

HOW THE SPONSOR (SYNDICATOR) IS COMPENSATED

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1. Most syndication will include several ways that the syndicator gets compensated for putting together a deal and/or performing services in relation to the organization and operating of the project.
2. An acquisition fee generally 1% of the purchase price of the property. While this seems modest if we assume a 66% first mortgage this can amount to approximately 3% of the equity being raised.
3. A commission on the equity being raised. Where this is present it is usually around 5%, usually in private offerings but frequently higher in public offering.
4. A participation in first dollar cash flow. This is often a part of a hedge fund or project where 80% of cash flow goes to the investors and 20% goes to the sponsor. It can be substantially higher when subordinated to a preference to the investors.
5. A promote which is part of what is often term "The Waterfall" when investors receive a set return on their equity which may be cumulative or non-cumulative and compound or non-compound. This promote can either be against total cash or a catch up before the investors and sponsor participate in money in excess of the preferred. A catch up "against" is more favorable to the sponsor than a split after the investor pref.
6. Sponsor pref that goes to sponsor on its investment after investor pref.
7. Where the sponsor is a vendor performing services such as construction supervision, property management, asset management or brokerage and receives a fee for such services.
8. A back end fee as a percentage of the sale price of the property.
9. The important thing to keep in mind is that all benefits which the sponsor receives from the formation and operation of the project need to be fully disclosed in the prospectus (offering memorandum) under the security laws. Some states have limitations while federal law is primarily one of disclosure. For example California law is in the nature of fair and equitable with the Real Estate Bureau posing limitations by regulations.
10. In preparing projections the sponsor should make clear the difference between the average return projected and the internal rate of return which includes a discount and a separate calculation of the time value of money.
11. Sponsors compensation will depend on the market place and the sponsor's completed project track record.
12. When the sponsor is arranging the financing on the project a fee may be charged as the sole broker obtaining the mortgage. While this is not common it is on occasion included in the sponsors' compensation.
13. Sponsors fees are often call "front-end" and/or "back-end". For example the acquisition fee is a front end fee paid at the time when the project is formed and activated. Back-end fees would be promotes that are subordinated to return to investors during the term of the project and there are fees that may be payable after the return of the investors preference. (Such as a fee for services rendered in connection with the sale of the property.)

14. Preferences are most commonly set up as participation in cash flow and a return of capital on the sale of the property. In some circumstances the sponsor's participation may be subordinated to the full return of the investors investment before sponsor's participation. In these cases the sponsor usually gets a higher percentage of the back end cash flow than when they may receive first dollar out of cash flow or cash flow after the preference.
15. There are examples of the operation of sponsor compensation in my book "Principle of Real Estate Syndication" which is available on Amazon or can be ordered through bookstores.
16. The sponsor should give careful consideration to how its compensation is structured and how that structure will affect the marketable of the syndication. Too much compensation for the sponsor can make it hard to raise capital and too little can leave the sponsor with cash flow problems.