HOW TO RAISE EQUITY CAPITAL REQUIRED FOR REAL ESTATE INVESTMENT

Samuel K. Freshman, Chairman - Standard Management Company

1. Make an accurate determination of how much equity capital will be required based on a conservative estimate on the amount of loan be available. Some projects will initially have to be raised almost entirely with equity and other projects can be leveraged with a really small proportion of equity.

2. Determine how much of the equity you can provide. Investors always ask the syndicator how much "skin are you going to have in the game".

3. In the event that your own resources are not sufficient to provide between 5 and 20% of the equity, partner up with someone who has a strong statement and can supply a portion of the equity so that you can represent that the sponsor has real skin in the game. In large projects 5% may be sufficient where that amounts to $1,000,000 or more. In small projects under $1, 000,000 as much as 20% may be required to motivate investors.

4. Prepare an extensive list of all of your contacts – relatives etc. whether or not you feel they may be a prospective investor. My own experience is that those you expect to invest often will decline for personal reasons such as divorce, moving out of town, business reversals, etc. Those who you think would not be interested often end up being your best investors. My largest individual investor is someone I hesitated to approach for 5 years feeling they would not be interested. When I finally had the courage to do so his personal accountant asked why I had never come to him before because he held me in high personal regard and he made a $1,000,000 equity investment which was the highest investment I had received from an individual to that date.

5. I tend to prefer to meet potential investors one on one rather than in groups because when one person has a concern about a particular item in a meeting all the other investors pick up the same concern. Each investor has a different objective you will be most successful if you can determine what that investor's objectives and motivations are and direct your presentation to satisfy him.

6. Be well prepared for your presentation and have available a list of references available and an appropriate track record. Your offering circular should talk about specifics in terms of the current going in financial results and your projections for a minimum for 5-10 years.

7. Have control over the project before soliciting funds. A general inquiry may be made to ask the persons who might be interested but I tend to feel it is better not to cry wolf but only present transactions you have a high degree of closing and preferable under contract.

8. Centers of influence are particularly good prospects both for themselves and their ability to convince their clients and friends to join with them. Major sources of investors include accountants, insurance brokers, business managers, financial advisors and those who are on your rolodex of friends.
9. Consider all of the organizations which you belong to such as your church, club, personal friends, etc. The best geographic location for investors is either where you are located or the property located.

10. When in the process of raising funds always be prepared. Have a supply of your offering circulars or at least a short summary in your car. Many don't like to read long extensive offering circulars so your presentation should be short, you should have an executive summary no more than five pages including at least one page of photographs.

11. Don’t be bashful about bringing up the subject (wherever you are) in social settings that you are a real estate developer and that you are working on such and such projects right now. Look for opportunities to work that into the conversation. In meeting new people you ask them their profession and they will respond by asking you as well.

12. Keep in contact with your existing investors with frequent reports on what is happening with their investment.

13. When making a presentation keep in mind no one likes to be the first in line therefore, you should indicate you have a limited number of interests available.

14. Don’t be afraid of meeting with your prospective investors financial advisors. Some of the best investors I have secured have been the advisors of prospective investors who on approving the investment for their client(s) ask if they could also invest.

15. There are a number of chapters in my book *Principles of Real Estate Syndication* which have further suggestions on how and where to find investors as well as how to structure the preference (which goes to the investors) and the promote (which goes to the syndicator). The book is available from Amazon and other book sellers as well as through the major eBook distributors.