

# Introduction

*Our light, not our darkness, most frightens us ... we are born to manifest the glory of God that is within us. It is not in some of us; it is in everyone.*

— Nelson Mandela's Inauguration Speech, 1995

This textbook begins where real estate syndication literature always ends—real estate syndication as a transaction. Syndication as a transaction has a reliable body of knowledge explaining the process of real estate group investing. The dynamics of real estate syndication at the transaction or project level involves the following processes/dynamics:



**FIGURE I.1 SYNDICATION TRANSACTION DYNAMICS**

There are real estate, tax and securities laws at the state and federal level that impact each of the five elements. These issues are not the concern of

our text. The literature on the principles and practices of these issues is deep and wide. I was fortunate during Real Estate Syndication 2.0 (1970 – 2012) to have played a role in creating a lot of the best practices about real estate syndication—the transaction. Figure I.2 depicts the three textbooks, the five coursebooks (each a 2-day workshop), a due diligence manual (450 p) for broker-dealers, and a sponsor management manual (550 p). Over 16,000 entrepreneurs and executives in five countries attended these workshops. All this content, to repeat for emphasis, is focused on syndication—the transaction.



**FIGURE I.2 MARK'S REAL ESTATE SYNDICATION 2.0 LIBRARY  
(SYNDICATION THE TRANSACTION)**

## **From Transactions to Business Building**

The textbook in your hands is intended to complement and not copy all the current literature on real estate syndication—the transaction. Expertise in syndication at the transaction level is a precursor for syndication business building. Our text lays down the tracks on how you can repeat the real estate syndication transaction over and over again year after year—in other words, a syndication business.

So we are talking about real estate syndication business building. Specifically we are talking about how you and any other co-founders launch and grow a syndication business during this Real Estate Syndication 4.0 era (2020 - ?)

### *The Greatest Business Models*

The syndication transaction model and the sponsor's business building model (this book) are the real estate brokers', real estate property managers', and/or

the real estate developers’ fast-track ticket for fame and fortune. Where else can you find from one transaction so many fees, profit rights and investor control/lock-in? Let’s highlight these benefits.

One specific property syndication transaction—what we call a specified property offering (SPO) provides the following for its sponsor/manager under the terms of the SPOs operating agreements (LLCs) or limited partnership agreements (LPs) or a general partnership agreement (GP or JV):

TABLE I.1 SPONSOR COMPENSATION ITEMS<sup>1</sup>

Front End	Middle	Back End
<ul style="list-style-type: none"><li>• Property acquisition fees</li><li>• Property finance fees</li><li>• Organizational fees and reimbursements<sup>2</sup></li><li>• Offering fees and reimbursements<sup>2</sup></li><li>• Securities commissions for raising the capital if manager licensed</li><li>• Overhead reimbursements</li><li>• Developer fees</li></ul>	<ul style="list-style-type: none"><li>• Property management fees</li><li>• Property leasing commissions</li><li>• Property refinance fees</li><li>• Construction/repositioning fees</li><li>• Percentage interest in cash flow/refinance</li><li>• Asset management/investor reporting fees</li><li>• Overhead reimbursements</li></ul>	<ul style="list-style-type: none"><li>• Property disposition fee</li><li>• Percentage interest in profits</li><li>• 1031 exchange-up fees (if structured)</li><li>• Going forward assets under management (AUM) fees</li><li>• Note servicing fees</li><li>• Overhead reimbursements</li></ul>

<sup>1</sup> The actual strategy, structuring, size and selection is done on a case-by-case basis.

<sup>2</sup> Three – five % of capital raised can be used by the sponsor to pay for sponsor’s annual expenses needed for Direct Placement costs (Chapter 4) exclusive of broker-dealer fees.

*The X Factor*

Building a successful syndication company carries with it an X factor—the element of exponentiality. We’re talking about the circumstances of your investors reinvesting their profits or 1031 exchanging-up their profits, investing



# PART 1: CORE MODELS

## Chapter 1: You, Your Odds and Playing Smarter

Our first chapter will introduce the Sponsor Growth Stage framework. This linear time-based core model will be one of our textbook’s key frames of reference and context. The reader can use this model as a lighthouse might illuminate a dark harbor for sailors to navigate. Syndication business building is a sequence of strategies, tactics and tools. Decisions about these three topics will be different at each stage of your business building.

## Chapter 2: The Syndicosm

This section of the textbook describes Real Estate Syndication 4.0 and the three prior episodes in the 100-year evolution of the real estate syndication industry. Nineteen markers of evolution will be used. The four dominant themes of “innovation” will be introduced and framed as follows:

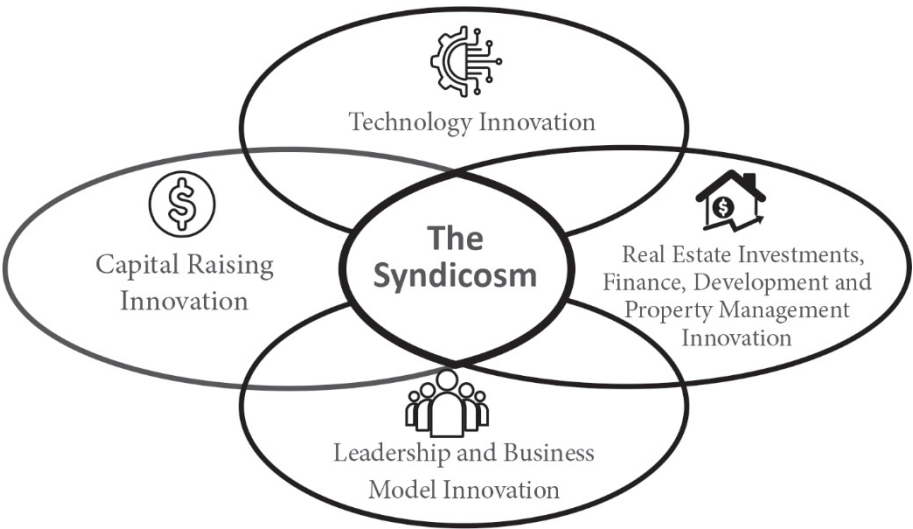


FIGURE I.2 INTEGRATION OF FOUR FIELDS OF INNOVATION

## Chapter 3: Property Processes

This chapter will provide useful frameworks for describing the following four key Property Processes:

- Property Management
- Property Transformation
- Property Finance
- Property Acquisition

These four Property Processes are rank ordered from top to bottom in the opposite hierarchy of importance that the rank and file Early Stage sponsor normally thinks about syndication-the-transaction and/or syndication-the-business. Chapter 3 will introduce how high-tech best practices converge with syndication best practice at ground zero of your battles and challenges—the property level. High-tech’s outcome-as-a-service (OaaS) operations (OpS) models will be fitted to the sponsor’s core real estate processes. It is these Property Processes which are the source of your differentiation in order to win the attention and trust of your four stakeholders groups:

- Tenants/users
- Lenders
- Corporate shareholders/owners
- Offerings’ investors

## Chapter 4: Placement Processes

This portion of our textbook provides useful frameworks for keeping everyone on the sponsor’s team on the same page for planning and describing the capital raising side of the business:

- 14 Direct Placement Sources/Strategies
- 7 Wholesale Placement Sources/Strategies
- 5 Corporate Finance Sources/Strategies

This chapter, borrowing the lead from Chapter 3, will show how high-tech’s OaaS and OpS models have to be configured for planning and executing on your Placement Processes Sources/Strategies. This chapter will offer up one of the book’s biggest sponsor opportunities/challenges, namely, treating investors as “clients” as opposed to the conventional standards of “customers,” “partners” or “members.” This will segue into an analysis of crowdfunding.

## PART II: CORE STRATEGY

### Chapter 5: Core Thinking

This first chapter of Part II is the perfect segue from the core models described in Part I. The core models provide all the context for digging into the details for constructing your Core Strategy. This chapter will define what a Core Strategy is and why Core Strategy is the keystone for designing any of your business plans and investor pitch-decks. Next, Chapter 5 reviews the following syndication innovation laws:

- Syndication Problem Solving Law
- 90/10 Syndication Process Law
- 90% Right Syndication Strategy often equals 0% Syndication Success Law
- Fast and Smart Syndication Decision-Making Law

### Chapter 6: Core Roadmap

Taking a journey without a map is a dangerous proposition. Same applies to building a syndication business. The planning axiom—you cannot get to “there” from “here” but you can get “here” from “there”—enables this chapter’s recommendations. An ideal and doable map showing the number and sequential order of offerings highlights this chapter. The map also shows the ideal Placement Processes Sources/Strategies that should be in play at each stage of your Sponsor Growth Stage map. This chapter concludes with a review of the forces that can accelerate your company’s journey following our Core Roadmap.

### Chapter 7: Core Strategy Element #1 – Player Power

This chapter explores the first element in the Core Strategy Hierarchy of Powers framework. Grabbing the attention and trust of investors begins with you, your founding partners, first hires and alliance partners/vendors. Like in venture capital, investors bet on the jockey first and the horse second. The horse in the case of real estate syndication is Core Strategy elements #3 – Category Power and element #4 – Company Power. This chapter examines the following topics:

- Context – full time sponsor
- Founders’ ownership formulas
- Ownership structures of the sponsor company and your property management division/company

- The need, or not, of any founders coming on board as a full-time Placement Specialist (capital raiser)

Chapter 7 ends with our application of the Visionary Way, a business-building philosophy framework developed by the author. This Visionary Way integrates the widely regarded *Origin and Evolution of New Businesses, Built to Last, Good to Great* and *Great by Choice* research. This Visionary Way provides a reliable philosophical framework for “great” syndication business-building.

## **Chapter 8: Core Strategy Element #2 – Place Power**

Where the young sponsor company establishes offices, buys properties, manages properties and raises capital are analyzed. The Rx to fix almost any Early Stage momentum problems lie in the principles and practices the book calls “backyard economics.” The “power of place” or the old adage “location, location, location” is the driver of backyard economics. The amazing case example of the Rancon Companies from the Inland Empire/Temecula area of Southern California is the exemplar company that for five decades has been leveraging the power of backyard economics and multiple sponsor meta-business models (see Chapter 1).

## **Chapter 9: Core Strategy Element #3 – Category Power**

Sponsors have three different categories that need shaping:

- Project Category Power
- Client Category Power
- Property Management Company Category Power

All three categories can be designed and shaped by the sponsor. Your niche story begins with Project Category Power. The chapter explains how monopoly thinking is the driving context for securing Project Category Power. Striving for a monopoly position (50%-plus category share) involves the following six elements:

- Blue ocean economics
- Proprietary technology/processes
- Scaling economics
- Branding
- Network effects
- Start small



Securing a monopoly for the sponsor's Client Category Power requires a different application of the six elements above. This chapter methodically takes you through this process. Tough prescriptions but the value to a Real Estate Syndication 4.0 sponsor is worth all the effort. Sourcing for "clients" vs "customers" or "members" (crowdfunding portals) is the only way to ensure the sponsor separates itself from its category or nearest category comparison companies and secures a stable of wealthy investors. We are talking about clients who will repeatedly invest, reinvest, exchange, answer any capital calls for your tough-time properties and refer other wealthy people to you.

The chapter concludes with the idea that the sponsor who builds a solid property management division or subsidiary can use the same six elements of monopoly execution used for Project Category Power, but this time for Property Management Company Category Power.

## **Chapter 10: Core Strategy Element #4 – Company Power**

Our last chapter brings us full circle to the theme of the book—building a "great" (not "good") syndication company. Company Power represents the sum of all the bargaining power you have with your four stakeholder groups:

- Shareholders
- Lenders
- SPO/TICO/BPO investors/intermediaries
- Tenants/users

Company Power is the last "power" in our Core Strategy: Hierarchy of Power framework. It's last because investors/intermediaries are not interested in Company Power issues until they (investors/intermediaries) are overly impressed with your co-founders (Player Power), they and you are close to the action (Place Power) and they are fascinated with your Category Power stories (Project Category Power, Client Category Power and Property Management Company Category Power). Storytelling sways investors/intermediaries your way but Company Power is the focus of investor/intermediary due diligence. Said another way, storytelling appeals to the "dreamer" and "optimistic" sides of investors. Your Company Power becomes the investor's/intermediaries' means of validating your stories.

The central message of this last chapter is the advice that Company Power is essential for raising capex and capex is essential for Company Power. Achieving

this “state of play” requires the following three key elements:

1. **Your core differentiation.** The more precise you can be about your specific investment and innovation vector for developing unmatched capabilities and resources that lead to your lift velocity, the more traction you will get, and the less waste you generate. Core is the essence of Company Power. The question to ask: *different in what way?*
2. **Your execution strategies.** The more precise you can be about the inputs and outputs needed to fund and staff your investment and innovation commitments for both your Property Processes and Placement Processes, the more alignment there is around the theme of “success science” for optimization and scaling. The question to ask: *different by what means?*
3. **Your leadership strategies.** Player Power (Core Strategy element #1) at the beginning of your company Early Stages and at the point you’re crossing Chasm 3 from the Emerging Growth Stage to your High Growth Stage, is the difference maker. The question to ask: *are your founders trying to build a “good” company or a “great” company?*

Real estate syndication can become one of the crown jewels in the twenty-first century’s Innovation Economy. Syndication business-building can move from principles and practices that produce “good” sponsors to next-gen principles and practices that produce “great” sponsors. How to escape mediocre mind-sets and methods is the right conversation, because this conversation is the only one befitting any industry in the Innovation Economy. Hopefully this book adds to the conversation taking place in the real estate syndication industry.

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