

CHAPTER 18

PARTNERSHIP, JOINT VENTURES, AND SYNDICATIONS

Chapter Objectives

- Syndication defined
- Partners capital accounts
- Allocation of gain or loss
- Calculate BTIRR and ATIRR

Syndication Defined

- Syndication is a “group” of investors
- Pooling of resources for common purpose
- Any legal business entity
- Organizers receive benefits from fees
- Limited Partnership
- Blind pool or public syndicate

Limited Partnership

- An investor’s liability is limited
- Management rests with general partners
- Tax Reform Act of 1986 (limited tax benefits)
- REIT can be general partner

Limited Partnership Continued

- Partnership Agreement
 - Rate and number of partners
 - Equity ownership
 - Cash assessments, if any
 - Taxable income or loss allocation
 - Allocation of sale
 - Cash distributions
 - Special allocations

How does this work?

Three phases:

- ✓ Equity contribution
- ✓ Cash flow from operations
- ✓ Cash flow from sale

In general, there are two classes of partners, the *Sponsor* and the *Investor*. Sometimes there are two classes of Investors. If one of the Investors contributes a disproportionate share, it can negotiate a better deal.

Basic Example

Sponsor contributes 10%
Investor contributes 90%.

Tier 1: 8% preferred cumulative annual return on all invested capital

Tier 2: Split all remaining cash flow 70/30

Advanced Example

Sponsor contributes 10%
Investor contributes 90%

Tier 1: 8% preferred cumulative annual return on all invested capital

Tier 2: Split all remaining cash flow 70/30

Tier 2: Sale: At sale, make "catch up" payment at 70/30 ratio until Investor receives 12% IRR.

Tier 3: Sale: All additional payments at sale are split 60/40.

Limited Partnership - Other Considerations

- Substantial economic effect
 - Partners must restore any deficit in capital accounts
 - Allocation of income or loss must be reflected in ones capital accounts
 - Capital gain charge back

Partnership vs. Corporation

- Business association
- Business objective and divide the gains therefrom
- *Continuity of life*
- *Centralization of management*
- *Limited liability*
- *Free transferability of interest*

As a general rule, the first two are always in place. Therefore, a partnership can't have more than 2 out of the other 4.

Corp. General Partner

- Safe harbor rules
- Limited partners may not own more than 20% of corporate stock
- Net worth requirement
 - <2.5 million (15% of partnership capital not to exceed \$250,000)
 - >2.5 million (10% of partnership capital)

Accredited Investors

- Director, E.O., GP of the issuer or of a general partner
- Purchase of \$150,000 of securities (can't exceed 20% of purchasers net worth)
- Net worth exceeds \$1,000,000
- Income in excess of \$200,000 for at least three years including current year
- Private offerings 35 or fewer investors
 - Compliance not as rigorous

Syndicates Investment Objectives

- Fully identified properties
- Blind pool investments
- Use of leverage
- Period of ownership
- Land investment
- Joint ventures
- Foreclosed properties for resale

Other Business Entities

- Joint ventures
 - Two or more parties
 - Financial partner
 - Preferential return
- C / S Corps
- LLC's