SPONSOR DUE DILIGENCE CHECKLIST:
Vet your sponsor before investing in a syndication
KGI Capital – Alex Kingman– 2024-04-25
More information and resources for LPs at InvestwithKGI.com

FIRST IMPRESSION

- *Did the sponsor take the time to understand your goals, risk tolerance, and suitability for this type of investment?*
- *Does the sponsor have a brand and an online presence?*
- *Have I met the sponsor in person? (optional, but recommended)*
- *Can the sponsor explain the risks involved in this type of investment?*

SPONSOR EXPERIENCE

- *Does the sponsor have experience in real estate and syndications?*
- *Does the sponsor have a good track record of investments?*
- How long have you been investing in real estate?
- How many properties have you acquired, and how much do you currently have in assets under management (AUM)?
- How have you been through previous adverse market cycles, and how did you handle those situations?
- How many syndication deals have you done?
- How much capital have you raised for your syndication investments?
- Have any of your investments gone full cycle
- How have your deals performed compared to projections?
- Do you specialize in one specific strategy, location, or product type?
- Have you ever made a capital call, and if so, why?

MARKET KNOWLEDGE

- *Do the markets the sponsors invest in make sense? Are they in line with your beliefs?*
- *Are they knowledgeable about the markets they invest in, and are their data sources for their market research valid and accurate?*
- What locations do you invest in? Why do you invest in these locations?
- How long have you been operating in the geographical market, and how many units have you owned and managed there?
- Have you conducted research into these markets? If so, what type of research have you conducted in these markets?
- What is your typical acquisition profile in each market?

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SPONSOR TEAM

- *Is the sponsor team well planned, and have the GP team members worked together before?*
- *Does each member of the team have a clearly defined role?*
- How is your company structured?
- How long has the team been together?
- What are the roles and responsibilities of each team member?
- Are there any other JV partners on the GP team? If so, how long have you worked together and know each other?
- Is there a contingency plan in place for if there is a partner break up? Who would oversee the asset, and what would happen to my investment?
- What do you have in place to mitigate the key person risk?

PROFESSIONAL RELATIONSHIPS

- *Do they have a strong network?*
- *Are they set up on the backend of their company with the proper consultants?*
- Do you have relationships with outside consultants (such as law firms, property management firms, and accounting firms)?
- How do you source your acquisitions? Can you share more about any relationships you have with brokers, property managers, owners/sellers, lenders, etc.?

TRANSPARENCY / MORAL CHARACTER

- *Are the investor updates clear, thorough, and transparent, with financials included?*
- *Online search of company reputation and reviews/recommendations is completed?*
- *Do I know, like, and trust this sponsor?*
- Can you tell me about any previous deals that didn't go as planned, and how you handled those situations?
- If I pulled a background check for you and each person on your team, would anything come up?
- Are you willing to share your underwriting when you present me with an investment?
- Do you consistently update your LPs with the financials of the property that they're invested in?
    - What financial documents are shared?
    - How often is this information shared (ex: monthly, quarterly, etc)?
- Can you share one of your previous investor updates with me?

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INVESTOR RELATIONS / COMMUNICATION

- *Does the company's point of contact communicate with me promptly, clearly, openly, and honestly?*
- *Does the sponsor team answer my questions in a timely manner?*
- *Does the sponsor seem to highly value a long term relationship with their LPs?*
- Is there someone dedicated to investor relations, and what other roles does that person fulfill?
- How do you communicate with your LPs?
- How often do you communicate with your LPs?
- Who is your ideal LP investor?
- Can you tell me about any times that you had challenges involving one or more of your LP investors, and how you handled those situations?

REFERENCES

- *Reference check completed?*
- Can you provide references from current and former investors?
- QUESTIONS TO ASK THE PROVIDED REFERENCES:
    - How is the sponsor's reporting? What is included in the reports?
    - How have your investments with this sponsor performed compared to the sponsor's projections?
    - How do you get your K-1? Is it received on time?
    - Has the sponsor always done what they said they were going to do? Have they ever failed to deliver on a promise?
    - How has your sponsor handled unforeseen problems?
    - Are you happy with how the sponsor handled these problems?
    - How is the communication with your sponsor? How well do they communicate?
    - Do they report only good news or do they also report the bad news in a timely manner?

FUNDING DEALS

- *Does the sponsor have the capacity to execute their business plans for their investments?*
- Can you provide details about your debt-sourcing strategies and relationships with lenders?
- How likely is it that you'll be able to raise money for the current investment?
- Who is putting up the deposits, and what happens if you can't raise enough money or can't close the deal?

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Due Diligence – Syndication – Sponsor – VIDEO OUTLINE – KGI Capital – Alex Kingman– 2024-04-25

(reformatted and edited by Prosper Systems from YouTube - summary by MonicaGPT):

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At KGI Capital, we help you grow your wealth passively with real estate investments - so that you can have the freedom to live life fully on your terms. We invest in distressed 20-100 unit multifamily properties in the Southeast and Midwest USA, fix them up, and profit.

In this video, we discuss how to vet your GP Sponsor, and the top questions to ask a GP team before investing in a multifamily real estate syndication. While most of these questions are typically answered by syndicators in a good Offering Memorandum, it is important to be aware of the questions you should be asking in order to properly vet the team and deal you are considering investing in. We also discuss the biggest red flags to avoid when considering Sponsor teams to invest with.

1. Choosing the Right General Partner (GP)

- First Impressions

  * Sponsor's response to initial contact

  * Professional and consistent online presence

  * Sponsor's "skin in the game" and brand reputation

- Sponsor's Confidence and Humility

  * Balanced confidence and acknowledgment of risks

  * Questions to ask:

    * Where do they invest and why?

    * Do their markets align with your beliefs?

    * Do they know their markets and have valid data?

    * What is their typical acquisition profile?

- Meeting the Sponsor In-Person

  * Provides valuable insight into their operation and values

2. Assessing the Sponsor Team

- Team Structure and Roles

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* Clearly defined roles and responsibilities for each member

* Examples of roles: acquisition, due diligence, legal, accounting, investor relations, etc.

- Team Longevity

* How long has the team been together?

* Importance of a contingency plan in case of partner breakup

- Sponsor's Moral Character and Principles

* Observe transparency and accountability in past deals

* Inquire about any criminal history

- Mitigating Key Person Risk

* Ensuring multiple team members can run the company

- Relationships with Outside Consultants

* Law firms, accounting firms, property management firms

3. Investor Relations

- Effective communication and transparency

- Timely responses to investor questions and concerns

- Sponsor's best performance is before investment

4. References and Due Diligence

- Speak with current and former investors

- Questions to ask references:

* Sponsor's reporting and investment performance

* Sponsor's communication and delivery of promises

* Sponsor's handling of unforeseen problems

5. Sponsor's Experience

- Time in real estate investing and specific property types

- Number of properties and units acquired and managed

- Experience in target geographical markets

- Knowledge of previous market cycles and how they handled them

- Syndication experience: number of deals, amount raised, performance

- Assets under management (AUM)

- Full investment cycles and performance

- Specialization or diversification in investment strategies

- History of capital calls and reasons behind them

6. Additional Considerations

- Sponsor's relationships and deal sourcing capabilities

- Sponsor's capacity to execute deals: fundraising, deposits, contingency plans

7. Conclusion

- Importance of choosing the right sponsor to manage your investment

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