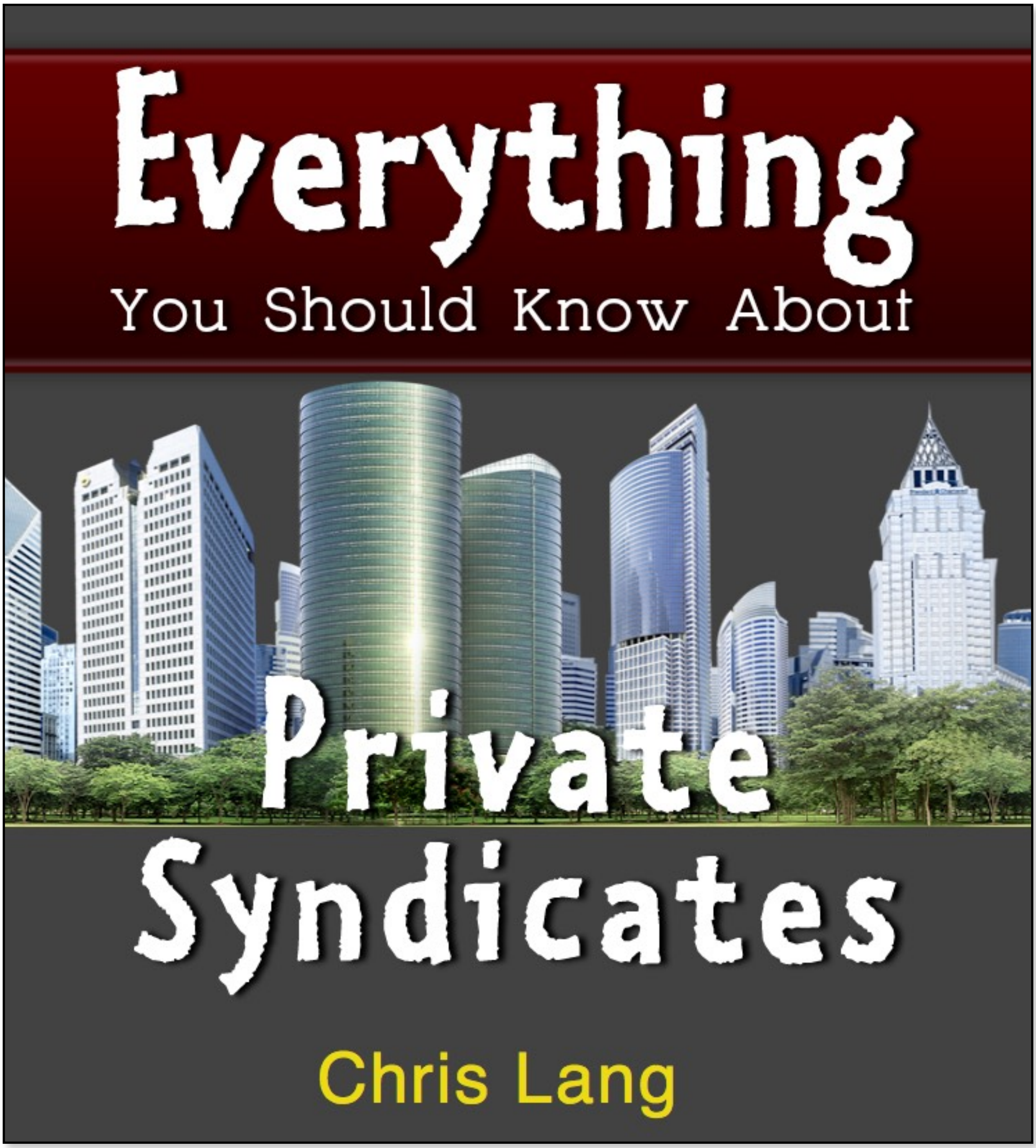
Everything
You Should Know About
Private
Syndicates
Chris Lang

 Version 4.8

Everything You Should Know About Private Syndicates

Here’s a short report put together to help dispel many of the myths and misconceptions surrounding this form of Commercial Property investing.

> All you need do is approach it with an open mind. Because, you will quickly discover that you can have **far more control** than you first imagined.

And in doing so, you will be in a position to multiply your available equity – while reducing your overall risk at the same time.

Therefore, I do hope you gain as much from this, as many other clients have done.

Happy investing …

Chris

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What exactly is a Property Syndicate?

A property syndicate is a direct property investment through a trust structure – whereby numerous investors pool their equity, to invest into commercial real estate.

As a general rule … the objectives of a property syndicate would include investing in properties with quality tenants, long-term leases, strong returns and with a good potential for capital growth.

> *In other words:* The aim is … to bring together like-minded Investors seeking to achieve a common investment goal.

As you're probably aware, Australia has thousands of public syndicates investing in office towers, shopping centres, industrial facilities, private hospitals, hotels and kindergartens – sometimes even involving residential development and mezzanine debt (for those who like a higher-risk investment). And generally, these syndicates involve between 200 and 500 investors.

However, **this eBook will focus upon Private Syndicates** – having mostly between 4 to 6 investors – but certainly no more than twenty.

Here is a little Background

You may have experienced (or heard about) the 1989 Property Crash.

This was when a number of wealthy private Property investors found themselves sifting through a rather wide selection of good-quality Commercial property – after many professional investors had been caught out borrowing too much, when the property market collapsed.

These private investors recognised there were opportunities. But in many cases, found they needed more equity than they had available by themselves.

> *They were wanting to take advantage of the opportunities **after** the property crash, but felt they could "buy better" if they were able to pool their equity.*

And, of course, they were right.

Drawbacks with Public Syndicates

While Public Syndicates had always been an option, they tended to involve some considerable upfront costs. Plus, they usually contain several hundred members.

However, as an investor, you don't want to have your equity diluted by having to meet the costs of creating things like a Product Disclosure Statement (PDS) – ranging between $250,000 and $350,000.

Nor should you be expected to cover the Promoter's hefty "entrepreneurial fee" … together with the 5% referral commissions – being paid to financial planners, accountants and lawyers – for introducing their clients to the opportunity.

As you can appreciate, this all begins to add up. To the point where it is actually a "good outcome" … if 85% of your equity finally makes it to the table.

ASIC Requirements

It is possible to avoid these upfront costs, so long as you meet certain statutory requirements. You see, a PDS is not required – provided there are no more than twenty members in the Syndicate; no more than $2 million is raised in equity in any one year; and the offer to join the Syndicate is personal, or the investors are Sophisticated investors.

These requirements have been put in place to protect the smaller "mum & dad" investors. However, no such restrictions apply to those defined as Wholesale or **Sophisticated Investors**[1].

> As such, Sophisticated Investors can contribute an unlimited amount of equity into a particular Private Syndicate of their choosing.

This has the benefit of requiring fewer investors. And would only involve such costs as you would normally incur … were you to purchase the property by yourself.

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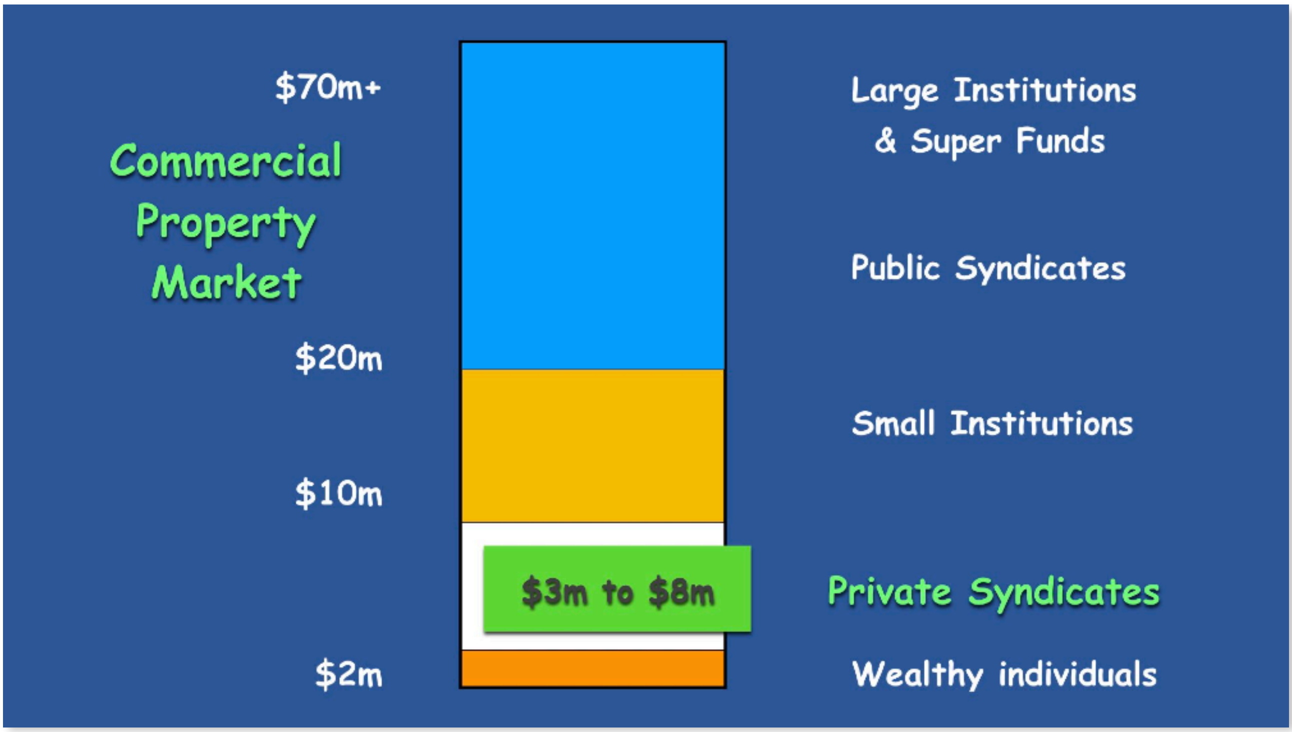
[1] *Individuals with $2.5 million of net assets or earnings above $250,000 a year of gross income in the last two years can have their accountant certify them as a sophisticated investor with the Australian Securities and Investments Commission.*

However, individuals are automatically upgraded to wholesale or sophisticated investor status if they invest $500,000 or more in one particular product (or project).

Discover the Commercial Property Market "Sweet Spot"

As you can see from the chart below … Private Syndicates are able to take full advantage of a sweet spot in the market (between $3 million & $8 million) – where the Commercial properties seem to be too expensive for most Wealthy individuals, but priced below the range attractive for Small Institutions.



This is where like-minded investors are able to band together, in order to acquire good-quality Commercial investment property – secured on long-term leases, to established tenants.

However, while you are able to avoid most of the unwanted upfront costs, you may well still have some concerns (or reservations) about pooling your equity along with a group of other investors – irrespective of how well you might get along with one another.

So, let's perhaps explore some of those ongoing concerns investors have had, in joining a Public Syndicate.

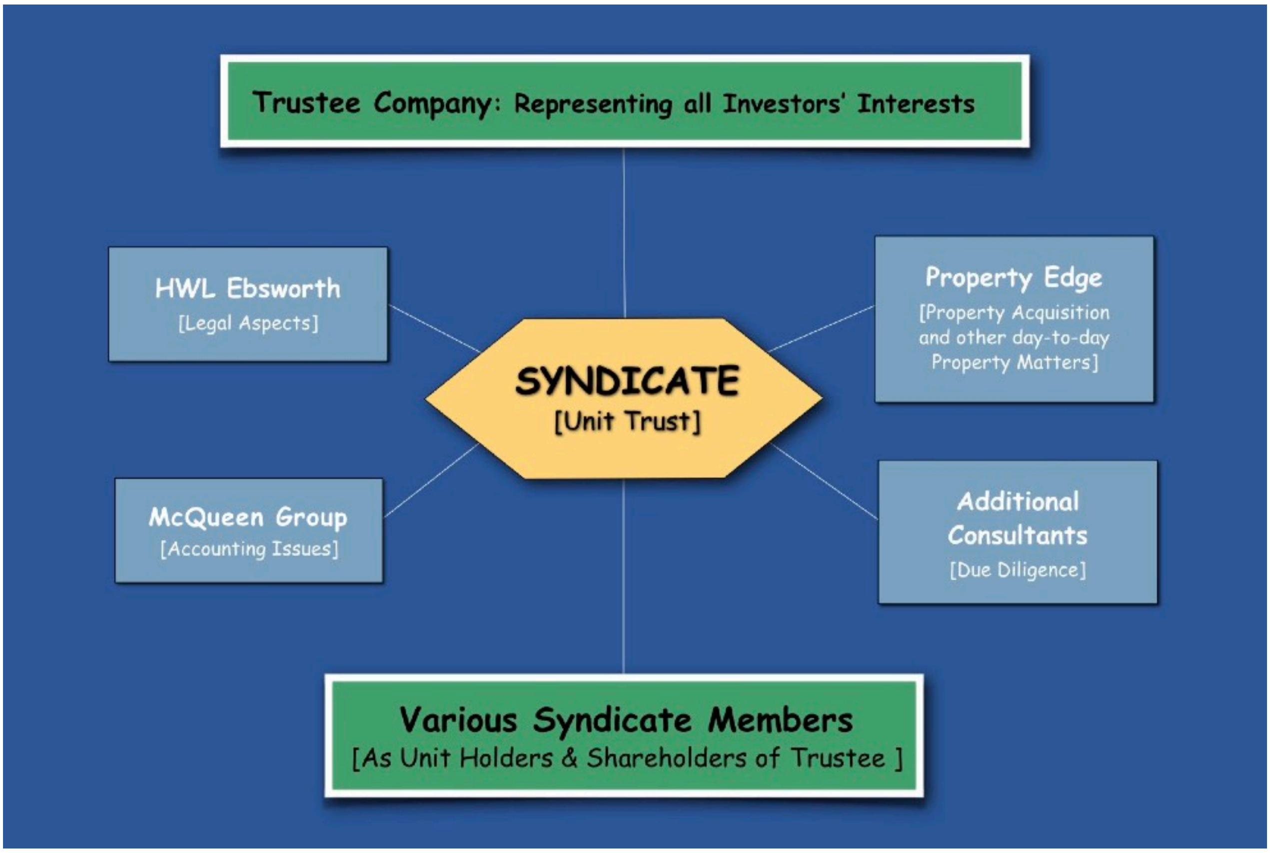
Various Investor Concerns with Public Syndicates

- Your Equity is locked in, with no easy Exit.
- You have no say in actually choosing the Property.
- You could be required to guarantee the joint Loan.
- With so many people involved, there is no sense of belonging.

Addressing ALL Your Concerns

What you'll discover by adopting the Private Syndicate model below is … all your concerns will be actually addressed – because the Trust Deed specifies that:

- You only contribute 30% of your intended equity upfront (see later).
- Members get to choose the actual property.
- There's a mandatory 4-year review for the syndicate to continue.
- ONLY non-recourse Finance is entered into.
- There are regular Member meetings.



Why this Syndicate Model Works

The structure outlined above is totally transparent.

You (as a member of the Syndicate) hold Units in the underlying Trust; plus you also hold a corresponding number of shares in the Trustee Company, representing the various Investors' interests.

As such, you get to have the final say in selecting the property itself.

You see, at the point of applying for Units, investors contribute 30% of their intended equity upfront; and the Trust is then formed.

> That way, the Syndicate holds (in an interest-bearing Trust account) sufficient funds to cover the 10% deposit for the property purchase.

For Public Syndicates, the entrepreneur has to personally outlay a fee to secure a 3 to 4 month Option over his (or her) chosen property – while rounding up the necessary investors to complete the purchase.

And as you can appreciate, not every Option entered into will proceed. Therefore, the entrepreneur needs to build an "entrepreneurial fee" into every syndicate deal, to compensate for the opportunities that simply don't proceed.

> However, by adopting the Private Syndicate structure on the previous page, you therefore avoid paying any hefty entrepreneurial fees (as there is no entrepreneur involved); plus, there's no longer any need for a Product Disclosure Statement either.

Nor do you need to cover the referral fees to financial planners, accountants and lawyers – because the Private Syndicate has already been established, BEFORE the property is actually chosen.

Mandatory 4-year Review

This requirement is included within the Trust Deed. It is there to force Members to make a conscious decision to continue to own the property. The vote requires a 75% majority to continue; otherwise, the property is to be sold.

And if you are part of the 25% wishing not to continue, the Trustee is required to redeem your Units – with a mechanism in place for a market valuation.

However, based on past experience, it was mainly one or more (of those Members wishing to continue) who wanted to buy your Units – to top-up their own holding.

ONLY Non-recourse Finance

This means there is no need for you to provide any personal guarantee for the borrowings – which are very conservative anyway, at 55% to 60% of the contract price for the property.

In other words, the property is the sole security for the loan. And therefore, your investment cannot impact any of your other personal assets.

Regular Member Meetings

You'll find these these meetings tend to occur once a year – and usually take place as a working lunch.

> Normally … the managing agent, Syndicate accountant and lawyer are invited to attend – providing members with an update on various aspects relating to the property.

However, the real purpose is to allow Members to catch up with each other face-to-face. And thereby, build a stronger relationship within the investor group.

Buying Criteria

The Trust Deed also sets out the fundamental Buying Criteria required to be met by the Syndicate when securing a property. And these include:

- Suitable for Office, Retail or Industrial use;
- Satisfying all necessary legal and town-planning requirements;
- Preferably new, and offering good depreciation benefits;
- Having low ongoing maintenance;
- Of timeless or adaptable layout; with ideally
- The possibility for subdivision; and also
- Not of a specialised nature or unique design.

As you probably now appreciate, the Syndicate Trust Deed is very much a working document – because it actually provides you with all the comfort you require … by including numerous safeguards, just covered on these last two pages.

And if you're part of my Mentor Group, you also **receive a 40% rebate** on my fees.

Would You Like to Become Involved?

The whole process from here is very straightforward.

You simply complete and return a one-page Application form, together with 30% of your intended Equity – which is placed into the solicitor's Trust Account.

> Your remaining 70% Equity only becomes payable within 28 days of exchanging the contracts to purchase your chosen Property.

Once all the initial funds are in the solicitor's Trust Account, there is a simple 7-step process involved:

1. Form the Company to act as Trustee.
2. Establish the Investment Trust.
3. Issue Units to investors who have registered an interest.
   Units to be $1.00 each, payable as to:
   (a) 30% with the application; and
   (b) 70% within 28 days of the Trustee executing the Contract of Sale.
4. Trustee issues Units to investors; issues Shares to the investors in proportion to units held; and subscribers elect Directors of Trustee.
5. Trustee appoints:
   (a) Property Edge Australia as Property Adviser;
   (b) HWL Ebsworth as Solicitors; and
   (c) The McQueen Group as Accountants.
6. Property Edge sources and negotiates terms for appropriate properties.
7. Trustee confirms property purchase and executes contract.

If you would like to explore the idea of joining a Syndicate … simply click on the button below to progress things to the next stage.

Tell Me More

Disclaimer: As you'll appreciate, neither Chris Lang, Property Edge Australia, Commercial Property Gold nor Communique Publishing are financial planners nor do we hold ourselves out to be. The information included above has been compiled from Chris Lang's experiences since 1990. Before acting upon any of these details, it is strongly recommended you seek advice from your own accountant or financial planner to verify the accuracy, reliability and completeness of the details provided, along with the appropriateness of this type of investment to your specific circumstances. None of the above parties will be responsible for any loss or damage incurred as a result of your reliance on the information provided.

Chris Lang is a 7-times published author on Commercial Property and CEO of **Property Edge Australia** … which helps investors to source and purchase Commercial Property for solid growth.

> Having been operating for over 45 years in this field, you will certainly benefit from a depth of experience most investors seldom have.

And you can always **discover more** about how to be successful – over and above what's contained in this Investor Guide.