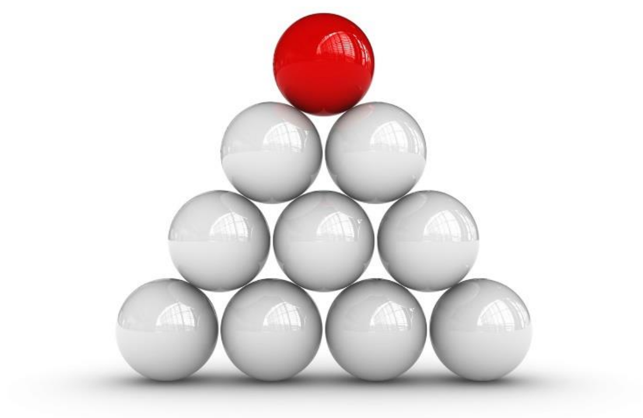
Capital Connections™

An Investor Solicitation Platform for Private Real Estate Syndicators



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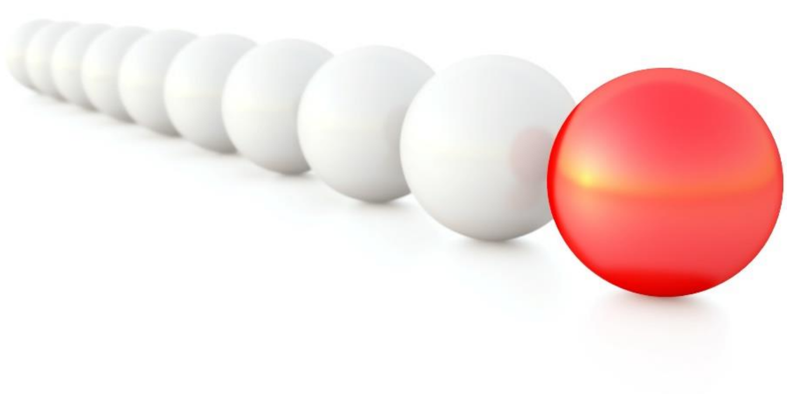
619-517-1800
9919 Hibert St. Suite B
San Diego, CA 92131

What do Charles Schwab and

Real Estate Syndicators Have in Common?

Answer: They both can market for their

investors-customers the same way.



I have made my living for 40 years providing legal, consulting, training, placement and innovation services for real estate syndicators. The discipline of raising investor capital for real estate syndicators dramatically shifted in 2013. SEC Regulation D, the private offering exemption of first choice by the industry, was amended on September 23, 2013. The previous restrictions on "public solicitation" of accredited investors was lifted. Charles Schwab advertises for customers and now real estate syndicators can as well. The purpose of this white paper is to offer an introduction into our firm's capital raising framework (Capital Connections Playbook) for small to mid-sized real estate companies to exploit SEC Regulation D Section 506(c) – the new public solicitation for accredited investor rules.

Our framework will re-engineer the following approaches for raising capital:

Retail Sales System (syndicator raises capital directly from U.S. or foreign individual investors)

Crowdfunding (syndicator raises capital online through one of three types of crowdfunding mechanisms)

Wholesale Sales System (syndicator raises capital through the FINRA broker-dealer, RIA, family office, real estate broker, finder-licensed or investment banker networks)

Institutional Sales System (syndicator raises capital with institutional, pension or foreign investment firms/advisors)

Stepping Back to Look Forward

In 1933 the SEC passed the first private offering exemption (SEC Section 4(a)(2)). The philosophy underpinning this exemption and all the subsequent private offering exemptions (state and federal) have hinged on the requirement that there not be any "public solicitation" of investor tactics used. Now with the passage of Regulation D, 506(c) the difference between a "public" versus "private offering" is not connected to the "manner" of the offering to accredited investors.

What did we learn in school? For five decades private real estate syndicators were unable to use their marketing 101 books from college. In its place private real estate syndicators had to write from scratch their capital marketing playbooks for Retail Sales, Wholesaler Sales and Institutional Sales systems. (Prior to 2013 there were no crowdfunding mechanisms.) In the process some syndicators lost their real estate licenses, lost their businesses or even went to jail for pushing their capital marketing playbooks too far with public solicitation tactics. The challenge now for seasoned real estate syndicators is to unlearn 50 years of capital marketing practices. They have to re-program their mind-sets and methods in order to capitalize off the new Reg D 506(c) private offering exemption. It's time now to dust off marketing 101 and start designing capital marketing plans off a clean-slate.

An appropriate name for any private real estate syndication capital marketing program in the post-Reg D 506(c) era should be called a Capital Connections™ program. Like all comprehensive business systems the Capital Connections^{TM} system can be explained best through frameworks/models.

Figure 1 represents the eight elements of the Capital Connections^{TM} engine. Our task now is to introduce each element of the engine. Like the automobiles you buy, you can go for a Ferrari or a Ford engine. In either case if one or more essential components of the engine is missing or misfires the entire engine is compromised. Said another way an engine is only as strong as its weakest component and the power of an engine is dependent on the power/alignment/reliability of each component. How high-performing do you want your firm's capital raising efforts to become? How fast do you want to increase the size and frequency of your specified property syndications. How fast do you want a distribution system that enables your firm to organize a $50 million blind-pool fund? You can supercharge your capital raising systems. It's simply a matter of having the "will" and the "way" of doing it. I can't help you with the "will" part, but I can help with the "way" part.

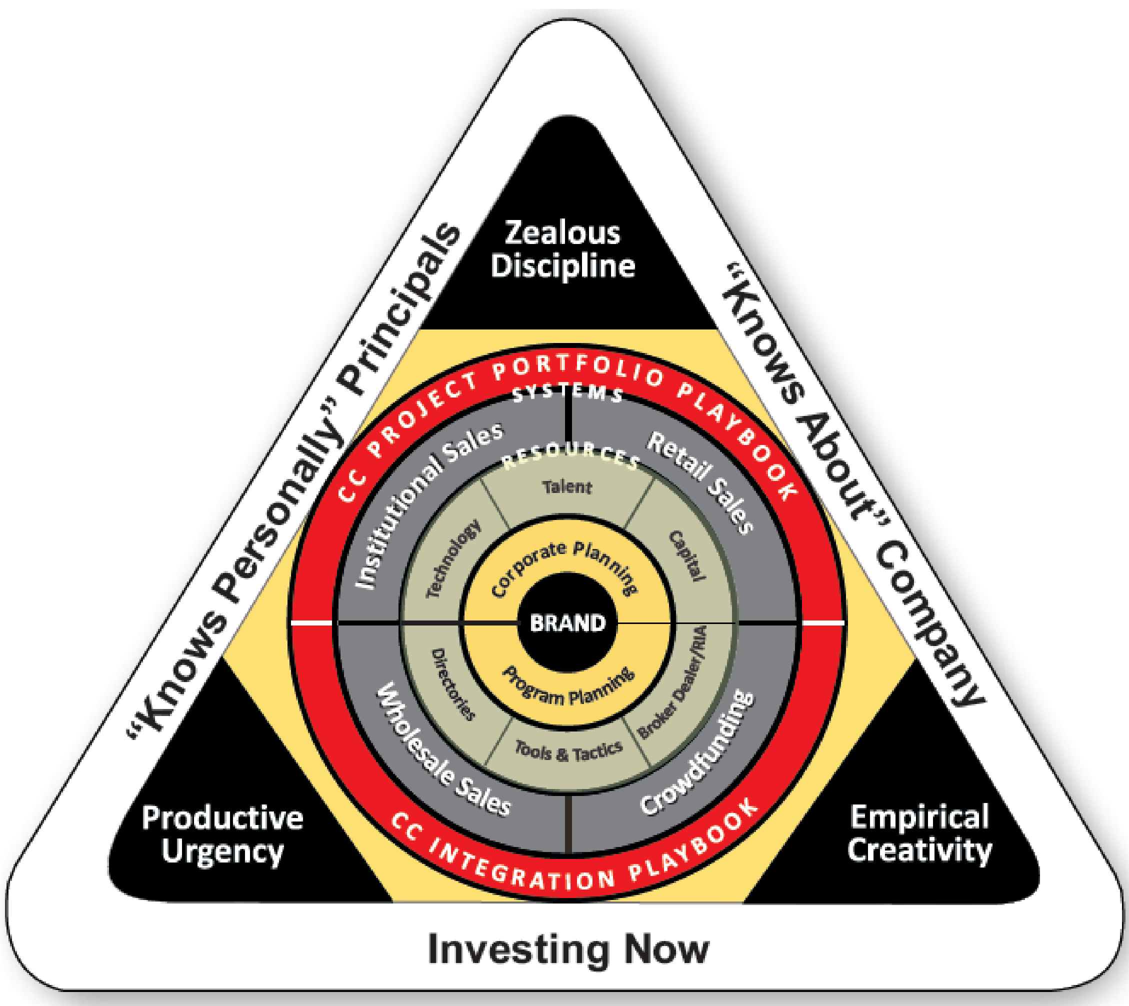
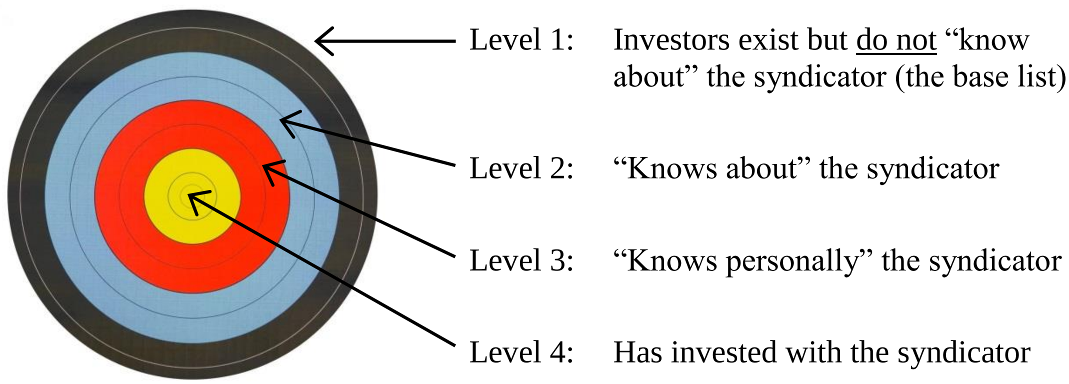


Figure 1: Capital Connections^{TM} Engine

ELEMENT 1: THE FOUR TYPES OF RELATIONSHIPS

There is an easy way to classify the kind of relationship your firm has with the investment capital marketplace. Knowing this helps the real estate syndication firm implement its Capital Connections™ process. The following represents the four levels of relationship quality:



A big challenge is moving the level 1 database of investor prospects (who do not "know about the syndicator") to level 2. Next is to move the investors that "know about" the syndicator (level 2) to level 3 – "knowing personally" the syndicator. Since real estate securities are the type of financial product that has to be "sold" (they are not "bought" like an off-the-shelf bank CD or hot stock) all the principles and practices about relationship-based selling have to drive the Capital Connections™ program and its four approaches, namely Retail Sales, Crowdfunding, Wholesale Sales and Institutional Sales. Take the opportunity now to estimate the number of databased-contacts you presently have in your customer relationship management (CRM) systems for each relationship level.

Classification Types	**Level 1** Exist but don't know about your firm	**Level 2** "Knows about" your firm	**Level 3** "Knows personally" your firm's principals	**Level 4** Investing now
Non-Accredited Investors				
Accredited Investors				
Real Estate influence makers (infrastructure)				
Capital Market influence makers (infrastructure)				
Crowdfunding Portals				
Broker-Dealers				
Registered Reps (FINRA Licensed)				
Family Offices				
RIA's				
Real Estate Brokers				
Private Equity (PE) Firms				
Pensions				
Investment Bankers				
Foreign				

Table 1: Capital Categories and Level of Relationship Quality

ELEMENT 2: BRAND

Like any business, a real estate syndication firm needs to establish its brand. For our purposes brand is “the set of expectations, messages, memories, stories, differentiations and relationships that, taken together, account for the reason investors choose your investment programs over another investment opportunity.”

ELEMENT 3: CORPORATE AND PROGRAM PLAYBOOKS

Real estate syndicators need playbooks for corporate communications and connections as well as individual investment program communications and connections.

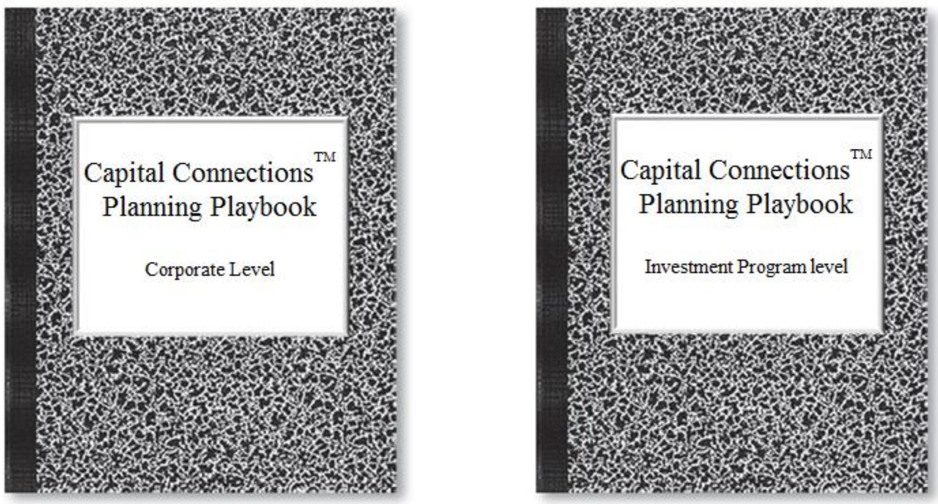


Figure 2: Corporate and Program Playbooks

ELEMENT 4: RESOURCES

There are six primary resources that drive a real estate syndicator’s Capital Connections™ engine and its four sub-systems – Retail Sales, Crowdfunding, Wholesale Sales and Institutional Sales. These are:

- Talent
- Capital
- Broker-Dealer status
- Tools/Tactics
- Capital Directories
- Technology platform (E-commerce and CRM)

Talent. This refers to the in-house or outsourced people/firms with the requisite expertise/capabilities to implement the corporate and/or investment program Capital Connections™ playbooks – Retail Sales, Crowdfunding Sales, Wholesale Sales and Institutional Sales.

Capital. "It takes money to raise money." This adage is very true for real estate syndicators. Remember real estate syndication investments have to be "sold" – they are not "bought." This implies that the marketing and sales of real estate securities is more of a "push" than a "pull" effort. "Push" marketing can be expensive. Fortunately, the investor marketplace has a tolerance for real estate offerings reimbursing the Manager for organizational and offering costs (securities sales commission). Table 2 depicts the front-end load tolerance of the various types of capital players.

Types of Investors/Advisors	**Organizational Costs**	**Offering Costs** (commissions)
Non-Accredited Investors	1 - 3%	0 - 10%
Accredited Investors	1 - 3%	0 - 10%
Real Estate mkt. influence makers	1 - 3%	1 - 3%
Capital mkt. influence makers	1 - 3%	1 - 3%
Broker-Dealers	1 - 3%	1 - 10%
Registered Reps	1 - 3%	1 - 10%
Family Offices	1 - 3%	1 - 3%
RIA's	1 - 3%	0 - 2%
Real Estate Brokers	1 - 3%	1 - 5%
PE firms	1 - 3%	1 - 3%
Pensions	1 - 3%	1 - 3%
Investment Bankers	1 - 3%	Lehman Formula
Foreign	1 - 3%	0 - 10%

Table 2: Front-End Load Tolerance

In a worst case scenario a real estate syndicator should be able to structure its offerings with a 3 percent organizational reimbursement. Thus if a syndicator plans on raising $10 million for the year then the syndicator should be receiving $300,000 in organizational fee reimbursements from all its offerings. It is this capital that can be spent on the Retail Sales, Crowdfunding Sales, and Institutional Sales Systems. For capital to be raised through the Wholesaler Sales system the 3 percent offering organizational fee reimbursement may not be enough to cover the costs of the Wholesale Sales system. The following reflects the three types of Wholesale Sales systems and the organizational and offering costs (load) that can be structured to reimburse the syndicator.

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Type of Wholesale/Crowdfunding Management Sales Systems	Organizational Cost Reimbursement	Offering Cost Reimbursement
Wholesale Sales to Broker-Dealers/Reg. Reps	1 - 3%	1 - 10%
Wholesale Sales to family offices/RIA's	1 - 3%	1 - 5%
Wholesale Sales to Real Estate Brokers	1 - 3%	1 - 6%
Crowdfunding Sales to Accredited Investors	1 - 3%	1 – 6%
Market Place Portal	1 - 3%	$20-40K + one-time $2,000 per investor fee
FINRA Firm Portal	1 - 3%	1 -10%

Table 3: Front-End Load Tolerance with Wholesale

Broker-Dealer Status. Every syndicator should come to terms with FINRA broker-dealer rules and the marketplace of broker-dealers and the registered reps (advisors) that hang their license with a broker-dealer. FINRA rules impact the licensing requirements for those who "sell" real estate securities. Most real estate syndicators that sell their own offerings rely on the "issuer exemption" to avoid their own licensing with FINRA. The trend however of case law and regulatory changes does not bode well for the "issuer exemption" to remain a viable compliance option for syndicators and their staffs. And of course if a syndicator wants an "offering cost reimbursement" for selling its own securities then a FINRA license is absolutely required under federal and most state securities laws.

Syndicators who attract other people (current investors, friends, etc.) to help raise capital run-up against the "prohibition against finder's fees." It is well settled by now that finder's fees are illegal for FINRA and state securities regulation purposes. Absent a finder taking a permanent employment position with the syndicator to capture the "issuer exemption," the only other recourse is for the finder to secure a FINRA Series 22 license. This Series 22 licensee then has to find a broker-dealer to hang its license with. Large syndication firms generally organize and own their own broker-dealer. This is done for several reasons. First, it solves the finder compliance problem outlined above. Second, it provides the syndicator's wholesalers a broker-dealer to hang their license with. Wholesalers are not allowed to market inside another broker-dealer without a FINRA license.

> ***Your Own Retail Sales Force.*** When a syndicator forms its own broker-dealer, the syndicator can (if it's motivated) organize and manage a captive Retail Sales staff. It was not that long ago that public syndicators (1970's and 1980's) deployed their own internal sales force to sell their public and private offerings. These real estate syndicators were the catalyst behind the birth of the financial planning industry (late 1970's). If you were there, like I was, you remember how strong a role real estate syndicators had in the emergence and evolution of the financial planning industry, the NASD broker-dealer market and the early shaping of the alternative investment sectors. The Investment Program Association (IPA), the Real Estate Securities and Syndication Institute (RESSI), the Tenant in Common Association (TICA), and its successor, the Real Estate Investment Securities Association (REISA), all owe their raison de éntre to real estate syndicators. The movies Boiler Room

and the recent Wolf of Wall Street depict the sad and sick side of retail sales shops. However, when investment products like real estate securities cycle in and out of favor with the advisory markets, real estate syndicators who have a captive Retail Sales sales force can stay in business quite well.

Tools/Tactics. Capital marketing requires an array of tools and tactics. Every syndicator's circumstances and competencies are different. The effort to identify and then move investors from "knowing about" the syndicator to "knowing the principals" and finally to "investing now" requires tools and tactics. My book *Financing the New Venture* (order it on Amazon.com) describes over 110 tools and tactics. These tools and tactics can be adapted for any of the four capital raising systems, namely Retail Sales, Crowdfunding Sales, Wholesale Sales and Institutional Sales. There are several tactics/tools that have center stage. The following summarizes these major tactics/tools:

Inner-Circle Development. This represents the implementation of a syndicator's selected tools/tactics with those people/firms that constitute its inner circle (level 3 – "knows personally" the syndicator). The simple way to think about who is in a syndicator's inner circle is to make sure any player that has reached the status of "event attendee," friend, current money raiser or current investor is tagged as "inner circle."

Content. This represents the media a syndicator narrowcasts or broadcasts during the execution of Retail Sales, Crowdfunding, Wholesale Sales or Institutional Sales programs.

Advertisement. This includes the medium and media. The choice of tools/tactics (remember there are over 110) will dictate the frequency and budget for advertising. On-line and off-line advertising is necessary for people to "know about" a syndicator. At a minimum a syndicator wants its databases of investors (regardless of which of the 12 categories) to receive an email or land mail notice of a "new offering," notice of "50 percent funded," and a final notice when an "offering is funded."

Public Relations. This represents the tools/tactics associated with the PR community. Many of the 110 tools/tactics have their roots in the mind-set and methods of the PR world.

Capital Directories. In order to begin any Capital Connections™ program there must be a base list (level 1 of relationship quality) of investors and capital market influence makers. It is this level 1 list, when properly segmented, that gives the syndicator its chance to target its message with the media and messengers most appropriate to move level 1 prospects to level 2 – "knowing about" the syndicator. Think about how Charles Schwab must develop its directories for its account executives to work from. The real estate syndicator's base (level 1) directories are whatever the syndicator creates. For starters the base (level 1) directories should include the following contacts:

- Non-accredited investors
- Accredited investors
- Real estate market influence makers
- Capital mkt. influence makers
- Broker-dealers/wholesalers/reg. reps
- Registered Reps
- Family offices
- RIA's
- Real estate brokers
- PE firms
- Pensions
- Investment bankers
- Foreign investors/advisors
- Social business functionality

Technology Platform. Syndicators need to take advantage of today's communication technologies. Now that the restrictions on "public solicitation" of accredited investors is lifted there is no excuse for not leveraging technology – especially on-line technology. At a minimum e-commerce and CRM capabilities are necessary for strong implementation of Retail Sales, Crowdfunding Sales, Wholesale Sales and Institutional Sales. The sophistication of the syndicator's e commerce architecture can be measured by the following five level description:

Level	Type	Characteristics
1	Brochure	Basic website with static, limited content with primary intent to create a web presence for corporate brochure purposes?
2	Current Investor Portal	Secure area access for a current investor to review offerings currently invested in. Basic email capability.
3	Prospective Investor Portal	Navigable by any investor interested in past, current or future investment opportunities.
4	Offering Open Funding	Search engine optimization baked in a system designed for ad hoc crowd funding for a specific offering. Advanced security options.

Table 4: e-Commerce sophistication level description

Through a strong CRM program like Salesforce.com or SugarCRM, the capital directories can integrate with the syndicator's website functionality. At a minimum, the e-commerce and CRM capabilities of the syndicator's technology platform should provide the following functionalities:

- Corporate brochure on-line utility
- Current investment program details on-line
  - Request for PPM
  - Request for Summaries
- New investor registration on-line utility (Accredited Investor vetting)
- Request for more info on-line utility
- White Paper on-line utility
- "In the news" on-line utility
- Search engine optimization (SEO) tactics
- Blog
- Track Record on-line utility
- Real-time property performance results
- Web analytics for mail list/web site hit analytics
- On-line social business tactics facilitated
- Videos (on-line)
  - Educational versions
  - Property profile versions
  - Leadership profile versions
- Database capabilities to meet the above utilities
- Crowdfunding capabilities

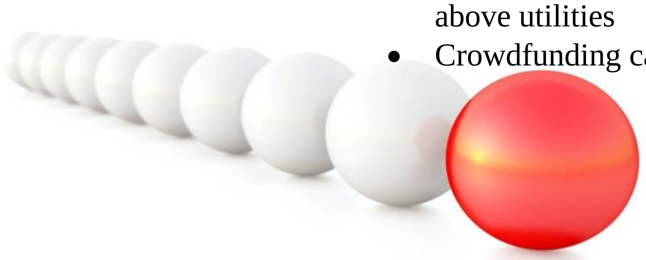


Figure 3 depicts a bottom-to-top framework of the three sales systems and the six resources. This framework integrates all the elements. When auditing the strengths/weaknesses of your own resources and systems this figure will prove useful.

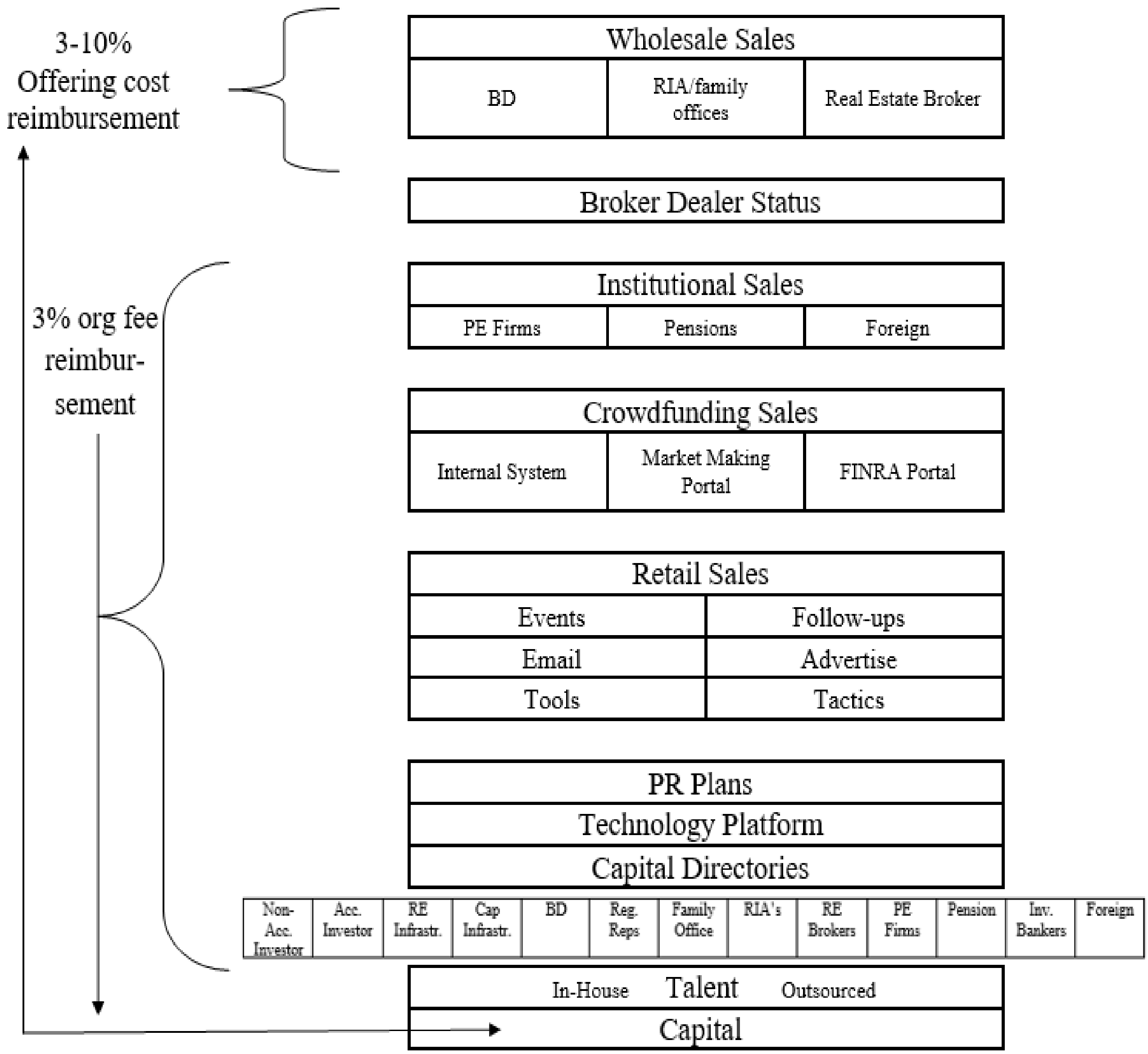


Figure 3: Framework for Capital Connections™ audit

ELEMENT 5: SYSTEMS

There are four primary sales systems that drive a syndicator's Capital Connections^{TM} program. These are:

- Retail Sales System
- Crowdfunding System
- Wholesale Sales System
- Institutional Sales System

Retail Sales System

Small to mid-sized real estate syndicators usually launch their enterprise with the Retail Sales System. Now, with the new Reg D 506(c) private offering rule, a syndicator can solicit accredited investors aggressively. A by-product of the new Reg D 506(c) is the fact that a syndicator's Retail Sales tactics can touch and target non-accredited investors as well. This directory of non-accredited investors can grow exponentially under the new Reg D 506(c). One familiar with the new Reg D 506(c) rule might think I am crazy recommending that non-accredited investors can be touched and their names kept in the syndicator's capital directories. Marketing and legal expertise have to converge into carefully orchestrated implementation of the Retail Sales system. Syndicators should be motivated to put in place the following:

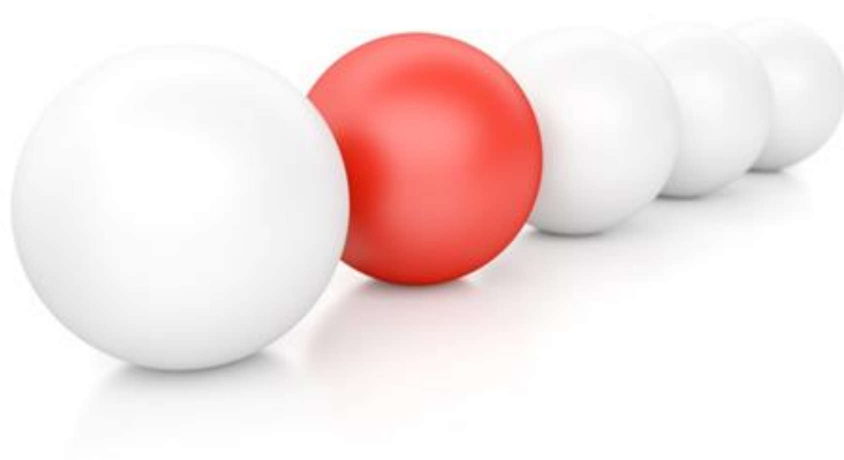
- Non-accredited and accredited investor directories
- Technology platform (E-commerce and CRM)
- Sales support person
- Broker-Dealer to facilitate "finders" licensing
- Retail Sales plan for the year

Non-Accredited and Accredited Investor Directories. The syndicator using the Retail Sales system of capital raising should think seriously about the "implied permissions" of the new Reg D 506(c) regulation. The new rule allows a syndicator to use any means/media/messages (so long as there is no fraud) in its retail investor solicitation campaigns. The new rule **does not say that non-accredited investors cannot be "touched" or "targeted"** by the syndicator's public media, mediums, messages and messengers. The new rule **only conditions the syndicator, who uses public media, medium, messages and messengers to permit only accredited investors in the eventual offerings** that are marketed pursuant to Reg D 506(c). Once a syndicator markets several offerings pursuant to Reg D 506(c) there will likely be a backlog of non-accredited investors that have become aware of the syndicator. If the syndicator uses carefully the tactics of educational seminars and other events to move non-accredited investors into a "know personally" the syndicator (level 3 relationship), then the syndicator can offer to these non-accredited investors an offering under old Reg D 506(b). In short, because a syndicator begins to leverage the new Reg D Rule 506(c) does not mean the syndicator is forever barred from doing offerings targeted to 35 non-accredited investors and an unlimited number of accredited investors using Reg D 506(b).

The bottom line is simple. The capital directories in this post Reg D 506(c) world require careful planning. There is a Pandora's box full of investor solicitation opportunities now. The size of the opportunity is first measured and predicted off the quality and quantity of the Retail Sales investor candidate lists. The bigger the base of level 1 investors (they exist but "do not know" the syndicator yet), the easier it is to plan and predict high performance Retail Sales programs. The following are just some of the categories for a syndicator's Retail Sales directory:

- Homeowner (by area lists)
- Past stock, LLC or LP investor lists (public and private)
- Affinity group lists
- Website inquiry lists
- Past offering inquiry lists
- Seminar name lists
- Trade group lists
- Hobby lists (i.e. BMW owners list)
- Religious group lists
- Past and current investors
- Friends and friend of friends
- Professional status list (Dr.'s, attorneys, etc.)
- Executive status (CEO, CFO, etc.)
- Sold a business list
- Sold a property list
- Charity group members
- Celebrity lists
- Political donor lists
- Computer buyer lists
- Insurance lists
- Captains of industry lists
- By country lists
- FAA pilot lists
- Boat owner list
- Live-in-the-country lists
- Lovers of wine lists
- Sports club lists
- Country club lists
- Etc., etc., etc.

The syndicator's Retail Sales directory should have the land address, email address and phone number of the contact. Unfortunately, securing reliable e-mail addresses is not easy. We have not found one specific technology or affordable service that secures email addresses. My firm continues to search for the easiest way to cross reference a contact's email address. It is hard work.



Technology Platform. E-commerce and CRM systems should be customized. Social business best practices should be the goal. At a minimum the on-line functionality described above under Element 4: Technology Platform should be in place.

Sales Support Person. There should be a sales support person who will allocate their full time to implementing the Retail Sales plan (and all its component parts) for the year. There are three options here.

- Experienced salesperson option
- Young and inexperienced salesperson (apprentice) option
- Retail Sales manager option

The first option is to hire an experienced salesperson. Candidates are experienced securities salespeople and real estate salespeople. A syndication wholesaler tired of traveling is also a great candidate. In fact this is the best candidate (see discussion following). A draw of $60,000 to $80,000 against a commission rate of 2 percent would be in the ball park. This person is expected to lead and execute single-handedly the entire Retail Sales system and even manage all three Crowdfunding tactics- internal portal, marketplace portal, and FINRA firm portal. A strong Retail Sales expert should be able to raise $3 - $15 million per year. **The big "if" is whether or not this salesperson is supplied reliable and deep directories of non-accredited and accredited investors by the syndication firm**. **Besides the deep directories, the salesperson needs the syndication firm to budget and implement consistent education and social events to move candidate investors to level 3 status – "knows personally" the principals**. The syndicator can get two birds in one hand if this senior salesperson already has a securities license. The expectation here is that the salesperson will have its securities license hanging with a reputable broker-dealer with 50-200 registered reps. Now the salesperson can at least guarantee at least one selling agreement with a broker-dealer for the syndicator. This can jump-start the syndicator's Wholesales Sales system (see later discussion).

The goal of any Retail Sales system is to build this system and its resources so well that it literally takes a senior salesperson to lead/manage the program. When this becomes the benchmark for measuring the evolution of the syndicator's Retail Sales program then a natural segue into a Wholesale Sales program results. Here's how and why this happens. If the senior salesperson is an ex wholesaler then hopefully the ex wholesaler, now turned Retail Salesperson, still has his/her book of broker-dealer/registered rep business. If so, the syndicator can leverage this when the syndicator launches the Wholesale Sales program.

The second option is to hire a younger person (maybe fresh out of college). In this approach this apprentice will lead and execute every aspect of the Retail Sales system except the final "closing process" with new investors. Final closings will remain the responsibility of one of the firm's principals. This apprentice will earn anywhere from $3,000 to $6,000/month.

The third option is to hire a Retail Sales sales manager who will build an in-house sales force. Obviously in order to comply with licensure laws, this effort assumes the syndicator will either own its own broker-dealer or become an OSJ office of an existing broker-dealer. There are many syndication firms that have deployed this tactic in the past. With a captive sales force these syndication firms diversified and evolved into multi-product alternative investment sponsor/distribution firms. A few evolved all the way to a full-service financial services broker-dealer like Integrated Resources or Linsco Private Ledger.

Broker-Dealer to Facilitate "Finders" Licensing. The syndicator that organizes its own broker-dealer now has a way to secure FINRA Series 22 licenses for its finders. The federal and state laws are clear now. People or firms that refer investors to a syndicator cannot receive "any" compensation of any kind, any form, or at any time in consideration for investor referrals or solicitation. The only way a person/firm can receive compensation for introducing investors to a syndicator is for the "finder" to carry a FINRA Series 22 licenses, and this license has to be hung with a broker-dealer.

Retail Sales Plan for the Year. Any annual Retail Sales plan/budget will include a combination of many tactics from the list of 110 (see chapter 6 of Mark Long's book – *Financing the New Venture* [Amazon books]). The overriding objective of the Retail Sales plan is to become as innovative and aggressive as possible with the tactics. Remember the goal is to move as many candidate investors as possible from your database of leads (level 1) to level 2 – "knowing about the syndicator." Next the system has to move candidates to "knowing the syndicator personally" (level 3) to actually investing (level 4). The central theme is to conduct as many "get to know the syndicator" events/meetings as possible. At a minimum the following Retail Sales tactics should be deployed. These are generic categories of tactics and sub-tactics. The full menu of tactics is only limited by the imagination of the syndicator.

Announcements

1. Offering Open Announcement
2. Offering Half Funded Announcement
3. Offering Closed Announcement
4. Someone Hired Announcement
5. Property Progress Announcements
6. Corporate Progress Announcements

Alerts

1. Tax Law Changes Alerts
2. Economic News Alerts
3. Specific Market News Alerts
4. Newsletter Alerts

Articles

1. By the Syndicator
2. About the Syndicator

Retail Sale Ads

1. About an offering
2. About an event

Retail Sales Invitations

1. Offering Seminars
2. Real Estate Seminars
    - How to Buy Education
    - Syndication Education
    - Economics of Real Estate
    - Specific Property Type
    - Tax planning through real estate
3. Conferences
    - Real Estate
    - Syndication
    - Economics
4. Investing Seminars
    - In General
    - Syndication Investing
    - Tax Shelters
5. Social Events
    - Boat Cruises
    - Winery Visits

Budget. The budget should be at least equal to 3 percent of capital raised for the year.

Crowdfunding Sales System

Crowdfunding is categorized three ways:

- syndicator's own crowdfunding
- market-making crowdfunding
- intermediary crowdfunding

Syndicators Own Crowdfunding. A syndicators web site is a potential crowdfunding mechanism. A good example of this mechanism is RichUncle.com. This company started with specified property syndications. Today, this company registers its offerings as public offerings. Doing so RichUncle.com is allowed to accept non-accredited investors. Syndicators hoping to deploy their own crowdfunding should hire the requisite PR and SEO firms.

Market-Making Crowdfunding. This category of crowdfunding is unique. Here a company like Realcrowd.com establishes itself as a neutral participant in the syndication process. These crowdfunders advertise to investors that at their site will be posted real estate offerings that investors can select. Syndicators pay $10,000-$50,000 for posting rights plus a $500-$3,000 fee for each investor that registers at the crowdfunders website. These kind of crowdfunders offer syndicators an accelerated way to meet new investors. Once an investor invests, the syndicator can treat the investor as one of their own resources into the future with no going-forward obligation to pay the original market-making crowdfunder.

Intermediary Crowdfunder. This category of crowdfunder is held by FINRA licensed broker-dealer firms. These broker-dealer firms solicit investors and their Reps (salespeople) are engaged in a "push" selling process. The commissions these FINRA member firms charge will range from 3-13% of the amount invested. Syndicators will use the wholesaling process to solicit these FINRA firms and to gain access to their securities salespeople/wealth manager and/or Registered Investment Advisors. Let's segue now to the Wholesale process of raising investment capital.

Wholesale Sales System

A real estate syndicator can raise capital through financial advisors and stock brokers. To do so the syndicator has to master the mind-set and methods of the Wholesale Sales system. The capital markets where the Wholesale Sales system is effective are the following:

- FINRA broker-dealers and their registered representatives ("Registered Reps")
- Registered Investment Advisors ("RIA's") market
- Family offices (advisors to super wealthy families or private family-owned companies)
- Real estate broker market

The following discussion pertains specifically to wholesaling in the FINRA broker-dealer community. However, the mind-set and methods of the Wholesale Sales system applies universally to include the RIA, family office and real estate broker markets.

For a real estate syndicator to raise capital through the FINRA broker-dealer (“BD”), family office or RIA market today requires major decision making, allocation of resources and commitment/patience. Over the last 15 years the broker-dealer, family office and RIA markets have increasingly become more difficult to enter. The difficulty stems from many sources and factors. In short, the time, capital and resources necessary to enter these markets has increased. We have learned that when a qualified real estate syndicator makes the effort to wholesale into the “BD,” family office or RIA communities some patterns or “rules of thumb” show up. Here’s the short list:

- Without some good measure of creativity and contacts, $200,000 – $250,000 of capital could be spent over 12-18 months before any meaningful capital is raised in the broker-dealer market;
- The due diligence process is time consuming and frustrating;
- There are no “firm underwritings” by BD, family office or RIA firms – nothing is guaranteed;
- Without someone very experienced in wholesaling, a real estate syndicator will fall prey to an environment “long on promises” and “expectations” but “short on performance;”
- The culture of the BD, family office and RIA communities are not an easy pill to swallow for most real estate syndicators.

The Rewards: Against this context are the positive things about becoming successful in wholeselling into the BD, family office or RIA communities:

- Once the initial entry period is over (12-24 months), a real estate syndicator has developed an asset/resource that will “keep on giving.”
- There literally is no limit to how much capital can be raised.
- The business value of the syndicator’s operating company takes a strong spike upwards because of the selling agreements with broker-dealer, family office or RIA firms.

The Challenge: The goal of the syndicator is to successfully wholesale into these markets without being at risk of spending too much capital (capex) during the 12-24 month launch process. Whatever capital is allocated must be spent wisely. The challenge can be met. Real estate syndicators entering these markets for the first time should have the capacity to secure certain “resources,” develop a certain kind of “mind-set” and be able to take one of two “going-to-market” approaches.

Resource Requirements of Wholesaling

Reasonable Track Record. The best track record for a syndicator is to have gone full cycle on 3-10 syndications with good profits on most projects. Next best track record is 3-10 syndications organized and operating even if none of them have gone full cycle. If this is the track record then the management team’s business, real estate and investing history and experience must show off impressively.

Offering “Load” Must Allow for Broker-Dealer Commissions/Expenses. The syndicator’s properties have to show projected returns with an offering loaded up to 10-15 percent for organizational (3 percent) and offering costs (10 percent).

Broker-Dealer Marketing Department. The syndicator has to be prepared for the cost of operating a marketing department. A syndicator's current marketing resources, staff and methods may not be enough to manage broker-dealer marketing. At a minimum there should be the following:

- Full-time wholesaler
- Marketing/administrative person
- Technology platforms
- Great marketing materials
- Broker-dealer directory
- Registered rep directory
- Marketing plan

Specified Property Credit Lines. It is important for the syndicator to have the financial resources to close escrow on a syndicated property before an offering is fully funded. Once property escrow is closed the syndicator continues selling out its offering and thereby paying off the credit line. This process is repeated as necessary.

Mind-Set Requirements of Wholesaling

Long Term Thinking. Wholesale Sales marketing is not for every syndicator. The syndicator has to have a deep level of resolve and desire to "serve" financial advisors and their clients.

Pay-to-Play. The syndicator's offerings have to be loaded 10-13 percent to pay for sales commissions and broker-dealer expenses. The syndicator has to have its own investors as well in "the deal." These investors and the syndicator itself must be ready for the decrease in annual returns caused by the 10-13 percent additional equity required for Wholesale Sales in the broker-dealer market.

First Three Deals. The syndicator has to make the assumption that the first three deals will be funded by the broker-dealers, family offices or RIA's in a progressive manner. For example:

Deal 1 – 30 percent of offering funded by broker-dealers, family offices or RIA's

Deal 2 – 40 percent of offering funded by broker-dealers, family offices or RIA's

Deal 3 – 70 percent of offering funded by broker-dealers, family offices or RIA's

Deal 4 – Usually the syndicator and its Wholesale Sales sectors will be fighting over allocations. A nice problem to have.

Don't Cherry Pick. Syndicators should try to avoid syndicating some projects through the broker-dealer, family office or RIA communities and the other deals through its own Retail Sales investor network.

Going to Market Approaches of Wholesaling

There are two basic ways to approach the launch of the Wholesale Sales system. The launch period is between 12-24 months. The first approach is for one of the syndicator's principals to carve out 50 percent of their time for wholesaling during the launch period. The second approach is for the syndicator to hire a seasoned wholesaler with lots of past/current broker-dealer, family office and/or RIA relationships. Let's summarize both approaches.

Principal's 50 Percent of Time Approach. This approach for wholesaling requires one of the principals of the syndicator to carve out half of their time for wholesaling personally. It's one thing to commit 50 percent of one's time and quite another to actually do it. If the syndicator has planned well it would have first built-up its Retail Sales program before launching into Wholesale Sales. The best sign that a Retail Sales program is robust and the syndication firm is ready to add a Wholesale Sales system is to use the following benchmarks:

- "Annual amount of money raised" should be in the $5-10 million area
- A senior salesperson should be managing the Retail system. This indicates the Retail Sales department is on "full throttle."

Hopefully the syndicator's senior Retail Salesperson (for the Retail Sales system) is an ex wholesaler. This way the principal of the syndicator who is devoting 50% of his/her time to launching the Wholesale Sales system will get the needed help for those first selling agreements with broker-dealers. The help comes because the senior salesperson's book of broker-dealer/registered rep business comes with him/her. The objectives with this approach are the following:

- To secure 4-6 broker-dealer, family office or RIA selling agreements asap.
- To establish the Wholesale Sales marketing department's systems.
- To have one marketing admin person.
- To ensure that one of the syndicator's principals "knows well" all the nuances of wholesaling. This will ensure the best possible team alignment when wholesalers are hired (after 12-24 months)

Hire Seasoned Wholesaler Approach. Under this approach the syndicator takes the time and effort to hire a tier one wholesaler. The assumption is that the syndicator does not have any selling agreements in place prior to hiring the wholesaler. The idea is that launching into the broker-dealer, family office or RIA markets lies totally on the back of the wholesaler. To implement this approach successfully the following policies should be in play:

- **4-6 Broker-Dealers in Back-Pocket.** One of the conditions of hiring the wholesaler is his/her securing selling agreement commitments from at least 4-6 past broker-dealer clients, family offices or RIA's of the wholesaler before the wholesaler's contract goes effective (proves they have contacts).

- **3-6 Reps Per Broker-Dealer in Back-Pocket.** Another condition precedent to a tier 1 wholesaler being hired is the wholesaler must have "commitments of firm interest" from 3-6 registered reps per broker-dealer firm that is interested in signing a selling agreement. In short the syndicator should have irrefutable evidence that a good percentage of the wholesaler's current client base of broker-dealers and registered reps is excited that the wholesaler is making a career shift to become a principal of the syndicator's firm. This excitement is best demonstrated by the wholesaler's "book-of-business" following the wholesaler.

- The syndicator should be prepared to pay a tier one wholesaler the following:
  - Good draw against commissions ($75,000 – $125,000)
  - Good commission rate (2 percent)
  - Some percentage of manager's carried interest and/or ownership percentage of the operating company (subject to "vesting" but with some dilution protection)

Wholesale Sales Plan for the Year. Like a syndicator's Retail Sales plan for any year there will be an annual Wholesale Sales plan as well. At a minimum the same generic list of Retail Sales tactics should be used (see description in section titled "Retail Sales System – Retail Sales Plan for the Year").

ELEMENT 6: PROJECT PORTFOLIO PLAYBOOK

This element refers to the real estate syndicators annual monitoring and evaluation of its Capital Connections^{TM} implementation. Some projects are reallocated resources and attention over other projects. This is an annual cycle.

ELEMENT 7: INTEGRATION PLAYBOOK

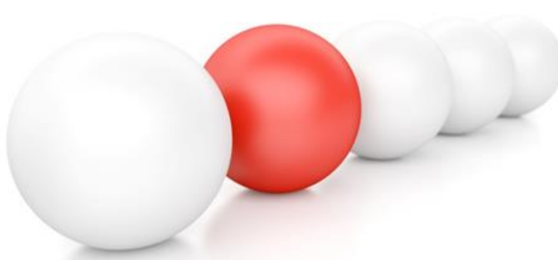
This element refers to the first-year effort to implement a Capital Connections^{TM} program. The following is suggested:

Retail Sales System Improved. The syndicator should leverage and build upon its current Retail Sales system. Raising capital successfully through the syndicator's inner circle got the syndicator this far. Now it's time to put the existing Retail Sales system on steroids. Use the chart in Figure 3 to guide your audit.

Wholesale Sales System Installed. Once the Retail Sales system is improved upon with the requisite resources, the syndicator is in a good position to launch the Wholesale Sales system. Obviously the sign that a syndicator is serious about its Wholesale Sales system is when a tier 1 senior wholesaler is hired. The next best sign is a syndicator that uses the "50 percent of principal's time" approach and an admin person is hired to support the principal's wholeselling efforts.

Institutional Sales System Installed. With or without the Wholesale Sales system in place a syndicator can launch an Institutional Sales system. The sign that the syndicator is serious is when an "investment banker" is retained to lead and manage the process.

The requirements, decisions and work to be done launching these Capital Connections^{TM} systems, namely the Retail Sales, Wholesale Sales and Institutional Sales systems is depicted in Figure 4.



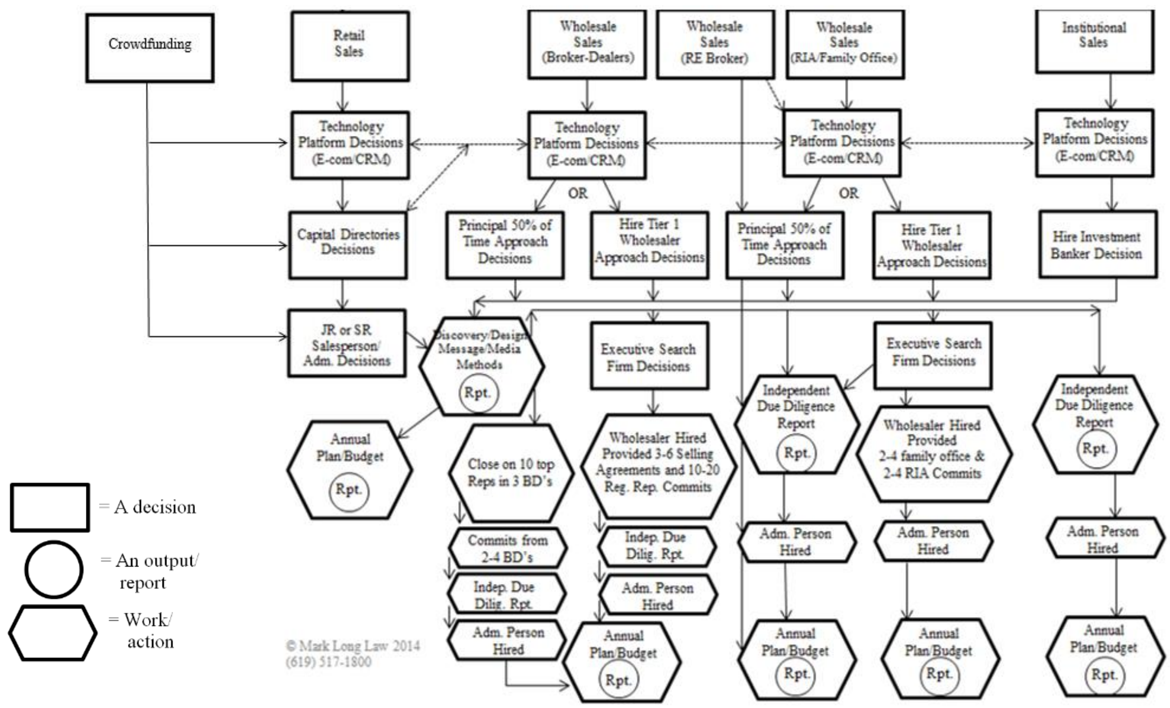


Figure 4: Decisions/Actions Flow Chart

ELEMENT 8: CORE BEHAVIORS

Jim Collins, author of *Built to Last*, *Good to Great* and *Great by Choice* discovered in his research that three core behaviors characterize the behavior of top executives.

These three behaviors are depicted in Figure 5.

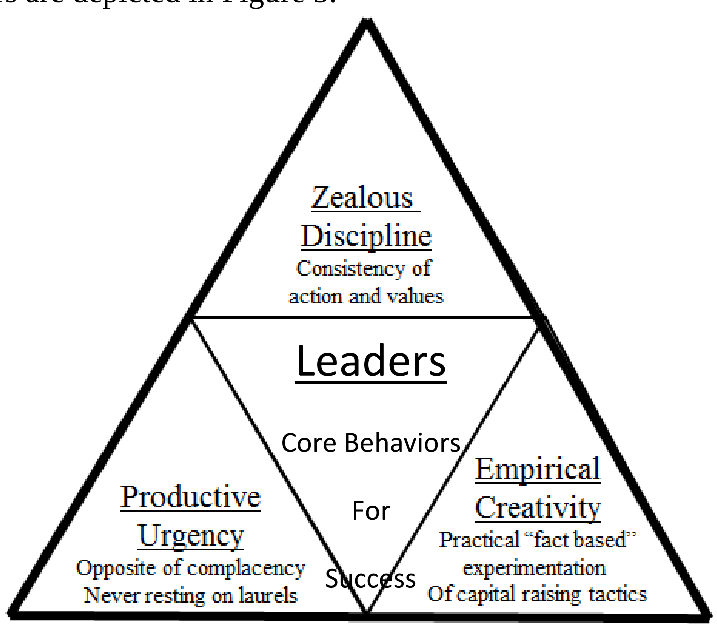


Figure 5: Core Behaviors

Real estate syndicators should aspire for these three qualities. Doing so will ensure the kind of mind-set and methods that align with a high performance Capital Connections™ program.

Your Next Steps

Another quality Jim Collins discovered that marks high performance executives is the ability to "hold two opposed ideas at once and remain functional." In the context of real estate syndication this means (among others) syndication executives planning and implementing short term projects on the one hand and longer term projects on the other hand. In the capital raising context this means the ability to deploy all six resources and the four systems – Retail, Crowfunding, Wholesale and Institutional Sales systems simultaneously.

Your next step should be to do a 360° audit using Figure 3. How many of these building blocks of resources and processes do you have in play now? How many can you get in play soon? Answering these questions will drive the right first steps for developing your firm's Capital Connections™ program.

ABOUT THE AUTHOR

Mark Long is an attorney and has served as securities counsel on 850 plus offerings. Mark has served as legal counsel for well over 20 syndicators raising capital through broker-dealers. While practicing law, Mark organized himself two different real estate syndication firms and served as manager on 52 separate investment programs (1980's – 1990's). Over 90 percent of the capital for these 52 projects came from the broker-dealer community. Mark was co-founder of The National Association of Financial Wholesalers. He was the first instructor hired by The College for Financial Planning to teach real estate syndication principles and practices. In 1985-1986 Mark served as the National Marketing Director for Kemper Insurance Company's real estate syndication division. In this position he organized and managed a selling group of 85 broker-dealers. These 85 firms included national and regional wirehouse firms (stock brokerage firms) and national to boutique financial planning centered broker-dealer's. Mark hired and managed five wholesalers who covered their own territories throughout the U.S. Between 1976-1994 he developed five different real estate syndication courses. These two day courses were taught through public seminar formats, university-only formats and corporate in-house trainings. Over 16,000 real estate and financial executives attended these seminars, courses and trainings. So popular were these courses that in 2000 his book *Financing the New Venture* was one of Amazon.com's top three finance books. In 1980 his two volume *Big Money Brokerage* books were real estate market best sellers. These books were the first books to introduce and explain 1031 tax deferred exchanges and how TIC transactions could be structured with syndications. In 1998 Mark developed the industry's first widely accepted real estate syndication due diligence audit manual that is still being used today. In 2000, Mark co-founded PredictionWorks, a venture capital tool builder. This firm has the only validly tested new venture predictive analytic system ("Venture Assessor"). This Venture Assessor has been back-tested 19 times now (10 in Silicon Valley under the monitoring of Wilson, Sonsini Goodrich Rosati) and 9 in Austin under the monitoring of University of Texas McCombs Business School and IC² Institute). Mark graduated from Long Beach State with a BA in political science. On the track team Mark was nationally ranked and set a school record in the decathlon that stood for 25 years. Mark earned his law degree from the University of San Diego. Mark lives in San Diego. When he is not working he enjoys cycling, research and writing. Mark can be reached at mark@syndicationlawgroup.com; (619) 517-1800.