to generate.
  Formula: Net Operating Income (NOI) divided by the Current Market Value or Sales Price

- **Terms & Definitions**
  - **Cash Flow** - The revenue remaining after paying all expenses.
    Formula: Subtract the operating expenses and debt service from the effective gross income
  - **Cash on Cash Return (COC)** – The rate of return that calculates the cash income earned on the cash invested.
    Formula: Cash invested divided by cash flow before tax
  - **Closing Costs** – The expenses over and above the price of the property that buyers and sellers pay to complete a real estate transaction. Costs incurred may include loan origination fees, discount points, appraisal fees, title searches, title insurance, surveys, taxes, deed-recording fees and credit report charges.
  - **Concessions** - The credits given to offset rent, application fees, move-in fees, and any other cost incurred by the tenant, which are generally given at move-in to entice tenants into signing a lease.
  - **Cost Segregation Study** - Identifies and reclassifies personal property assets to shorten the depreciation time for taxation purposes, which reduces current income tax obligations.
  - **Debt Service** – The amount of money required over a period of time to repay debts.
  - **Debt Service Coverage Ratio (DSCR)** – A measure of the cash flow available to pay current debt obligations.
    Formula: Net Operating Income (NOI) divided by Total Debt Service
  - **Depreciation** – A reduction in the value of an asset with the passage of time, due in particular to wear and tear.

- **Terms & Definitions**
  - **Disposition Fee** – A fee charged for services rendered in an investment disposition, including sales marketing, negotiating and closing of the deal.
  - **Distributions -** The limited partners' portion of the profits, which are sent on a monthly, quarterly, or annual basis, at refinance, and/or at sale.
  - **Earnest Money Deposit (EMD)** – Deposit made to the seller indicating buyer's good faith, ranges anywhere from 1-5% purchase price.
  - **Economic Occupancy** – Refers to the proportion of the Gross Potential Income (GPI) that is collected, the money that is actually paid.
    Formula: Total rents collected divided by total rents scheduled
  - **Effective Gross Income (EGI)** – The Gross Potential Income less vacancy and collection losses.
  - **Equity Investment** – The upfront costs for purchasing a property. These costs include the down payment for the mortgage loan, closing costs, financing fees, operating account funding, capital expenditures (if excluded from the loan) and the fees paid to the general partnership for putting the deal together.
  - **Equity Multiple (EM) -** The rate of return based on the total net profit and the equity investment.
    Formula: Divide the sum of the total net profit (cash flow + sales proceeds) and the remaining equity investment at sale by the equity investment
  - **Environmental Site Assessment (EDR)** – A report prepared for a real estate holding that identifies potential or existing environmental contamination liabilities. The Phase I ESA is generally considered the first step in the process of environmental due diligence.

- Terms & Definitions
  - **Gross Potential Income (GPI)** – The total rent a property can generate if 100% leased at market rent.
  - **Gross Rent Multiplier (GRM)** – The ratio of the price of a real estate investment to its annual rental income before accounting for expenses, it is the number of years the property would take to pay for itself in gross received rents.
    Formula: Selling price or value divided by gross rents
  - **Interest Only (I/O)** – A period of time in which the borrower only pays the interest on the mortgage through monthly payments.
  - **Interest Rate** - The amount charged by a lender to a borrower for the use of their funds.
  - **Internal Rate of Return (IRR) -** The rate needed to convert the sum of all future uneven cash flow to equal the initial equity investment. That "uneven cash flow" can be cash flow, sales proceeds and principal pay down.
  - **Investing (Active) -** The finding of, qualifying, and closing on a real estate asset using one's own capital and overseeing the business plan through to its successful execution.
  - **Investing (Passive)** - Placing one's capital into an apartment syndication or other real estate investment that is managed in its entirety by a general partner.
  - **Investor (Accredited)** - A person that can invest in syndications by satisfying one of the requirements regarding income or net worth. The current requirements to qualify are an annual income of $200,000, or $300,000 for joint income, for the last two years with the expectation of earning the same or higher, or a net worth exceeding $1 million either individually or jointly with a spouse.

- Terms & Definitions
  - **Investor (Sophisticated)** - A person who is deemed to have sufficient investing experience and knowledge to weigh the risks and merits of an investment opportunity but does not meet the accredited investor qualifications.
  - **Lease** - A formal legal contract between a landlord and a tenant for occupying an apartment unit for a specified time and at a specified rent with specified terms.
  - **Loan (Bridge)** - A mortgage loan used until the borrower secures permanent financing. Bridge loans are short terms (six months to three years, with the option to purchase an additional six months to two years), generally have higher interest rates, and are almost exclusively interest only. Also referred to as interim financing, gap financing, or swing loans. The loan is ideal for repositioning an apartment community that doesn't qualify for permanent agency financing.
  - **Loan (Permanent Agency)** - A long-term mortgage loan secured from Fannie Mae or Freddie Mac. Typical loan term lengths are 3, 5, 7, 10, 12 or more years amortized over up to 30 years. Apartment communities that are non-stabilized (85% occupancy or lower) will typically not qualify for agency debt.
  - **Loan to Value (LTV)** – The ratio of a loan to the value of an asset purchased. ***Formula:*** Mortgage lien divided by the appraised value of the property
  - **Loan to Cost (LTC)** – The ratio of a loan to the cost of building the project. ***Formula:*** Mortgage lien divided by the appraised value of the property plus the cost of building the project

- **Terms & Definitions**
  - **Letter of Intent (LOI)** – A non-binding agreement stating two or more parties' desire to enter into a real estate transaction.
  - **Loss-to-Lease (LtL)** - The revenue lost based on the market rent and the actual rent.
    Formula: Divide the gross potential rent minus the actual rent collect by the gross potential rent
  - **Market Rent -** The rent amount a willing landlord might reasonably expect to receive and a willing tenant might reasonably expect to pay for tenancy, which is based on the rent charged at similar apartment communities in the area. The market rent is typically calculated by conducting a rent comparable analysis.
  - **Metropolitan Statistical Area (MSA)** - A geographical region containing a substantial population nucleus, together with adjacent communities having a high degree of economic and social integration with that core. MSA's are determined by the United States Office of Management and Budget (OMB).
  - **Mortgage** - A legal contract by which an apartment is pledged as security for repayment of a loan until the debt is repaid in full.
  - **Net Operating Income (NOI)** – Equals all revenue from the property minus all operating expenses. NOI is a before-tax figure which excludes principal and interest payments on loans, capital expenditures, depreciation and amortization.
    Formula: Net Income minus Operating Expenses
  - **Non-recourse** - The right of the lender to go after personal assets above and beyond the collateral if the borrower defaults on the loan AND a carve-out is triggered (i.e. gross negligence or fraud).

- Terms & Definitions
  - **Occupancy (Economic)** - The rate of paying tenants based on the total possible revenue and the actual revenue collected.
    Formula: Divide the effective gross income by the gross potential income
  - **Occupancy (Physical)** - The proportion of occupied units.
    Formula: Divide the total number of occupied units by the total number of units at the property
  - **Operating Agreement** - A document that outlines the responsibilities and ownership percentages for the general and limited partners in an apartment syndication.
  - **Partner, General (GP)** - An owner of a partnership who has unlimited liability. A GP is a managing partner and is active in the day-to-day operations of the business. In apartment syndications, the GP is also referred to as the Sponsor or Syndicator and is responsible for managing the entire apartment project.
  - **Partner, Limited (LP)** - A partner whose liability is limited to the extent of their share of ownership. In apartment syndications, the LP is the passive investor who funds a portion of the equity investment.
  - **Preferred Return** – Refers to the ordering in which profits are distributed to investors. Preferred returns means contractual entitlement to distributions of profit until a threshold rate of return has been met, before profit distributions are made to any other subordinate stakeholders.
  - **Prepayment Penalty** - A clause in a mortgage contract stating that a penalty will be assessed if the mortgage is paid down or paid off within a certain period.

- Terms & Definitions
  - **Principal** - The original sum lent to the borrower.
  - **Private Placement Memorandum (PPM)** – A legal document provided to prospective investors when selling securities that states the objectives, risks and terms of an investment.
  - **Pro Forma** - The projected budget with itemized line items for the revenue and expenses for the next 12-months and/or the next 5 years.
  - **Profit and Loss Statement (T-12) -** A document or spreadsheet containing detailed information about the revenue and expenses of an apartment over the last 12 months. Also referred to as a trailing 12-month profit and loss statement, P&L, operating statement, or T-12.
  - **Purchase & Sale Agreement (PSA)** – The agreement that finalizes all terms and conditions in the buying/selling of an asset as originally stipulated in the Letter of Intent (LOI).
  - **Ratio Utility Billing System (RUBS)** – A method of calculating a resident’s utility bill based on occupancy, apartment square footage, number of beds, or some combination of factors less a predetermined percentage of a common area allowance.
  - **Recourse** - The right of the lender to go after personal assets above and beyond the collateral if the borrower defaults on the loan.
  - **Refinance Fee -** A fee charged for services rendered the case of a refinance of the deal.

- **Terms & Definitions**
  - **Rent Roll** - A document or spreadsheet containing detailed information on each of the units at the apartment community, including the unit number, unit type, square footage, tenant name, market rent, actual rent, security deposit amount, move-in date, lease-start and lease-end dates, and the tenant's balance.
  - **Subscription Agreement** - A document that is a promise by the LLC that owns the property to sell a specific number of shares to a limited partner at a specified price, and a promise by the limited partner to pay that price.
  - **Submarket** - A geographic subdivision of a market.
  - **Syndication** - The transfer of something for control or management by a group of individuals or organizations.
  - **Underwriting** – The process in which an underwriter researches and assesses the risk of a potential asset.
  - **Vacancy Loss** - The amount of revenue lost due to unoccupied units.
  - **Vacancy Rate** - The proportion of unoccupied units.
    Formula: Divide the total number of unoccupied units by the total number of units.
  - **Waterfall** - A method by which the capital gained by the fund is allocated between the limited partners (LPs) and the general partner (GP).
  - **Yield Maintenance -** A penalty paid by the borrower on a loan if the principal is paid off early.