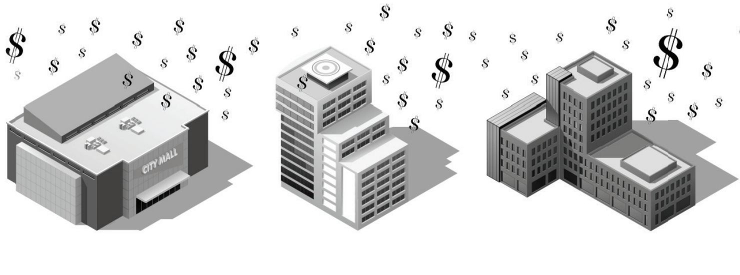
THE CASH FLOW SOLUTION



HOW TO SECURE YOUR FINANCIAL FUTURE WITH LOW-RISK REAL ESTATE SYNDICATES

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THE CASH FLOW SOLUTION
How to Secure Your Financial Future
with Low-risk Real Estate Syndicates

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INTRODUCTION

WHO THIS BOOK IS FOR

My most successful strategies have been those that focus on a long-term approach to real estate investment. If you're interested in short-term real estate speculation and fast profits, you won't find that here.

Instead, you'll find a longer-term approach that often outperforms the results of short-term speculators.

What do I mean by short-term speculation? The process of buying property today, attempting to add immediate value to it in some way (often by renovation, subdivision, or redevelopment), then looking to market the property at a profit relatively quickly.

Short-term speculation often entails taking risks for an immediate return, and those risks include the loss of your money.

That's not a risk that our shareholders want us to take.

Instead of short-term speculation, we choose to focus on long-term investment. The projects we get involved with are designed to create cash flow. By cash flow, I mean a consistent, reliable income that our shareholders receive month after month, year after year, and in some cases, decade after decade.

We're not looking to buy today and sell next week, or next month, or even next year. Certainly it has happened, where we've been enticed to sell a property earlier than we expected, but that's not what we target as a strategy. For the most part, we buy assets that generate excellent cash flow, and we enjoy that cash flow for the long term.

Therefore, our ideal investor is one who takes the longer-term perspective, and is looking for the highest possible cash flow, with a moderate or low level of risk. If that's something you're interested in, I believe you'll find this book very useful and valuable.

We have clients at varying stages of life, whether that's retirement, or just starting to invest toward retiring. Some of our shareholders begin with as little as $10,000, and grow the value of their ownership units over time, while receiving tax-efficient cash distributions along the way.

If you find yourself in a similar stage of life, where you don't want to risk losing your money, but you'd like to have a cash flow with a competitive yield that has historically outpaced inflation by a wide margin, then this book is definitely for you.

THE LASTING VALUE OF HARD ASSETS

Real estate is what I'll refer to as a "hard asset". Understanding the value of real estate as a hard asset, and as a lasting storehouse of value, is fundamentally important to the strategies that I'll outline in the book.

Many of the popular investments that people rely on are based on paper assets, like stocks and bonds and currency trading. As we've seen recently in the wildly volatile markets of the world, these paper currencies often lose their value for reasons that are beyond our control.

I personally don't believe that paper assets are a lasting storehouse of value. I believe in hard assets, and within the class of hard assets, I especially believe in the value of real estate.

Real estate is a hard asset that does something that most hard assets do not do: it generates cash flow. That's a key part of why, even if the price of our real estate properties may go up and down over time, it doesn't affect our strategy. The value of the real estate we buy rising slightly or falling slightly is not relevant, because of the cash flow to be generated by that real estate. I'll explain that further, in the coming chapters.

THIS IS NOT YOUR TRADITIONAL REAL ESTATE OWNERSHIP STRATEGY

When it comes to the definition of a traditional real estate investor, I think of the everyday mom-and-pop investors who want to invest some money into real estate, so they go and buy a rental house, or a duplex or four-unit building.

The objective of traditional real estate, compared to the objective that we have in our approach, is actually very similar. People are thinking that they'll buy an income property and it will pay for itself. They'll envision having a cash flow after the property is paid for, or maybe even along the way, if it's a good property and everything goes well. And they'll have the aim of using that cash flow for the future, or their retirement, or to pass on to their kids.

The problem with traditional real estate ownership is this: it usually comes with a lot of work and stress.

Some of this work is simple, but it's extremely tiring. You might find yourself mowing the lawns twice a week in the summertime, or making repairs and painting the walls if someone leaves the suite. You'll have to interview tenants, do background checks, manage the tenants, collect rent, and deal with the legal issues that arise if they damage the real estate or stop paying rent.

Some of the work of traditional real estate is more complicated, and very hard for the average individual investor to do well. It's the complexities of figuring out the potential tax consequences, or how to manage complicated accounting issues like depreciation, which may or may not be applicable to your property. With tax laws changing constantly, it's difficult for the average person to understand and manage the accounting and financial side of investment properties.

The management of traditional investment property quickly becomes tiring to do, and it's quite expensive to hire others to do it. New landlords discover that they need lawyers, accountants, maintenance workers, landscapers, leasing agents, insurance advisors, financial advisors, and more.

Over time (and typically not much time), this entire experience becomes overwhelming, and chases people back out of the real estate investment business. It simply works them too hard.

WHAT WE DO DIFFERENTLY

The pains of traditional real estate management a large part of why our approach is really valuable to our shareholders. We know that there's immense value in real estate investing, but we also know that few investors want to do all that tiring and worrisome work of traditional investment property ownership.

Investors want to go to their place of employment, not to have to worry about getting a phone call that something's wrong with their investment property. So we solve all of those problems for people coming in to our syndications.

We make the investment as passive as we can for the investors, and we manage everything. All that our investors need to do on a monthly basis is receive their cash flow distribution in their bank account, and if they're really interested in the operations, they can go online and look at their monthly report.

Our investors can see exactly what happened, what income came in, what expenses went out, what the comments were, and what's next. No headaches, no worries, no stress. It's really that simple.

In the following chapters, I'll explain how we structure and execute this, and how we find the valuable properties that have been the cornerstone of our successful approach. For over 30 years, we've consistently generated double-digit investment returns for our investors, and we have never lost investors' money using this strategy.

I'd like to repeat that: we have never lost investors' money.

It is possible to lose money in any investment, of course. But with the strategies I'm about to explain, we've never experienced a loss. Because we have several decades of expertise in managing these hard assets and generating excellent cash flows, I believe our approach will continue to be a winning one in the stormy economic climate of the future.

THE MOST IMPORTANT REASONS I'M WRITING THIS BOOK

People have asked me why I'm revealing my best strategies and processes in this book, when it could be packaged and sold for much more than the cost of this book. I have two answers to that question.

The first answer is that I want to give back. This strategy has worked so well for me that, if I closed my computer right now, locked my office door, and went home, I wouldn't have to come back to work. Ever.

I could just stay out on the lake in the boat and enjoy the sunshine, because I really don't have to do this anymore. But I keep doing this, because I've got a passion for it. It's enjoyable work for me, and I think there are many, many, many people who would benefit from learning about this.

I want people to know that investing in real estate doesn't have to be that hard. You don't have to buy a four-plex and spend all your weekends there and beat yourself up. You don't have to try to coerce your kids into going over and mowing the lawn. It doesn't have to be that way.

With a small amount of money, as little as $10,000, you can get involved in a larger project that works efficiently. A project that you've got some control of, that doesn't require you to work on the weekends or your evenings. A project that pays you a reasonable return.

When it comes to giving back, my daughter is a big part of what motivated me to write this book. She's very successful in her business, one of the top performers in her field of psychology. She was interested in real estate investment, but went the traditional route in the beginning. I didn't catch her early enough in the process, and as a result, I had to watch the stress of traditional real estate investment through the life of my daughter.

She amassed a portfolio of 15 or so rental condos, duplexes and houses, but they were located in many different towns and cities and became costly financially, as well as emotionally. It grew into a difficult situation as managing the portfolio was not at all economic. The properties began to cost more than they earned (negative cash flow).

It's painful to watch someone you love, going through an experience like that.

Over time, she decided to invest in real estate using the strategies I'll uncover in this book, through syndicate investing. It's exactly what she should do, in my view! She's a busy professional, and she makes good money with her business. She doesn't need to worry about whether the toilet's overflowing or not in somebody's suite. She doesn't need the extra stresses and frustrations that come with traditional property ownership.

In the end, she's made the decision to avoid the risky and stressful route, and invest in passive syndications/joint ventures/co-tenancies instead. She has to take some time to understand how it works, to budget for the money needed to get started, and to passively enjoy a financially successful and stress-free experience in real estate investment. And I couldn't be happier about it.

I want the same thing for you that I want for my daughter. That's why I'm writing this book. I want to give back to this industry and this process that has been so rewarding for myself and people I care about.

The second reason I'm writing this is a bit scary: I believe that a global economic collapse may be on the horizon. And if that happens, I believe our approach will become even more valuable then, during the worst of economic times.

I want to empower as many people as I can with this book, and an understanding of a strategy that is anchored by hard assets with dependable cash flows, instead of the popular paper-based assets that can disappear without a trace. What are shares of Kodak or Enron worth today?

HOW HARD ASSETS COULD BECOME OUR ONLY ASSETS

Ordinary, everyday people just want a good, easygoing retirement. They don't want to worry about where the money's going to come from. But what happens when pensions dry up? If stock markets crash?

Is our social security plan stable? I question the durability and longevity of a system that is operated out of general revenues of the government. I would not rely on that system if I was 35 years old today. It must have a correction at some point and will likely be linked to the economic meltdown around the world, as massive sovereign debts overwhelm the economies of a majority of countries around the world.

Assuming that happens, what can a government do, to stabilize it or correct the problem? Do they just reduce the social security payouts? Probably. That would be a first attempt. Perhaps the government reduces people's payments by 30%, when they simply can't pay the full amount.

But it could be worse. It could be similar to what was done recently in Cypress. A situation where the government explains, quite suddenly, that we're essentially broke as a country, and we're going to have to freeze bank accounts and take 30% of all of the bank deposits over $100,000. That actually happened. It is called "Bail in Provisions" and most of the G20 countries have quietly passed legislation to take this action if need be.

Or what if it's like the government actions in Greece? Where the government was scared that there would be a run on the banks during European Union deliberations on Greek's debt crisis, so they simply shut the doors to all the banks, and only allowed citizens to withdraw 60 euro per day from their own bank accounts?

This is crazy, crazy stuff. But it's not theory and not fiction. This is actually happening in other parts of the world.

We like to think that those types of things aren't going to happen to us, and I certainly hope it doesn't happen to us. But if it does come here, I want to be prepared for it.

In our country of Canada, our federal government was boasting about how well we're doing compared to other countries around the world. And at the time, it was true. We did do better. We survived the 2008 crisis far better than the United States did, because we weren't securitizing our residential mortgages in the risky and dangerous ways allowed under US regulations.

Then in 2013, a special new item appeared in our country's budget and government. Probably only 0.0001% of the Canadian population knows this, but we recently had bail-in provisions built into the 2013 federal budget of Canada.

What's a bail improvisation, you ask?

It's a clause that enables Canada to do what was done in Cypress and Greece. It enables our government to come and scoop cash out of everyone's account.

To me, if we're supposedly doing quite well as a country, I'm wondering: why did they need a bail-in provision? What do they know as a federal government, as a finance minister and as a Prime Minister, that we don't know?

Because of this—this risk that we're all exposed to now—I think it's wisest to be situated in assets that are more difficult for governments to seize. Cash in a bank account is easy for them. Your bank account isn't a hard asset. It's paper. It's just binary code, 0s and 1s in a computer somewhere. And today it's your money, but tomorrow it might be your government's money.

With a hard asset like real estate, a real building with real businesses in it, which we typically own free and clear with no debt, it's significantly harder to take away. It's not possible for anyone to come scoop it away instantly, like paper assets. And that's a big part of why I feel a bit more protected in our investment strategy, focusing on hard assets.

THE HIDDEN OPPORTUNITY FOR ALL OF US

I believe our strategy is a good one for any type of economy we have ahead, but especially in collapsed economies. Because of the nature of what happens when paper-based cash dries up, I believe this is a chance to not only survive a bad economy, but actually flourish during it.

There's a fundamental understanding that the worst of times in the economy can be the best of times for investors like us, who see it coming people who are prepared for such a situation. There are new investment opportunities that would open up, and situations where I could help a greater number of people than I have in my circle today.

When everything is collapsing and there's blood in the streets, that's the time I really go to work. That's when we often find those diamonds in the rough that are really, really good potential long-term properties that are mismanaged or misunderstood, and fix them. We're problem solvers. We'll take that diamond in the rough, polish it up, fix it, add value, and keep it for the future.

I think that time is coming. And I want to empower you with the information and opportunities that I believe will help you greatly, in bad economies as well as good ones.

· · · · · · CHAPTER ONE · · · · · ·

REAL ESTATE AS AN INVESTMENT

HOW FARMING TAUGHT ME THE TRUE VALUE OF REAL ESTATE

I grew up on a farm in the countryside of Canada, near a little village named Markerville. It was this fortunate beginning to my life that would ultimately teach me great lessons about the true value of real estate.

Farmland, like other real estate, is considered to be a hard asset. It doesn't go anywhere. It's very durable. In history, although it's had ups and downs, the general trend is that the value of land increases over time (or the value of the dollars that we use to measure value have gone down, whichever way you choose to view it).

At the same time, while the value is increasing, a person can work that farmland and create a cash flow. My folks' farm was a mixed farm, where we created value in many different ways. We had a dairy. We raised chickens. We raised hogs. We raised beef cattle. We grew grain. We grew hay. We even sold cream to the creamery down at the local village.

That was the cash flow part. I understood that you work the land. The land was your base. You created cash flow doing all these things, but everything we did depended on the land. If we had no hay or grain, we wouldn't be able to feed the livestock. The livestock would have to be sold, and the cash flow would go down.

It all depended on the land, and generating value in different ways from that land, and I grew up understanding that's where it all started.

Before I left the farm, I actually tried to become a farmer with my own land. In my late teens, our next door neighbor couple were elderly and decided to sell, and I thought that was my perfect opportunity, as their land was right next to my folks' farm. I made an attempt to buy that farm, through the go-to institution at that time, an agricultural lender in Alberta called Farm Credit.

They turned me down. They told me I was too young. I was crushed.

Despite the fact that I was already a farmer, with a short lifetime of experience, the lenders said they didn't think I was old enough to be ready to take on that kind of an obligation. After they turned me down, I sold all of my livestock and moved to the city.

I gave up on the dream of going into farming, and I ended up going into real estate instead. But in a way, I was still a farmer.

I took that same understanding and passion that I had for farmland and channeled it into property ownership. I began to buy property that I believed had the same type of value that a farmer's land had: the ability to create income and cash flow, in a variety of ways.

MY PAINFUL LESSONS FROM SPECULATION

After I'd been in real estate for a few years, both as a successful salesperson and investor, I got a bit overconfident. I went for the even larger profits that could be had in the world of land development and speculation.

It completely wiped me out.

The year was 1981. I bought into two agricultural land parcels that had excellent potential for subdivision. The process worked like this: you buy agricultural land, which is a lower value and cost. You then subdivide it into acreages, and sell the acreages at a higher value per acre, and make a profit. There are still many people doing that type of development and speculation.

What I learned is that there are a lot of things that need to go right for you to make a profit, in short term speculation. I also learned that I had little to no control over many of those things.

For example, there's so much dependency on decisions by municipal governments. The county officials can say, "Yes, you've got a good idea and we're going to approve it", or they can say "No, we're not going to approve it". If you spend money before this decision occurs, and the decision doesn't go in your favor, you've lost some money.

But in my case in 1981, both of the parcels that we had subdivided were approved by the municipal government, and my speculation started off very successfully. The acreages were created. That phase went as planned.

At that time, people were paying about $30,000 for a two-acre piece of land, in the very pretty locations with riverfront views. That was what we were subdividing and getting ready to sell. But then something happened that was far beyond our control.

In 1981, we had a sudden downturn in the economy that put us into a terrible recession in this province of Canada. The property that I'd purchased, that I felt would be worth $30,000 for each subdivided acreage, lost nearly all of its value in that recession, before we could finish the project and get it marketed.

We couldn't sell those acreages for our budgeted $30,000, $3,000, or even $300. We couldn't sell anything during that time, because people weren't buying that type of property at all. The recession was so deep that people wouldn't even consider the value of a beautiful piece of property at a steep discount.

As a result, we were gobbled up by the financing we put on to the property to do the development. We needed money to do the roads and utilities, so we had bank loans for all of that.

We had debt service, but we had no cash flow.

That failed speculation ended up taking me, as well as my wife, into bankruptcy. It was a terrible experience. I never forgot that, and I never will. It was a valuable lesson.

What was that lesson?

If you're depending on a sale for investment returns and the sales quit, then you're dead in the water until the market turns around. And I learned the hard way, that I can't always control or predict when people will purchase properties.

HOW I IMPROVED MY PROCESS WITH A FOCUS ON CASH FLOW

After my failed attempt at speculation and land development, I started thinking that it would be much wiser to be involved with properties that have a cash flow. And that's been my focus ever since.

When you borrow money from lenders to buy property, you're carrying debt service that you need to be able to pay every month. If you don't have positive cash flow every month, then you're digging in your pocket. And when that resource or reserve gives out, you're out of business. That's the risk of speculation. But you can minimize that risk, or avoid it altogether, by buying a property with an existing cash flow.

At this moment in time, the best approach for us has been to find existing property with improvements on it. And by improvements, I mean buildings. Buildings where there's a solid structure in place, or "bones", as I say. Bones that are good and strong, but may need some retrofitting, upgrading, or dressing up.

It could be any number of things that we're able to identify as opportunity to add value. Sometimes all it needs is re-tenanting. That's probably where we shine the most, and where we have decades of success and experience.

As far as the property price goes, we try to buy as low as possible (of course), then add value. But from there, we don't normally look to sell it. We hold it, and enhance the cash flows.

That's what we've been known to do, because it's what we've done over the past 30 years.

DO WE BUILD NEW BUILDINGS?

At this time, we haven't implemented a strategy that includes constructing new buildings, although it could certainly be a possibility in the future. For now, we invest in buildings that are already built, which reduces the amount of things that have to go right for us to earn a good profit.

The fundamental costs to build new buildings, whether it's a retail shopping center or multi-family residential or industrial building, have just been too high in cost. We aren't seeing a comparable return on the investment, compared to what we're doing right now, and what we've been working well for us the past 30 years. The higher cost of new construction could moderate and we will adjust our acquisition strategy accordingly.

Instead of building new buildings, we're really good at renovating them. In fact, if you go to our website at **www.SundanceCapital.ca**, you'll see some photos and data in the photo gallery, showing the types of renovations we've done. Many of those projects are ongoing and happening now.

We just finished a renovation recently, the West Town Center project. On our website, you can see photos of how we've added value to this property. This is a unique property because it's been such a quality, long-lasting property that this was our second time renovating it. We bought it in 1993, did a complete renovation of it, we've had it tenanted ever since. It's had dependable cash flow since 1993.

In 2015, we decided to give it yet another high-quality upgrade, to make it even more current and bring it up to date. We did this because we're preparing for another solid 20 years of consistent income and great performance. It's really a good, solid building in a great location.

Some of our projects have enjoyed annualized returns of up to 23% per year, and this is one of them. The rate of return has been excellent, consistent, and dependable.

We don't have a rule of thumb on how long we intend to own a property, but I would say 5 to 20 years is a typical range for us. Five years would be low end, 20 years would be kind of long for us. Yet, if you look at the photo gallery on our website and the summary of our investments, you'll see that a good number of projects have lasted a very long time for us.

West Towne Centre Before (1993)

West Towne Centre After (2015)

And 20 years isn't a limit, by any means. With the West Town Center property, it's been doing well for 20 years already, and we have every reason to believe that it might be there cash flowing for another 20 years, or even longer. It's rare that anyone would be thinking that long for property. But we do, because when they work, they work. They just keep cash flowing, and keep giving us healthy distributions, month after month, year after year.

COMPARING OUR APPROACH TO "BUY AND FLIP" SPECULATION

Our strategy might seem similar to what people do when they "buy and flip" a property, but it's only similar in the process of buying as low as possible and immediately adding value. We hold our properties for their cash flows, but people who "buy and flip" are looking to sell their property as soon as possible. And it's that speculation piece, similar to land development, that is very different than what we do.

What happened in America in recent years is a great example of what can go wrong in the "buy and flip" strategy. After the housing crisis and meltdown of 2008, there were a lot of "flippers" (speculators) buying up vacant properties that had been damaged or abandoned. After buying at a low price, they'd fix them up and resell them back into the market.

That is a speculative process, however. It assumes you'll be able to put the property back into the market and sell it at a higher value.

The truth is, if you were an early speculator in the home market in the US, you could've done pretty well. You could find a foreclosed or distressed home that was previously worth say, $150,000, and you could buy it for $60,000. And to buy it, you only needed to put about $15,000 of your own money down, as a down payment for the loan.

From there, you could go in, and put some "sweat equity" into it with some improvements and renovations, and then sell it in a fairly short time frame, for a price that the end buyer felt was a good deal, maybe $110,000 or $120,000. Still a good deal for that end buyer, compared to the house's former price of $150,000.

If you could accomplish this outcome, you'd be making good money on the "buy and flip" project. And a lot of speculative people did just that.

What can go wrong here is exactly what's happened in the years since 2008, as the market for the "buy and flip" speculation has matured and changed. More competition emerged, as big corporations started getting into it.

Then, while the competition was increasing, the supply of low-priced homes was also going down, as the banks started manipulating the inventory going into the market. Their properties, called REO properties ("Real Estate Owned" by the bank), would be metered into the market at a slower pace.

Those are a few of the factors that made it tougher to win in this type of speculation. As competition and banks combined to put pressure on the margins, there was significantly less ability to buy low, add value, and sell high in a short time period.

I think there's still some of this "flipping" going on in the US, but I believe the value of these short-term opportunities go away too fast, and are too risky from a speculation standpoint, to rely upon them as a strategy in the mid-term or long-term.

Again, what happens if the market conditions change and you can't sell these properties? Especially if you have debt service and loans to pay? Everything collapses.

WHY I LIKE REAL ESTATE BETTER THAN THE STOCK MARKET

What I dislike about the stock market, and what keeps me out of it, is the total lack of control. With our real estate holdings, there are hard assets that we can see, visit, fix, understand and control.

But with publicly traded stocks, you've got no control over what goes on in the upper echelons of those companies that you're buying into (unless you are someone like Warren Buffet).

You're buying, in many cases, a trend. It feels like, if stocks seem to be going up, then it must be based on something. So you do some research to find out what that something is. And possibly you find it, and it feels like it's a good thing and competitive advantage, so you buy shares or stock of the company.

But while you hold that investment and hope for it to grow, you have no control of what that company does. What if they change their leadership or directorship, and those people decide to do some crazy thing that hurts everything that was valuable about that company? You've got no control over that. Sure, you may have some degree of shareholder voting rights, but the ordinary investor has such a minute amount of control that it really doesn't make any difference.

You have almost zero input toward how your investment is handled, and how that company operates. It's a total lack of control. And it's a stock value, a paper value, that's rarely anchored to any hard asset. The rise and fall of the stock market during tech booms is a great example of how many stock prices are driven by a perceived value of a company, and when that perception crashes, the stock crashes with it.

Now, compare this to the control that an investor will have, coming into our platform. I'll explain the structure of what we do in the next chapter, but with our approach, you become a shareholder and part of a group of investors in a cash-flowing piece of real estate.

We call it a real estate syndicate, and you could compare it to a joint venture. And while we still endeavor to keep this investment as passive as possible for every investor, they've still got a very high amount of input and control within their syndicate if they choose.

By virtue of that syndicate structure that we have, investors are in actual co-tenancy ownership. They're all co-owners of the properties and their operations. They have a say in who the board of directors are, and investors can show up to the meetings if they'd like, or they can even attend the meetings online and have their say through web-based videoconferencing.

This type of control and input just doesn't happen in your typical offering of corporate stock in the stock market. But it certainly happens in every one of our real estate syndicates.

OUR OTHER ADVANTAGE: CASH FLOW DISTRIBUTIONS

Here's something else that you won't get with most stock investments: healthy, consistent cash flow distributions.

Although there are some stocks that offer dividends, it's rare that a stock dividend is going to come anywhere near the kind of returns that we're generating with our syndications. We normally experience composite returns on investment in the low double digits, and above, because that's our focus and what we are excellent at achieving.

A composite return on investment is the distributable cash flow plus the value of the equity gained in the property as the loan's principle is paid down.

WHAT ABOUT INVESTMENTS IN TREASURIES? AREN'T THOSE DIVIDEND-FOCUSED?

With treasuries and currency investments, I avoid them for two reasons: low returns and complex manipulations. The returns are so minuscule, and worse than inflation in many cases. I'm also deeply concerned now that the treasuries are being manipulated.

For example, let's look at US treasury bonds. Who is buying most of the treasury bonds today? Individual investors seeking a strong, dependable investment with dividends?

No. It's China and the US Federal Reserve.

Think about this: you've got the banking system of the US supporting the country and their treasury bonds, by buying their own treasury bonds, because there isn't any other obvious buyer. They're printing money out of thin air, buying treasury bonds with it, and your government takes that money and pays the bills.

How long can that go on?

To me, the problem with treasuries and most stocks, is that there's a lack of the essence of hard assets. I think these types of investments are going to go away at some point, so I stay away from them. It's the total lack of control of the investment, combined with (what I feel will be) very low returns in the long term.

As I mentioned in the introduction, I personally believe that world economics are going to tear that whole system down. And I think it will happen sooner rather than later.

WHAT HAPPENS TO OUR APPROACH, IF THE GLOBAL ECONOMY COLLAPSES?

Let's take the hypothetical scenario that the stock market crashes by 50%, and let's also say that the value of real estate prices falls 50% with it. If we've got property with cash flows—a hard asset that isn't going away—as long as you don't sell that hard asset, you don't crystallize your loss.

You just roll through the years, because as long as you have cash flow, you just carry on. There might be some bumps in the cash flow, of course, but it is not likely to all go away. And compared to all the other speculative investments that dissipate in an economic crash, a hard asset with a cash flow would potentially be the most valuable and dependable investment available, even if that cash flow were to be reduced.

To prepare for a scenario where much of the economy collapses, the early to middle 1980s were probably the best experience and preparation I could get. We were in a very deep and severe recession here, where essentially the entire economic ocean went down, and took all the investment boats down with it.

What we experienced at that time, as an opportunity, was a rise in foreclosures and a lot of mortgage loan renegotiation. The banks aren't in the business of property management, and they don't want all of these properties back. Pretty soon, the lenders start doing what I call "workouts", or compromises.

That's the time to really go to work to add to your portfolio. When property owners are rushing for the exits, that's a time when you can make great acquisitions and lower prices and have room to add value that pays off in the long term.

That's a time when a good asset manager can really make strides in enhancing an entire portfolio. You can renegotiate all of your loans, taking whatever incentives they're willing to offer you. They'll likely rewrite the loan, write interest down, maybe go to interest only for a period of time, if cash flow is stressed for some reason. That's what we were able to do in this market, during past recessions.

There were times when we had interest rates that went higher than 20% on mortgages, which had catastrophic effects for a lot of businesses. It was twice the rate we'd paid before. But we were able to weather that storm through workouts we'd negotiated with the lenders.

I believe that it's going to happen again soon, in one way or another. Currently, for instance, we've got interest rates as low as 2%. And a 2% interest rate is so low that it just can't last forever. When the rate eventually goes up to 4% or 5%, people who are accustomed to paying 2%, and built their businesses around it, they're likely going to be upside down in their cash flow. That often leads to a pressured sale or foreclosure.

There will be stresses in the market, when the rates go up. So how do you protect against what's coming? Well, if you've got cash flow, I believe you should keep the loan-to-value ratios in check.

Because of the risk of interest rates going up, and for a few other strategic reasons, our target loan-to-value ratio (LTV) is 65% or lower. So if a property is $1,000,000 in value, we want to have a loan that is lower than $650,000 (65% LTV). Many of our properties have no loan financing, or are what we call "free and clear", which gives us the most protection from interest rate fluctuations.

ANOTHER RISK THAT WE ELIMINATE FOR OUR INVESTORS

Because of our success and the good reputation we've built over several decades, we're able to do something that is extremely hard for investors to do on their own: be free of personal guarantees and collateral pledged to banks.

Investors in our syndication platform are *never* asked to guarantee a loan. That's extremely valuable and hard to accomplish, to get a loan without needing a personal guarantee or collateral. It's one of our investors' favorite aspects of being part of our syndicates.

If you're on your own, buying a duplex or 4-plex or an 8-suite apartment, or any type of property at all, your bank will likely ask you to guarantee the loan personally. That means your assets are on the line, and if the investment goes bad, the lender is going to come after you.

We prohibit lenders to require that of us. In fact, that's a fundamentally important term for us, when we go into the loan negotiations with lenders. No personal guarantees required of our investors. Period.

Fortunately, over the years, our lenders have learned how our system works and they really trust us. They like our approach, and our attention to detail, and our governance on the properties. Now, some of those lenders are part of our team, and we enjoy some advantages because of that.

WHY THIS SMALL REQUIREMENT IS HUGELY IMPORTANT TO ME

Again, because we don't control the larger economy, it's important to me to have no personal guarantees on the loans. In this country, at the time of this writing in 2015, we're going into a recession in Canada, and we don't know what the depth of that will be. Seemingly, all levels of government across Canada, America, and in other countries around the world are taking on debt.

At some point, this process will end badly.

It could get rough. And if worse comes to worse, we don't want somebody knocking on our door as investors, to tell us that our loan is in default, and the bank is coming to take our home, or motor home, or boat. We just don't put ourselves in that type of position with a bank, and we don't want to put our fellow investors in that position either.

That's the benefit of having been through that very valuable lesson in 1981 when I lost everything. I was forced to think it through: if I have a chance to do this again, how would I do it differently?

One of the rules that I set for myself, and now for everyone in our syndication platform, is no one guarantees loans, ever. If we choose to put a loan on a property, that's because we believe the property stands on its own, as far as value.

If the lender doesn't agree with us on that, and wants a personal guarantee, then we won't take the property. We'd rather let the deal go, than expose ourselves or any of our investors to the downside risk.

THE TAX BENEFITS OF OUR REAL ESTATE APPROACH

One of the benefits that real estate has over many other types of investments, is how it's treated when it comes to tax time. And of all the tax benefits, the most valuable one is probably depreciation.

A depreciation deduction is one that allows you to write off a significant amount of money against your taxable income. In Canada and the US, at the time of this writing, there are varying rates for this write-off.

We could use an example of 4% off the building value, which is close to what the historical rate has been. So in this example, a real estate investor would get a deduction equal to 4% of their building's value. At this time, you can't depreciate the land, but you can depreciate the improvements on the land (i.e. the buildings, pavement, equipment). That means, in this example, a $1,000,000 building value could give you a tax deduction of $40,000 against your other income.

That's a huge deduction! This is part of why real estate is often referred to as a "tax-advantaged" or "tax-efficient" investment. Getting this type of depreciation deduction is something that you don't get with even other hard assets (like gold and metals) or with paper assets like stocks, bonds, and treasuries.

This tax efficiency is one of the things that really stands out for me in favor of real estate investment. You can reduce your taxable income. Now, at some point, if you do sell, you'll typically have to pay tax on the recapture of depreciation but you have the advantage of those tax savings through the holding period. The key with depreciation is that you'll be able to defer those taxes, and be able to use that money on an ongoing basis.

An example of this deferral can be found in our West Town Center property. We've owned it since 1993, so we've never had to pay any recapture of depreciation. We've used the depreciation deduction all along, and it's been powerful and valuable to the bottom line.

Your improvements to property also add to this advantage. We've got another project where we've just spent $750,000 on retrofitting the building. That gives us a new "basis" to start depreciation again. We've added more capital value to the building, therefore we've got $750,000 of additional adjusted cost base to apply depreciation on next year. That starts off as a $30,000 deduction and declines on a declining balance basis for many years.

There are some other opportunities for tax advantages as well. If you've got this set up as an investment business personally, and you've got a home office, then you may be able claim a home office deduction. But the primary tax advantage of real estate investment is the depreciation.

DOES REAL ESTATE REALLY DEPRECIATE? DOESN'T IT NORMALLY APPRECIATE?

Property depreciation and appreciation is an interesting, somewhat magical, thing that happens. Yes, any property of ours will typically end with a higher sales price than what we bought it for. But it's not that the property is actually appreciating, except in the minds of those who believe that it is.

Is the property appreciating, or is the purchasing power of money going down? I believe it's that the purchasing power of money goes down, faster than the value of property. So while it appears that the property appreciates, I believe it's just depreciating slower than the decline in the value of money.

Consider the American dollar as an example. In 1913, the year that the Federal Reserve came into existence, the Federal Reserve was given the authority to print the American dollars for the United States. And since that moment in 1913, the value of that dollar (the buying power or purchasing power of it) has gone down by approximately 97%.

Does that mean that all of the property has gone up that much since 1913, or is the dollar buying that much less since 1913? Think about that acreage value in 1981, when it was $30,000 for a nice 2-acre lot of land. That value is about 20% of what you'd pay today for the same land.

But what did those two acres cost in 1913? Thirty dollars? Twenty dollars? Or less.

The property we're dealing in today is a storehouse of value, and the purchase price (appraised value) of that property is going to bounce around a bit, depending on what we believe the value of money to be in addition to the market forces of supply and demand.

Regardless of the economic truths behind it all, we know this: in real estate investing, we get the advantage of writing off the value of the improvements, while at the same time we get a form of appreciation through (what we generally call) inflation.

Inflation is simply the value of the dollar going down compared to what the perceived value of things is. That's why a car today is $50,000 rather than $3,000 when I was buying my first car. Cars are not more valuable, but the dollars we use to measure the value are worth less.

THE ROLE OF LEVERAGE IN INCREASING PROPERTY PRICES

When banks began underwriting loans that required very little money down, property values started to climb unnaturally. This is due to a concept called leverage.

Let me give an example. Suppose I can borrow money (as I've just been working on last week, to buy a 91-unit apartment complex) and I'm quoted an interest rate of 2.2%, for a 10-year fixed loan, and I buy the property with that.

If I paid cash for the apartment complex, its revenues would earn it a return that is close to 6%. But if the mortgage loan I used to buy that property is only 2.2% interest, I've got almost a 4% return that we're making on the lender's money. If we add the savings between the over-all rate of return (Cap Rate) and loan rate we will have a higher return than the 6% we'd earn if we'd paid 100% cash for the property. We're leveraged by the lender's money, and now our rate of return looks something like 12% or 13%. That's why interest rates, and the cost of money, and the amount of down payment a lender requires, all have a lot of impact on the value of real estate.

I believe that the housing crisis of 2008 in America was the culmination of a tremendous number of influencing factors, ranging from low interest rates, to low down payments, to packaging loans in ways that were simply reckless. It ultimately destroyed that market for a time because mortgage lending was just too loose.

As a result of that, there are two new levels of caution happening. One level of caution that's being imposed on us is that our federal government in Canada is increasing the requirements to obtain a loan. And by that, I mean they're mandating things like higher down payments, making people put more of their own money into their properties. You can't get a 95% LTV (5% down payment) loan anymore. The government simply doesn't let the banks do it now.

The other cautionary influence comes from ourselves. We're self-regulating to the conservative/low side, when making decisions on financing. Now we're seeing projects that go straight into a cash flow with no loans and leverage, right from the start. If it's got a 10% return on an all-cash purchase, then that's just what it is, because we don't have any leveraging on it. It's just free and clear, and that's a more cautious approach.

This more conservative approach is a hedge against what may happen if our country's economy collapses. If we're sitting free and clear of loans and lenders, and we've got land and buildings, those are hard assets and not going anywhere. If we owe money on it, there might be some element of risk, because the lenders have recourse to foreclose on the property.

So, given my concerns about the future of the economy, my objective with every project now is to have them loan-free as soon as possible. We'll have cash flow in our investments, whether we have a loan on the property or not. But ultimately, we want them paid for so we can ensure that everybody receives their cash flow distribution every month, without worrying about the banks coming after the asset that generates that income.

I really believe we should all start being more debt averse. We should all try to get out of debt. Your country, my country, just about every country in the world has too much of it and it's going to come home to roost at some point in time.

In our little financial ecosystem that we're setting up with our real estate syndicates, I know that the economic storms of tomorrow will affect us, somewhat. But it's not going to take us down, if we're careful enough and if we have enough free and clear property. We'll be able to withstand a downturn and bad economic times, compared to someone who's leveraged too much and apt to be eaten alive by the interest that they've got to pay the lender every month.

I'M NOT A FINANCIAL ADVISOR (BUT I WANT YOU TO HAVE ONE)

Before I begin to explain how our real estate syndicates work, I want to talk about the role of advisors within our investment approach.

I highly recommend, for every person who has any aspirations to grow their personal estate, to secure the advisory services of a fee-based financial advisor. Not all financial advisors are equal, so you have to do the best you can to find the absolute best financial advisor that you can. Keep in mind that many people claim to be financial advisors, but they could be heavily biased toward selling certain products that may or may not be in your best interest.

For example, if you go to your bank, they probably offer financial advice as part of their services. They usually have account managers that double as financial advisors. The products that they're going to steer you towards are likely going to be the institution's products. It might be certificates of deposit, savings accounts, or mutual funds, or other bank investment instruments. I wouldn't advise someone to accept that as being their comprehensive financial advisor.

If you go to an insurance company offering life insurance and all sorts of insurance, they have people that double as advisors, and they're likely to steer you towards an insurance product.

I'm not saying anything against insurance product or bank products, as far as their value goes. I'm saying that I believe you need a financial advisor who can walk all sides of the street, who can look at all of these things objectively, with your needs in mind (and not someone else's needs). Hence, I like fee-based financial advisors that are not compensated by the commissions from products, but instead are paid a fee by you, to give you unbiased advice based on your needs and risk tolerance.

I'm not a financial advisor. If you step into my territory, we can talk all day long about the benefits of real estate, but ideally you would already understand how you're diversified across other investments that are appropriate for your risk tolerance. And a good financial advisor will understand and assess that balance.

You need a financial advisor who is knowledgeable enough to consider the role of hard assets, like maybe having some metals like silver and gold in your portfolio. I feel like I am diversifying my investments by utilizing the hard asset of real estate, and I believe it should be part of the diversification strategy for a lot of people.

For me, I have over 70% of my net worth tied up in real estate, because that's my passion and belief. I have some but minimal exposure to the stock market, despite constantly hearing the typical advice of, "Well, you've got to have an allocation to 50% in stocks and 50% bonds", or something like that. I don't go there for all the reasons we've talked about.

Much of today's financial advice, I believe, is incorrectly focused on what happened in the recent past. The past 20 or 30 or 40 years may not be relevant at all, compared to what's ahead of us. I think we're coming into an economic future that most of us have never seen before. I wasn't here in 1929, but I keep hearing comparisons to what 1929 looked like going into it, and how 2015 looks a lot like that today.

Regardless of having my own informed opinions about my investments, I purposely don't step out into that financial advisor perspective, because that's not my background.

GOOD ADVISORS WILL UNDERSTAND YOU AND YOUR RISK TOLERANCE

A fee-based financial planner is far better than a free financial planner that's going to steer you to their own benefit, or to their employer's benefit. With a fee-based planner, you pay them to sit down with you, just like you would with an attorney or an accountant or anyone else. You pay them for your time, then you get totally ungoverned and unbiased advice based on your needs and wishes.

A good planner might ask you things like: tell me what you're about, and what your goals are, and what you like. Tell me how you feel about this issue, or that issue. Then, based on how you answered those questions, the advisor may advise that you should allocate 30% of your investments in cash, if you seem to be pretty concerned about risk. Or maybe 30% in good cash-flowing real estate, because you need income at a moderate/lower risk, and perhaps 10% more in some other hard assets like metals.

That's how a good fee-based financial planning session would go, and I highly recommend this for everyone. You need an approach that is personalized for your needs.

THE OTHER TYPES OF ADVISORS I RECOMMEND

Beyond financial planning advice, I also recommend that you have legal and accounting advisors. There are people that we can refer you to, and their information is on our website currently, where you can learn more about them and contact them if you'd like.

In the setup of our syndicates, which I'll explain in the following chapter, there's a joint venture agreement. I would suggest discussing it with someone from a legal background. The structure and documents are drafted by our legal team, but I always recommend that people take a look at things with their own advisors, so that they have total comfort and understanding at the time that they sit down to sign it and move forward.

It's not usual that someone off the street would know all of the nuances that come with joint venture agreements. So it's a good idea to have somebody explain it to you, and explain what your rights are regarding buy/sell agreements, or selling your units, or all the other legal aspects. It's all clearly stated in the documents, but it's just reassuring and helpful to have it interpreted by someone you trust to represent your best interests.

On our website you'll also see our very talented accounting advisor, who I'd fully recommend if you don't already have a great accountant. This could overlap with your legal advisory, in the sense of succession planning. A succession plan, once it is structured, is formalized between your attorney and your accountant, but it is usually the accountant who structures it, as it's primarily set up from a tax perspective.

THINK TODAY ABOUT TOMORROW

I'll give you an example of the importance of thinking about succession planning now. In the West Town Center project, since 1993, the partners that I have in that project have been owners with me the entire time. Well, in one instance, a spouse passed away. If that happens in your later years, succession planning becomes a lot more difficult. The tax on the transfer of this value can be very large, and you should be thinking about that as early as possible, in order to structure things in a way that minimizes that tax when it comes.

Your attorney (or ours) can explain it further, but this issue might be solved with something like a family trust. In that arrangement, your assets still cash flow to you, but the trust technically is the owner. Then, when you die, the ownership passes to the other beneficiaries of the trust that you designate.

Those structures are available, but you need to know who to talk to, to set them up. It's not just everyday knowledge for a typical accountant. This expertise often resides in the upper office area of a lot of these accounting firms, and it goes way beyond just preparing your tax return for the end of the year.

WHY THESE EXTERNAL PIECES ARE IMPORTANT TO ME

I recommend all of these advisory elements for one reason: I care about my fellow investors. I want the best for each person, certainly within our real estate investments, but also in the broader sense of your overall happiness and financial success. I want to help you get the same professional structures and strategies that I have researched and practiced for myself.

I'm never going to ask anybody to do anything that I haven't practiced myself. There's a comfort in it, knowing that if you're going to go into investments with somebody, their recommendations are not just theory. It's what they actually do.

If I believe in having estate planning that might include a family trust, I wouldn't tell you specifically how to do it, but I might steer you to at least ask the question. It doesn't usually cost anything for an initial consultation with an attorney or accountant. Go and talk to them, and hear what they have to say. If you like it, it's up to you. If you don't care for it, that's fine too. At least you've gone down that road and checked it out.

My clients and partners have stayed with me, in some cases, for decades, because they're comfortable with everything. They know that I'm conscientious about looking after our investments, and that our processes work, and they'll get paid every month. But they also know that I'll help connect them to services that are outside the norm, like estate planning and taxation and legal aspects.

This is a big part of why many of my clients have been with me for over 30 years, and enjoyed the long-term success of our real estate syndicates.

Now that I've explained why I believe in real estate as a wise investment, and how to prepare yourself for such an investment, we can move on to understanding the structure and function of real estate syndications.

· · · · · · CHAPTER TWO · · · · · ·

THE WORLD OF SYNDICATION

WHAT IS A REAL ESTATE SYNDICATE?

Simply put, a syndicate is a group of investors who become co-owners of real estate investment properties. Other names used to describe a syndicate are Joint Venture or Co-tenancy. It's not a partnership, which attracts a different tax treatment in Canada and the United States.

A syndicate brings people together for the common purpose of creating a great return on a larger investment. Typically, it's an investment that is larger than each individual would want to handle the financial requirements, responsibilities and management themselves.

That's the synergistic effect of putting people together to acquire property. Everyone understands that the combined resources will provide advantages that generate enhanced returns.

WHAT'S THE LEGAL STRUCTURE OF A SYNDICATE?

The technical structure for putting investors together can vary, based on the needs on the investors. At the time of this writing, our primary vehicle is something called a Bare Trustee Corporation.

A Bare Trustee Corporation is an entity that holds a property on behalf of the syndicate investors (who are referred to as co-tenants or co-owners). This entity is formed for simplicity of operations, and there a few other benefits we'll discuss below.

As far as the simplicity of ownership structure, let's say that your syndicate group purchases a commercial building that serves as a shopping mall. On the title to that building, there will only need to be one owner and one name, which is the name the Bare Trustee Corporation.

The basis of that structure is a joint venture agreement. The one we use is about 37 pages long, and it's very comprehensive in orchestrating the ownership and administrative governance among the owners.

BENEFIT: FASTER, SIMPLER LIQUIDITY THAN TRADITIONAL REAL ESTATE

The additional simplicity of this structure comes many years later, when it's time to sell your share of the investment. The process of moving someone out of ownership is much easier within a corporation structure, compared to the traditional way of changing ownership of a real estate property, which would require a full sale of the property and ownership transfer at a title company or attorney's office.

Liquidating shares is fast and simple, and we've actually experienced instances where someone moves out of ownership, and someone else moves in (buys their shares) within the same day. It's just a quick visit to the lawyer handling the corporate entity, and the shares of the corporation are exchanged for money. There's a resolution signed by the rest of the co-tenants in the syndicate, and that's it. That's how easy it can be.

When it comes to selling your investments in syndicates, there is a cost savings as well. The preparation of the exchange documents at the lawyer is minimal, as little as a few hundred dollars, despite the fact that you may be selling millions of dollars worth of equity in a project.

How would that work in a traditional real estate investment, where you sell a property and transfer ownership to the new owners of that property? The hardest part is that you'd have to sell the entire property, and have all the expenses and stresses involved with that. After that point, you'd have all the registration fees at land titles. There's preparation work that has to happen for the transfer of your ownership.

None of those things need happen in a syndicate, because you're simply transferring shares of the Bare Trustee corporation. It simply requires the corporate Lawyer to prepare a new share certificate, cancel the old share certificate, and have a Corporate Resolution signed by all the shareholders authorizing the transfer.

I'll cover the process of selling shares more extensively toward the end of this chapter, because the liquidity of shares has proven to be one of the most valuable aspects of syndicated investments.

BARE TRUSTEE BENEFIT: PRIVACY AND PROTECTION

The Bare Trustee Corporation structure that we use to hold the real estate properties has many benefits. One of more powerful benefits for investors is that this extra layer of corporate ownership has an element of privacy to it. Your personal name is not on the title of the investment property, and this helps owners reduce the odds of being a target of a litigator. It's an additional hurdle for a litigator to jump through.

If someone's snooping to find out who owns what property, they would have to do a two step process. You can do a search of land titles and find out who the title holder is, and that would show the Bare Trustee Corporation. They would have to investigate further and do a lot more thorough and costly legal search to find out who the share holders of that Bare Trustee Corporation are.

There's also a limitation of your personal liability that is provided by having this layer of corporate ownership, and a legal advisor can explain all those advantages to you during your advisory sessions. This limitation of liability is one of the comforting elements of investing in our syndicates.

OTHER OPERATIONAL BENEFITS

There's another simplicity offered in this structure: it's easier for the banks and lenders to deal with one entity, instead of 15 or 20 individual owners.

The Bare Trustee Corporation is set up like a normal corporation with a board of directors, president, secretary, treasurer. In most of our syndicates, there are two members who are the signers on the bank accounts or mortgages. Those two people are usually the president and the secretary, or the president and the treasurer, and they sign documents on behalf of the other owners.

This makes life easier on our investors, as well as our lenders. If you've got, for example, 15 owners, and all of them have to sign on a mortgage refinancing document, it's a little bit cumbersome for all parties involved.

THE DOWNSIDES OF SYNDICATE INVESTING

In my view, the only potential negative attribute of being involved in a real estate syndicate is that you are interdependent with other people, and decision-making is a shared responsibility. This, to me, isn't really a downside. I believe it's an upside, because there is usually a positive synergy and the group gets stronger because they all contribute from a perspective of their strengths. One of our existing syndications, for example, has members that include an engineer, a real estate appraiser and four accountants.

Syndicates are a great balance between these two extremes:

1. Being 100% passive and not having any involvement in an investment project

2. Being 100% active and being concerned about it fully, involved with every decision in its maintenance and management

Within the real estate syndication group, you get to choose how much involvement and participation you want. Our experience has shown us that the majority of people looking to invest in real estate want to be mostly passive, but have a satisfactory degree of input and control toward the operations.

Most investors just want to build their equity and assets passively, and go about their daily life without all the management headaches. They want to have their relaxing vacations, and their uninterrupted working days, and their quiet nightly dinner time, without being interrupted with phone calls from their tenants or business partners.

Most of our investors have that perspective and goal, to be mostly passive, with the ability to have input toward the larger decisions and objectives. A well-conceived and well-managed syndicate will work well for that type of investor.

If there's a sale of a property planned, or a refinancing event possible, then of course the owners want to have a say in what happens. Each investor gets to vote on whether this decision suits them, and whether they'd be in favor of it or not, and why.

There are no surprises here, because these common situations are all spelled out in our typical joint venture/co-tenancy document. It's clarified at all times, what type of decisions are subject to what type of vote and input. The clear and organized structure of our joint venture agreements really offers a level of comfort and control to everyone involved, because everyone knows what to expect.

WHAT IF AN INVESTOR WANTS TO BE MORE INVOLVED?

When syndicate owners wish to have more involvement in the smaller decisions, they can become a member of the board of directors. Let's use the example of a larger syndication, where we've got 20 or 25 members. In a group that size, not everybody will want to (or be able to) have frequent meetings. So, just like a big publicly-owned corporation would do, we'll elect a board of directors that might consist of 3 to 5 members.

That board of directors would then guide many decisions regarding the operation of the syndication, and those people would have more involvement with the operations than someone who is busy and wants to be more passive. Typically, this works out in a way where everyone gets the level of control and comfort that they're looking for.

EACH SYNDICATE BOARD COMES WITH PROFESSIONAL LEADERSHIP

At Sundance Capital Corp, we always have a seat on the board of directors, within all of our real estate syndicates. This is for the benefit of everyone involved, as we bring our decades of experience and our talented team of advisors into each syndicate. Our guidance provides an extra level of confidence and support to each group of owners, and it's part of the reason our investments go very smoothly and have performed very well in the past.

My Sundance partners and I are typically the people who bring this all together, and keep everything running in a professional, dependable, and profitable manner. We find the property that will generate the income, we find and secure the financing, and we often find and secure the most valuable tenants. We bring the trusted property management and asset managers. We sometimes bring environmental evaluators, or structural engineers.

With all of these things we bring to the table, and the decades of experience and success with syndicate operations, our investors feel comforted by having us in an integral role. I've been personally involved in nearly every syndicate, although the size and number of our syndicates is growing to the point where my partners at Sundance will be taking the reins on many of the groups, and I'll simply be available as an advisor to a greater number of syndicates.

WE'RE ALL IN THIS TOGETHER (AND OUR INVESTORS LIKE THAT)

Regarding the involvement of Sundance as a fellow shareholder, our investors also get the satisfaction of knowing that we're an investor along with them. Our investment dollars are at risk too, within the same project. That tends to instill a lot of confidence and faith, and a level of comfort in our investors.

When we put our own dollars in, then that shows that we believe in the long-term value of the project ourselves. That's something you don't often find in other investments, where usually the salespeople get paid on the transaction, but have no skin in the game for the long-term. They make their sales, they make their fees. The next day, they're looking for another sale and another set of fees. They're not investing along with you, like we do.

WHO CAN PARTICIPATE IN OUR SYNDICATIONS?

Participation is often structured at the outset based on the size of the project. And participation ability involves your country's securities regulations. Syndicate shares are classified as a security, because you're bringing people in, bringing in their investment dollars to an ownership position, in exchange for what is technically a share of a corporation.

In Canada, the regulations differ depending on which provincial jurisdiction you're in. Alberta has its set of rules, because it has its own Securities Commission. British Columbia would have their own different set of rules and so on. So, as a result, we have to be respectful of where the investor resides, because those are the rules that apply to them.

There are exemptions though, when participation is $10,000 or more, per ownership unit. This is something that your advisors will help you understand better, and something that might change at any given time. But essentially, securities commissions are less worried about what they call a "sophisticated investor", thinking that person can look after themselves and needs less governmental assistance in that.

The criteria for who makes for a "sophisticated investor" is often based on net worth and higher earnings. A typical threshold on that is somewhere around $150,000 per investment, or ownership unit.

Regardless of what type of investor you're considered to be by the government, I just wanted to make it clear that there will be governance by the securities commission on each person's participation. In Canada, that's governed by each of the provinces. If you're an American investor, it's our belief that the safest way to invest in our syndicates is through a Canadian entity (subject to the advice of your cross-border Tax Attorney).

What would this entail, for a non-Canadian investor? It would mean incorporating in Canada, which is a relatively modest expense. From a syndication perspective, your Canadian entity then participates in the syndication. That would be governed by the laws where the entity is formed, and that entity would be subject to investing under the securities law of that Canadian province, even if you live in the United States or elsewhere.

There are no prohibitions on participation, as far as geography. We would just recommend the second entity, when investing in Canada from other countries.

HOW I GOT STARTED WITH SYNDICATES

Early on in my real estate career, I was a licensed real estate agent. I could see that this type (syndications) of investment was happening in my market, and it intrigued me. People were buying property for cash flow, and for value appreciation. But I wasn't able to get involved with the largest deals, because they required an amount of money that wasn't available to me as a young man starting out.

Instead, I took that concept and began to apply it on a smaller level. That was 40 years ago, and it was my true beginning to real estate syndication. I wanted to purchase a three-suite investment property with two separate basement suites. I encouraged two friends of mine to come with me, and they did. We bought into this property, and began my first experience using a syndicate strategy.

That first investment went exceedingly well, and the cash flow was excellent. We bought it for $49,000, and we sold it 3 years later at $87,000. It wasn't our plan to sell it that soon, but the market conditions became very favorable to do so. Most importantly to us, it had positive cash flow the entire time.

That experience taught me a lot of things, good and bad, and helped me refine the strategy and structure that we use today.

HOW MY FIRST SYNDICATION TAUGHT ME THE MOST VALUABLE LESSONS

Since it was my idea to get us into that first investment property, I ended up being the one who had to look after it, and make sure it stayed rented. If there was work that needed to be done, I would end up spending my weekends at the property. Sometimes I had to paint, or to mow the lawns, or to fix the fence.

And sometimes I had to unplug the toilet, which nobody ever wants to be called out to do.

If we needed a small renovation, I had to interview, hire, and oversee the contractors who would do that work. In that property, we had to completely change out a bathroom, which was a major undertaking. We had to take all the old fixtures out, tear everything apart, and install new floors and new fixtures.

The management of this first property taught me a valuable lesson about the typical path of investment property ownership: it was hard work.

At some point during the hundreds of hours I spent managing that property, I started thinking about it all, and how It could be done better. I started thinking about how there was a need for somebody to do all of this work for an investor.

Investors want to be investors. They don't usually want to serve as a worker bee, doing all the maintenance, looking after their own properties. And I too wanted to be an investor, not the worker bee.

That's what eventually led me to create a property management department. I taught others how to do this stressful but very important piece, and in doing so, I got past the most exhausting parts of real estate investment that drive many investors out of the business.

ASSET MANAGEMENT: ANOTHER ASPECT TO TACKLE

From there, I went on honing my skillset in asset management, and building that piece into our business. Asset management is very different than property management. Asset management has more to do with the larger, more strategic issues that deal with asset ownership and governance.

For example, an asset manager would look at the mortgage periodically, and optimize it as often as possible. Is there a lower interest rate available on the mortgage? A situation where we could get a lower rate, and lower our payments? This is usually outside the scope of a property manager.

An asset manager would be looking at the market and the broader economic future. For example, at the time of this writing, the Canadian economy is going into a recession. So we need to be prepared and think about what can we do to enhance our properties to retain our current tenants. Property managers might think about it if they're really good, but that's not typical.

It takes an asset manager to be thinking about the global picture, and at the right time, suggest some inducements for tenants to stay with us. Maybe we'll tell them in August that, if they maintain their tenancy through the end of the year, we'll give them two weeks rent-free as a Christmas bonus. That's the type of strategy a good asset manager brings. And we have great asset management here, within our syndicates.

SMARTER STRUCTURES ENABLE BIGGER FUTURES

I learned to refine the legal structure, by understanding the ways I could've structured things better in those early investments. For example, on that first property, we didn't do a Bare Trustee Corporation or anything like that. We just all put our names on the title, and if we had decisions to make, we sat down over a beer and made a decision.

But things get larger and more complicated, and smarter structures are needed. I went on to oversee 11 or 12 more of those types of projects, with friends and family coming in with me on smaller real estate investments that had cash flow. I learned something new on each one, and our processes and structures gradually became more powerful.

That helped me prepare for a future that would include much larger deals. But before then, I had to learn my most important lesson of all.

THE ROCKY ROAD: MY SPECULATIVE MISTAKE

At that point in my career, still in the early stages, I had enjoyed a number of successful deals in buying cash-flowing real estate. I was feeling confident from those successes, and decided to extend my reach into a much different type of investment.

I entered the world of real estate speculation. This was when I engaged in the land development project that I mentioned in the last chapter, and now that you understand the timing of it, it's a little easier to see how painful it was. I'd had some initial success, a lot of success, actually.

And then I lost everything. It was the biggest mistake of my investing career, and it was excruciatingly painful.

Part of what is so dangerous with speculation—and especially speculations where you are required to give a personal guarantee and pledge all your assets as collateral—is that one failed speculation can take everything away from you. Absolutely everything you have.

That's exactly what happened to me. I had other cash flowing properties, at that time. I had my personal home. But those didn't matter, because they weren't enough to cover the losses. So the lenders took everything I had.

I can't possibly explain how much that hurt, and how badly that felt, when I lost our home and we had to start over with absolutely nothing. We had a $300 car and our furniture, and that was about all we had left.

I remember going hunting on the weekend and hoping to shoot a deer, so we'd have something to eat. It was honestly that bad.

That's why, to this day, I will not invest in projects that require a personal guarantee. This has worked out to be one of the most attractive attributes of our real estate syndicates, because if you're in a syndicate with us, you're not going to be asked to provide any guarantees or collateral. We've written that prohibition into our joint venture agreements, and it's one of the aspects most valued by our investors.

HOW I SURVIVED AND BECAME STRONGER

The fortunate thing for me, during my bankruptcy, was that I'd worked my way into 8 years of experience as a real estate agent. I was a Broker at that point, which means I'd worked my way up to operating my own company. I had a job there, with involvement in three real estate brokerage offices. The economy was tough at that time, but in managing those offices, I was able to earn a modest income.

It was an income that was much lower than what I was used to getting from my real estate cash flows, but it was enough to survive on until I got back on my feet. After some soul searching that followed that bankruptcy in 1981, I made a decision to get some additional training.

But this was no ordinary type of training. I just didn't go to the Real Estate Board office and say, "What have you got for me to learn?" I went to get the best type of training I could get, to take me to a high level that relatively few practitioners would ever attempt. I pursued an internationally-acclaimed education, and became a Certified Commercial Investment Member (CCIM).

Being trained as a CCIM is still, after all these years, one of the premiere types of training you can get to prepare yourself to be commercial real estate investor and broker. It prepares you for all aspects of dealing with commercial investment real estate, really. In my view, it's effectively the Ph.D. in commercial real estate. The highest degree attainable.

That CCIM training, frankly, was the turnaround to understanding and assimilating all of the input that I had up to that point. It helped me understand my successes and my failures. It helped me understand why speculation didn't work for me, and why long-term cash-flowing syndicate investments did.

HOW WE SCALED INTO A MUCH LARGER OPERATION

As time went on, and I resumed my successes with cash-flowing investments, I started looking at the larger investments with larger returns. My new success and growing reputation had started attracting interest from across the country. And that's when I met another broker named Darryl McCullough, and teamed up with him.

Daryl had some investors from the Ontario area who were wanting to expand their investments into the western part of the country, so we started looking for larger projects there. That's when everything went to the next level, as far as the more formal structure of the Bare Trustee Corporation.

These Ontario investors were very well-to-do businessmen, and in their world, investments were bound by more formal agreements. That's why we developed the fully comprehensive template that became the joint venture agreement that we continue to use today in our syndications.

THE FIRST LARGE SYNDICATE PROPERTY

We pooled together the investors, formed the syndicate, and bought a shopping center in Red Deer called the West Park Shopping Center. We also bought several multi-family apartment complexes.

In the end, this became a very successful investment group that went on for many years, until our objectives changed and we all divested. That group and its success, which began over 30 years ago, helped us forge the entire platform that we use today for our syndication.

Once I had the template and the syndication platform to work from, I realized that I absolutely enjoyed working with the types of people who invested in real estate syndicates. I enjoyed the people, the process of putting it all together, and I definitely enjoyed the healthy cash flows.

I loved seeing how these properties would continue to cash flow, year after year. I loved how the cash flow was tied to the security and value of the hard asset. It was truly eye-opening and amazing to me, to see how these investments would continue to perform during bad economic times.

There were periods of time when skyrocketing inflation rates ravaged pretty much everything else around us. But our investments responded well to all of those challenges. They responded well to crazy swings in inflation.

Our syndicate properties went up in value as currencies fluctuated up and down. To have an investment value that appreciates, you need something that responds positively to currency fluctuations. Our syndicates did just that, and have continued to do that.

THINKING MORE DEEPLY ABOUT "APPRECIATION"

Our capital appreciation came as the result of appreciation and growth in rental income. For example, residential rental income from 30 years ago was typically $350 to $375 per month for a 1-unit suite. Now that suite rents for $950 to $1150 per month.

How can that happen? The building is getting older, nothing is changing there. Very few factors have changed, as far as that investment and the tenants who rent it. But what's happened here is that the value of our currency (paper money) has declined.

This is typical, how the value or buying power of paper money eventually becomes smaller and it takes more paper dollars to equal the value of the hard asset. In this example, it appears that cash flows went up, from $350 to $950. And it's true that the cash flows certainly did increase, as a numerical value. But really what happened is that the value of paper money went down. For the tenant, it takes more paper money to rent the same unit.

The American dollar, according to many economic estimates, has gone down in value by nearly 98% since the Federal Reserve was created. So in a little over 100 years, it's lost 98% of its value.

Put another way, if you placed a $100 bill in your mattress in 1913, today that bill would have the buying power equivalent to $2.00 in 1913 (and you would have a very old mattress).

Unlike paper money and currencies, there are hard assets that can actually appreciate. Things like real estate, precious metals, art, vintage cars. Of all those things, I particularly like real estate, because it has the capability to have cash flow. Most other hard assets do not have the ability to produce positive cash flow.

So, while real estate is a hard asset that can help to preserve the value of your money, it also has this additional benefit of cash flow. And you can consider it to be a triple benefit, when you consider that this cash flow can be tax-efficient or tax-sheltered.

HOW CREATIVITY BECAME A CORE ATTRIBUTE OF WHAT WE DO NOW

A few years later, another really fortunate thing that happened for me as a result of being a CCIM and from knowing Darryl McCullough, and that was being invited to join a group called the Society of Exchange Counselors (SEC).

At the time, Darryl was not only a CCIM like me, but he had been invited to join the SEC, and really enjoyed the creativity of the group. He's a creative person, and I consider myself to be a creative person. When Darryl and I came together to form that first large real estate syndicate, we discovered that we enjoyed working together in these creative structures and operations. So Darryl invited me to a meeting of the SEC.

Meetings are held in various places across the US every second month, so there are six every year. They are marketing meetings. He'd told me that these are really interesting meetings, with very interesting people. People who are incredibly creative in how they structure deals, and how they help their clients find ways out of or through problems that they have.

I accepted the invitation, and participated in my first Society of Exchange Counselor meeting, and just fell in love with the creativity of it all, and the great, great people. These are super-professional, mature people in dealing with their clients, and caring for their clients.

They cared so much that it unleashed every creative idea imaginable, to help them find solutions and it was both inspiring and comforting to me, to be around those type of caring and innovative people.

AN EXAMPLE OF CREATIVE SOLUTIONS IN COMMERCIAL PROPERTIES

I had a client here in Alberta who had a large real estate holding in Port Perry, Missouri. It's a small little town down in the southeast corner of Missouri. The property was a 250-acre lake with about 15,000 acres around it. Although it was failed residential development, it was perfectly designed for some sort of a group to take it over for usage as a recreation area. I really didn't know what to do with it from a marketing perspective, however.

I assembled all the information I could gather up on this property, and took it to the next SEC meeting. It turns out there was another SEC member there, from Montana, and he had a group that he thought might be interested in that property.

It was a church group, and they had a collection of properties, including movie theaters, land and some other nondescript buildings. These were properties that people had gifted to the church, to qualify for a tax deduction.

Ultimately, we found a way to make an exchange happen, and both parties got what they wanted. My client in Alberta ended up taking movie theaters, I believe it was 5 theaters in 3 states, and properties in other places, and some cash in the exchange. The church group got the property that was really valuable and useful for them.

That transaction won an award from the SEC for being the most creative transaction of the year. At that point, I was really hooked on using creative exchanges to solve problems for ourselves and our clients. It's been a skillset that has greatly benefitted our real estate syndications.

HOW THE BARE TRUSTEE CORPORATIONS CAME ABOUT

A Bare Trustee Corporation is a customized, technical adaption of an ordinary, common corporation. This isn't a name set by the government, or even a commonly known term, but it's simply how you set up your corporation as Bare Trustee for the owners of the property.

The corporation serving as Bare Trustee technically holds no assets and has no liabilities, it simply represents the beneficial co-tenant owners of the property. It's a flow-through corporation where the cash flows through to the benefit of the owners. The beneficial owners, they're called, are the owners in the joint venture. We refer to those owners as shareholders, or co-tenant owners, in our real estate syndicates.

As I mentioned previously, we actually learned how to do this structure from that first group of high-level, well-trained businessmen that came to us wanting to do a syndicated investment. I had never been exposed to it before but it was clear to me that is represented an efficient and elegant way to assemble syndication ownership.

We had many questions, at the time. What is this? How does it work? Are we sure it's safe? We had to go through all of these questions thoroughly, using our own lawyers. It passed all the tests, and as we got more comfortable with this structure, it became our go-to design for our real estate syndications.

HOW BARE TRUSTEE CORPORATIONS FUELED GROWTH

Interest in syndicate investment has grown steadily over time, and the efficiency of the Bare Trustee Corporation structure helped us to handle all the interest we were receiving, and grow our syndications to an even larger level.

I still see people today, buying commercial properties like we do, but doing so in the old traditional approach. They probably just haven't been exposed to the Bare Trustee Corporation structure, and their investments are less efficient as a result. They've gotten a group of people together and bought a cash-flowing property just like we do, but the difference is an important one: they're all individually listed on the title for that property.

Since they're all on title, they each have to go through the hassles of title transfer, every time a member of the investment comes or goes. Compare that to our process, where nothing on the title changes, it's just some quick internal paperwork. Way, way more efficient.

The other undesired element of the traditional way: when your name is on the title, it's more easily searchable by people who want to target you for lawsuits or marketing or any number of nuisances. The Bare Trustee Corporation gives you that level of privacy, where your name is going to be harder to find, in association with any properties.

A CASE STUDY OF A SYNDICATE INVESTMENT

Now that we've covered the background story on how and why I got started in the world of real estate syndicates, it's time to dive into a case study of our actual syndicate investments.

CASE STUDY: THE HENDAY CENTER

In 1984, I had been a Real Estate Broker for about ten years, and had proven experience in property management, I was called on to manage the Henday Center property. It was owned by a trust company based in Toronto, and they had taken it back in a foreclosure.

They had a huge problem: the property was 50% vacant. They hired me to be manage the property, in hopes that I could go in and solve the vacancy problem. I ultimately did that, but it wasn't very fast. As I recall, it took me 4 years to lease that property up.

It was a 75,000-square-foot shopping center, and once I was able to get it leased up with tenants again, the owners of the property commissioned me to sell it for them. They sold it to a buyer from Ontario, who almost immediately ran into some difficulties in managing the property. Long story short, the Henday Center started experiencing growing vacancy again.

The buyer of the property came back to me, and said Daryl, this just isn't working for me. I need to figure it out somehow. Well, that's where creativity came in to play to find a solution for him.

The timing was great, as I'd just bought another building in a nearby location. I said, "I've got a building that's very simple to operate. It has only two tenants, not 22. How about we exchange those? You take this building, and I'll take the mall off your hands, and see if I can't figure it out again."

It was a great solution, so I put a syndicate group together to hold the shopping center. We traded our building in, and squared up the difference in a scenario where the seller carried the financing. I then went back to work on the property, and was able to lease up the building again.

A Realtor representing a family group from Calgary gave me a call, soon after. “We’d like to buy that shopping center from you,” they said. So we sold it to them in 2003.

Guess what happened? That group came back to me in 2007. “This retail center is outside our area of expertise” they said. “We’re back to 50% occupied. The anchor space is vacant. They shut their grocery down and left. Can you sell this for us?”

Well, in this particular stage, I knew that there was just no way out of a property like that, when it has substantial vacancy. You really have to fix it before you can sell it for a reasonable price, and get the value back out of it. So, I put another syndication group together, and we bought it back.

Here’s where the beauty of syndicates really comes full circle.

Rather than have the owners go away altogether, I wanted them to be part of the success that I knew we were about to have. I said, “Look, if you walk away at this point, with a reduced cash sale, you’re going to take a haircut on this. A big loss. So why don’t you stay in as one of the investors in the syndication? Just stay in with us and we’ll go in and fix this thing.”

They stayed in. And we all still own that property today.

Henday Centre Before

Henday Centre After

Fast forward to now, eight years later. The Henday Center is full—and I mean totally full—and it's completely renovated, looks beautiful.

So let's talk hard numbers here.

Purchase price was $2.3 million. We assumed the seller's mortgage financing and raised an additional $1.5 million to remodel and re-tenant. This money came from the syndicate investors. This is a great example of how we often use the cash from syndicate investments to fix problems, which creates instant value and generates long-term cash flow for the syndicate.

Total upfront investment in the Henday Center: $3.8 million dollars. $2.3 million purchase, plus $1.5 million in cash.

Eight years later, the value of that building is estimated to be $9.5 million.

This building and syndication has been a winner for everyone involved. When I went to my market of syndicate investors (which at that time was limited to family, friends, and close business associates), it was with the idea that we've got an opportunity with the shopping center, and the owner is willing to come with us, but he needs our help.

I told everyone, we need to raise $1.5 million in cash. We need this to fix the operational problems here, the problems that lead to commercial vacancies. It needs to look brand new, not 20 years old. We need to remodel it so that it looks up to date, then re-tenant it, and re-anchor it. And that's exactly what we did.

When it comes to explaining the financial results of this, you'll see the extraordinary value that a great real estate syndicate can deliver to both sellers and investors.

Let's start with the sellers of the property. They were prepared to take a big loss on the property, but instead had faith that we could turn this property around once again, and they came in on the syndicate with their equity. So instead of incurring a significant loss, they have realized significant appreciation and positive cash flow since the property was stabilized.

WHAT WOULD A $50,000 SHARE OF THE HENDAY CENTER BE WORTH?

To illustrate the investment results for the syndicate members, I'll use the example of a $50,000 minimum investment for this project.

If you'd had the opportunity to invest $50,000 in this property, eight short years ago, that $50,000 share would generate the following returns:

Monthly cash distribution: $1,000/month

Average annual ROI of cash distributions: 24%

Sellable value of your $50,000 share: It depends. Let me explain this.

When it comes to selling a share of your syndicate, it works a lot like a bond investment. It's worth whatever another investor is willing to pay for it.

Some investors might see a share of this syndicate the same way I do: incredibly stable and dependable. And for someone who views it this way, there is less risk, and they'd likely pay a premium for a $50,000 share that generates high dividends.

Regardless of the buyer's opinion, the building alone is worth 3.5 times more than it was when we started, so that would value your $50,000 share at $175,000, based on property value alone. An increase of $125,000, or 350%, In only eight years.

IT GETS EVEN BETTER, ONCE YOU'RE IN THE SYNDICATE

What's really interesting within our syndicates, and another attribute that our investors love, is the right to match an offer for a share. The technical term for this sounds like the opposite effect. It's called "first right of refusal".

It would play out in the following way. A syndicate investor, let's call her Elizabeth, wants to sell her share to John. John is not currently a member of the syndicate group. John said he'd gladly pay $100,000 for her share of the syndicate.

At the point where this agreement is reached, it goes to the members of the syndicate. The members have the option to purchase Elizabeth's share at the $100,000 price that John agreed to, rather than sell it to John.

SHARES ARE EASIER TO VALUE, AFTER MYSTERIES HAVE BEEN SOLVED

The truth is, at Sundance we solve all of the hard parts of valuation before people go to sell their shares, and that's why it's never hard to sell the shares. With each project, especially in the beginning phases, there are mysteries.

By mysteries, I mean variables that need to be solved. A common mystery is how a group will find new tenants for a vacant property. That's a big problem to most investors, although it's not really a mystery to me anymore, as we're quite good at that particular piece.

But a typical investor wants to see that all the leases are intact, and good long term leases are in place. And in our syndicates, that mystery is solved, when it comes to how much income and expenses you'll have. You'll know how much it's going to cost to put a new roof on, how much it costs to redo the exterior, or how much it costs to fix the parking lot. All mysteries solved, when it comes to expenses.

Once all of that's done, it takes the collective mystery out of what those costs are, and what a share of the syndicate is worth. Now you're down to just analyzing the cash flow, and that's easily accomplished with these three questions:

- What is the return rate you require?
- What is the cash flow here?
- How much are you willing to pay for that cash flow?

It just comes down to what each individual is looking for, as far as return on investment, in something like this that has a moderately low risk level.

FOR SMALL INVESTORS, SYNDICATES HAVE HUGE BENEFITS

In the modern world, it's hard for smaller investors to enjoy the same advantages that the larger investors get. Syndicates solve that in many different ways. Our minimum investment size of $10,000 effectively opens up a world that's typically only available to an investor who has millions of dollars to invest.

Let's take a look at how that happens.

ECONOMIES OF SCALE UNLOCK BETTER SERVICES AT LOWER COSTS

A big risk for a smaller investor is that you're on your own, and that could get expensive.

When you join a large syndicate group like ours, you're able to afford the services of high-quality professionals. Those services, for most individual investors, would not be affordable on their own, or even if so, would cut deeply into the returns on the investment.

An independent, smaller investor who is buying property on their own has to get their own lawyer, their own marketing for new tenants into the building, their own property management company, and their own lender. And they're working hard to make each one of those pieces happen.

But in syndications under our structure, all of those things are included. And we get great rates from some of the most talented, high-quality service providers in the country, because we do a high volume of business with them. That's the economy of scale we benefit from.

Again, to bring up something I feel is very important and valuable: the small independent investor won't likely have the power to go to the bank when they're financing a property, and say right off the bat, "before we even fill out an application for a loan, I have to tell you I'm not willing to personally guarantee the loan."

Unless you are a large customer, the bank will likely say that's a deal-breaker, because you lack the magnitude and reputation needed to make that demand. That person will have to put their personal and business assets on the table.

SHARING DOWNSIDES AND CREATING SYNERGIES

It may seem like a detraction to share the upside of investments when compared to sole ownership, as people would generally like to have as much of the upside as they can. But it's quite powerful to highlight that, in addition to sharing the upside of the investment, we also share all the downsides in these syndicated investments.

By sharing any downsides, we minimize all the problems, stress, and costs. If something goes wrong and there's a problem to solve, you want to have the support and input from your syndication group to figure it out. We find solutions faster and cheaper as a group.

There's a very powerful synergy and goodwill that grows within a syndication group. And like any great relationship, it's hard to quantify how valuable it is. You just feel it.

Similarly, the individual investors in your group often bring a valuable skill into the group. When I assembled the group to purchase the Henday Center in 2007, we ended up with these professionals in the group:

- A recently retired property Appraiser
- A Structural Engineer with 30+ years of experience
- A tech administrator from the city government
- Four Accountants

And there were other types of professional backgrounds involved too, but my point is this: look at the value of those people's skillsets! I don't know about you, but I get an increased amount of comfort and confidence, when I have a talented and experienced group like that sitting around the table, when we're making decisions for a $9.5 million investment.

Compare this to the investor buying, for a $50,000 investment (and $50,000 was the minimum share price for Henday). With $50,000, that investor could have bought a duplex. They'd be all by themselves, having to hire that expertise that we had for free, as partners in our group. Free, qualified opinions and solution-seekers toward goals that 100% aligned with yours.

It's a huge psychological benefit, just knowing that you've got other people that you can rely on, to discuss things and workshop with. You can workshop with experts if you are a sole owner, but it's not the same as having a common motivation for the good of a common property.

With syndicates, it's built right in to the ownership, where everyone is on the same page. You're all adding value to the cash flow toward the same growth objectives and equity. There is a valuable comfort in that.

We are very much focused on teamwork in the Sundance syndications. I take a lot of pride in being responsive to people's questions or suggestions, and there's no room for a dictatorial operation here. It's a team game.

THE FUN PART

There's a return on syndication investments that goes way beyond the financial return. It's the moment that you realize how good you feel, and how much you enjoy the process.

It's the type of happiness that I'd imagine of a basketball coach or a football coach, when you're having a winning season, and you've got an incredibly good team, and you come out on top in the end. It just feels good.

That's what's in it for me now. That feeling. And our syndication investors receive that too.

RATE OF RETURN IS OFTEN BETTER IN BIG GROUPS

Smaller investors going it alone have less money to invest than a syndication group of investors. That fact causes the lone investor to look for smaller investments, and there is greater competition for smaller investment deals. Conversely, the bigger the investment deal, the less competition you have.

Let's use the example of a person with $50,000 to invest. Let's again say that an investor is considering buying her own fourplex building, versus buying one share of the Henday Center style syndication.

The fourplex is a highly sought-after type of investment property as an income-producing building. It's within many people's budgets, so there are more people bidding against you. You'll likely pay retail price for that building, and that really lowers your potential for profit when you have high competition that drives the price up.

Eight years later, your mortgage will barely be paid down, and your cash flow is likely to rise at the rate of inflation, at best. The value of the fourplex building itself is unknown, but unlikely to be significantly higher, in this particular period from 2007 – 2015.

Yet, that same amount of money could be put into Henday Center for a $2.3 million acquisition. And in 2007, there was no competition for this building. There was no one lining up to buy that shopping center, because it was 50% vacant and looking run-down.

But if you bought into the bigger vision of it, with additional budgets to fix the problems, and the finished result that was possible, then the higher returns were there for the taking. The building is now worth $9.5 million, the shares have increased in value by at least that same percentage, and we have experienced an Internal Rate of Return of approximately 23% over the holding period. An Internal Rate of Return takes into account the holding period, the periodic cash flows and the appreciation or gains as if sold.

It's a matter of investment threshold. Smaller investors get less return. In fact, there's many smaller investors who accept no return. They work just to pay the property off over their lifetime so they've got a free and clear building when they retire.

We can do better than that for those small investors.

We pay off our buildings much faster, and our target is a maximum of 10 years. We cash flow along the way (and won't buy a property if it doesn't have cash flow), so there's distributions through that time, unless there is a determination by the investor owners to forgo cash flow in favor of accelerating the pay down of the mortgage.

You get immediate return, you get the free and clear building a lot quicker. But it's all enabled by the syndicate structure, being able to pool together money to buy large projects that you wouldn't be able to do on your own.

CASH FLOW GOALS: HOW WE USE CAP RATES

In setting some benchmarks to evaluate properties and their cash flows, we work from our target capitalization rate, or what we call "cap rate". That's the net operating income (NOI) as a percentage of the value of the building. So if a building costs $100,000, and has NOI of $6,000, the cap rate is 6%.

We try to buy property in a range where the cap rate is 4% above our cost of money. Let's put that to a hypothetical example: a multifamily building that we can buy with a loan that carries an interest rate of 2.2%, fixed, for 10 years. Because we want to achieve 4% above the cost of money, our cap rate would have to be a total of 6.2% for that building, as a rule of thumb. So if it's a $100,000 property, it needs to have a NOI of $6,200 a year.

But it's not as simple as that. There's other due diligence that has to go into our evaluation of the opportunity. Is the roof okay? If it's a 20-year-old building, what are the windows like? What's the parking lot asphalt like? What's the floor covering? What are the capital expenditures? Are there environmental concerns, asbestos, petrochemicals, radon?

All those things can be worked into the numbers, and then we've got a more accurate view of what the true NOI will be, and whether that meets our criteria.

THE ROI IS NORMALLY MUCH LARGER THAN CAP RATE

When it comes to an expected return on investment (ROI) for those investors, our discussion is going to be, "We've got this building under contract. The cap rate is 6.2%, the cost of the money is 2.2%. We're borrowing 75% of the price of the building at the 2.2% rate, so we're generating returns of 4% on that borrowed money on our 25% cash down payment. Overall, this is projected to give us a total return on our cash investment dollars of somewhere around 12-14%."

We're looking for positive leverage, if we're using any leverage at all. Today, at the cost of money being down where it is, we're enticed to do that. The cost of money is so low that our yields are almost always going to give us near or over a double-digit ROI.

And that's a great ROI, given the low level of risk in these cash-flowing, hard asset investments. As far as risk level goes, I'd compare our syndicates with bank CDs or treasury bonds. For those paper investments that are considered to be low-risk, you'd be lucky to get 1% or 2% right now, at the time of this writing.

In both our syndicates and their alternatives, there's still some investment risk. There's no getting around that. But we eliminate as much risk as possible, in our syndications.

TAX EFFICIENCIES OF DEPRECIATION

Very similar to the popular Limited Liability Company in the United States, the Bare Trustee Corporation is a flow-through entity. It's not taxed separately as an ownership entity, and the income and expenses flow through to the members of the syndicate (technically called co-tenants).

Remember the benefits of depreciation that we discussed previously? That's where this entity becomes really valuable to investors, because the depreciation flows through to each syndicate investor. It means that investors will typically get a large write-off that reduces their tax liabilities on not just this investment, but possibly other income of theirs.

TAX EFFICIENCIES OF LONG-TERM CAPITAL GAINS TREATMENT

Another tax efficiency comes by being a long-term investor, compared to a short-term investor. If you're a short-term flipper (Trader), for example, you're apt to pay full on income tax on all of your gains. But if you're a long-term investor who buys this property for income from cash flow, and you happen at some point to sell it, you currently get preferred treatment on the gain. It's called capital gains tax, where you would be taxed on a percentage of the gain rather than the entire gain.

Either way, when you're considering selling any large investment, you'll always want to talk to a Certified Public Accountant to get the latest updates and strategies. The tax codes can change at any time.

TAX EFFICIENCIES FOR SELLERS OF PROPERTIES WE BUY

We have a public corporation available to us that we're can use to purchase a seller's property, and roll it into that corporation in exchange for shares of the corporation. The seller then, at some later time, sells those shares, separately, over several years in order to minimize their tax. We like to do creative solutions like that for people, and find it rewarding, interesting and valuable.

It's a win-win. We win as buyers, by getting a reasonably-priced property. The sellers win because they avoid a huge tax bill on the sale of the property, and that allows the seller to sell at a reasonable price. The sellers also get the cash flow from their shares during their holding period, which acts as a bonus to the tax savings. Sometimes that helps us negotiate a lower purchase price on the property, which is a fair trade.

THE ELEMENTS OF PASSIVE INVESTMENT

The ability to enjoy the passive nature of the syndicates comes from two primary elements:

1. We oversee the active property management of the investment.

2. We handle the active asset management of the investment.

In the property management piece, we handle all the day-to-day activities of the property. This would include the sometimes undesirable tasks of collecting of the rent, the payment of the bills, the maintenance of the property, keeping track of the accounting, and reporting to the syndicate owners. All of that's looked after to make it passive so that the owner has really little or nothing to do, other than go online and check their reports.

The other level of management is asset management. That has to do more with the higher level view of the investment, things that deal with mortgages or loans or leverage. What's happening with those? Is the term of the loan coming up, so there's going to be an interest rate adjustment? How will that affect us?

If interest rates are rising, we'd have to anticipate that that's going to affect the cash flow, if there's going to be more interest paid. If interest rates are going down, can we reduce the amortization period and maybe pay for the property faster because we're paying less interest? Should we upgrade the building to better compete in the market?

Should we consider selling this property in this high market and purchase a replacement property in a lower market?

All of those asset management issues are looked after for the investors, making this a very passive investment.

At the asset management level, we might have a reason to call together an investor meeting occasionally, based on a background investigation into the mortgage rates or lease rates or market values. That often gets into larger strategic decisions that we need everyone's input toward.

For example, if we think it's a good idea to revisit the mortgage for some new reason, that would be cause to call the investors together in a meeting. Often, that's done online now with teleconferencing, like GoToMeeting, Skype or FaceTime.

We'll explain everything we're thinking: "Here's what's going on. Here's what we're finding. Here's what we believe our options are, and what our recommendations are. Let's discuss them and pick one." And there will be a vote where the majority rules, and that's what we'll do.

When we vote on issues, it's almost always a complete consensus of agreement, because we've thoroughly discussed all the options.

INVESTORS CAN TAKE A MORE ACTIVE ROLE, IF THEY WISH

Our objective is to make the investments as passive as possible, but the investor can always take the initiative to become more active as they wish.

There are varying levels of this. The basic form of it can be found in simply being a bit more active in the discussions we have, or by calling and asking what's going on. They can go on the website for owners, check out their reports, and then call and ask any questions they might have. We're looking after it at all times, but always available to answer questions.

And if they want to have more active say in the direction and operation of the project, they can put their name forward to serve on the board of directors.

Compare this to paper investments, like mutual funds. Can you a call a mutual fund manager, and ask questions about his or her investment strategy? Would a mutual fund manager or any publicly traded company's CEO, CFO or COO be open to that? Doubtful.

If you're a huge investor like Warren Buffett, you can probably do that. You can probably call up companies and ask, "What's going on? I'm thinking of buying shares in your company. I need a complete breakdown of what you're doing over there. Are you planning some acquisitions? Are you planning to downsize?"

They might have that discussion with Warren Buffett. But for the rest of us, and probably 99% of all stock investors, we could never get that type of access and control and communication.

That's part of why our investors love our syndications. Transparency and communication.

A PASSIVE BENEFIT OF SYNDICATES: WE FIND THE GOLDEN NUGGETS

The other time savings for our syndicate investors is found in all the front-end work that goes into finding a great investment. This tedious work is already done, by the time the syndication is formed.

For example, the prospecting and deal-finding work I've been doing the last few days, shopping for properties and opportunities? That's done in earnest, for free. It's what I call the front end of the deal. I'm out pounding the pavement, tipping over rocks, looking for opportunities, at no cost to investors.

Now compare this again to traditional real estate investing. If you're on your own, you've got to do all that work yourself. You'd have to be going on the internet and searching. You'd have to be calling up real estate brokers and asking, "What have you got?" You'd have to evaluate their answers, and go check out the buildings. Your time is valuable, so there's a cost there.

You'd have to think all of these thoughts:

- What does it look like?
- Where is it at? What's that area like?
- What's the local market like? Is it going up? Is it going down?
- What's the regional economy like? Is it getting better? Is it getting worse?
- What's the political environment like? Is it getting better? Is it getting worse?
- Is there more support from government? Is there less support?
- What about the provincial level of government? The federal level?"

All of those questions are things that I think about and evaluate, when I go to see properties. And all of that work is done upfront. It's covered in the cost of assembling a syndication investment. That's a really, really valuable benefit for investors, because your time is valuable.

ALSO INCLUDED: ONGOING ECONOMIC ANALYSIS

We've had some shifts going on, in Canada. For an example of how this applies to our business, I can use the example of our upcoming federal election.

To me, it feels like there's a fairly large sentiment shift in this country, to the left, toward a more socialistic society and government. If that happens, that's going to force us to change the way we approach the business of property ownership. We'll need to evaluate our current position, and make sure we take a position that works well within a more socialistic business environment.

From our little corner of the world, we look way out there and say, "What is going on in the world? In the United States? What does that mean for interest rates? Are they going to be pressing on interest rates? What does that mean for minimum wage? We've got to move on minimum wages here. Does it affect us, or doesn't it? How so?"

We ask all those questions, constantly, and look into it. That's all part of the due diligence at the front end, and it carries through to the asset management that is ongoing for our syndicates and investors.

It's prudent to have your head up and be looking around at the big picture. That's what I've learned in several decades of doing this. It becomes very easy to identify the health of an investment inside your local area, but when it comes to the big picture, the macroeconomics becomes a bit more difficult to predict, for the average investor.

THOUSANDS OF DEALS (BUT FEW PASS INITIAL DUE DILIGENCE)

On average, I'd say I've looked at 10 deals per month, for my entire career. That means I've looked at thousands of deals.

It still comes across the desk where they say, "We know that you have a stable of investors. Would you look at this?" Yesterday, I met with an investor who had several opportunities that are actually some really good quality opportunities, for most people. They're "build to suit" or small developments, where the land is sitting, ready to go. Where there's demonstrated demand, if only someone will fund the construction.

But you know my sentiments on those types of opportunities, based on my history. I don't care for speculative types of investments. It would have to be a barn-burner of an opportunity for me to sponsor it for syndication. Even then, I would likely structure the purchase to be free and clear of debt, in order to remove as much risk as possible.

Usually, if a situation is good enough and meets my standards, we'll make an offer and track what happens. Sometimes we get beat out by a more aggressive buyer, and sometimes we back away based on something negative we find in our due diligence.

If, for instance, there are environmental issues, that can be a big problem. Structural issues are a big problem. Sometimes we find out things that have recently happened on a regulatory level, like a zoning change that will make the property worth significantly less. We might back away for various reasons like those, and they all come out of due diligence.

This is a big part of the value to our investors, the due diligence. It becomes part of the package that they get to make a decision on. It's all assembled, the hard work has been done. They just have to un-package it, look at it, and make a decision whether they think it's for them.

HOW VOTING WORKS

When it comes to decisions to be made within the syndicates, you vote your share in the syndicate. So if you're a 25% owner in the project, you have a vote that carries 25% of the weight.

We size the ownership units accordingly so that we end up with a fair voting balance to it. If you put the fairness test to it, there's no one who will have complete control. That's important to everyone involved, because we all want to have our fair level of input and control of our money.

DO WE COUNT ON PROPERTY VALUE APPRECIATION?

Absolutely not. When we're setting up the acquisition and the structure of a syndication, we don't input anything having to do with appreciation of a property's appraised value. There might be some minor discussion that this project is in the path of progress and will likely have stronger value going forward, but it's not factored into our projected ROI or Internal Rate of Return.

There are brokers and speculators who will add expected appreciation into their projected ROI. We are not those people, and never will be. That's over in the speculation arena.

The attitude that we take going in any of these projects is this: we are buying into cash flow. We're buying a yield, and we're buying a hard asset, and it will likely respond favorably during any positive or negative fluctuation in the greater market and economy. Our property value may go up or it may go down, but as long as our ROI from cash flow, and our overall yield is still there, we are satisfied. We have often actually flourished, in that scenario.

When times get tough and property values are trending down, we believe that long term leases with durable tenants supports strong property values. We have commitments running all the way up to 20 years, in some cases. And during tumultuous times, a cash flow with a long-term commitment becomes increasingly valuable.

THE INCREDIBLE MARKET FOR SYNDICATE SHARES

I've mentioned earlier, that in our syndicate joint venture agreements, shareholders have the first right of refusal. They get a chance to buy the shares that other group members put up for sale.

Syndicate members, to date, have bought the shares of their fellow investors in 100% of the instances where someone wanted to sell their shares. How's that for a vote of confidence in syndicate investments?

It makes complete sense, when you look at the context of the situation. In existing projects, there's a proven track record. We know what the distributions have been, and the buyer for those units knows exactly what it's been, and what it will likely continue to be.

The financial statements are there, the distribution history is there. This isn't some projection or estimate. If we're achieving 10% or 15% or 20% yields to the existing investor, it's pretty attractive for those investors to want more ownership units.

I've got existing investors asking me constantly, "When are you going to start another syndication? Can I be first in line to invest in that? I have more money to invest."

A LACK OF BETTER ALTERNATIVES

The investment alternatives are stressful, in the eyes of many of investors, including me. The typical person with $50,000 to invest, having that choice between investing in the stock market or investing in real estate as a hard asset, will often fare much better in our syndicate than committing $50,000 to a volatile stock market. I believe that fully.

It's happened quite often, where people have grown tired of the roller coaster of the stock markets, and the lack of control and transparency there. They pull their money out of the market and come over to our investment structure: the dependable, hard asset, cash-flowing side.

The most common thing that new investors say they love the most? No more worrying. No more getting up every morning, checking the internet, seeing what their stocks have done. No more roller coasters of uncertainty.

If your money is all in the stock market, you might agonize all day long, if you just lost 3% or 5% of everything you had. You'd be stressed out about it through the whole day. What effect does that have on your life?

With our projects, you sleep better at night. You've got a pretty steady cash flow, contracted rental income, and it comes to you month after month after month. It's the opposite of the stock market roller coaster.

When people invest in these syndicates, they might have some subjectivity and uncertainty when they're investing for the first time, which is normal. They don't exactly know how it's going to go. But once they've experienced it, and they've seen how we add the value, get the leases in place, distribute the cash flow, and do it in a really stress-free and enjoyable manner, then they almost always want to buy more shares.

WHAT HAPPENS IF SHARES ARE NOT SOLD INTERNALLY?

If you want to sell your share of the syndicate on the open market, you can do it through realtors as you would with any type of real estate property. It has not happened in our groups, because they always buy each other's shares internally, and investors are always looking for new projects to invest more money in. But in the event that no existing investor wants your shares internally, then they could be sold on the open real estate market.

WHAT HAPPENS WHEN SHARES ARE SOLD INTERNALLY?

In our system through using a Bare Trustee Corporation, it takes an hour at the lawyer's office in an afternoon, and you're done. The shares of trust are exchanged, and there's a resolution of the shareholders that gets signed. That resolution amends the joint venture agreement. One person is removed from it, one person is added. The new person becomes part of the agreement that governs the project. The shares of the Bare Trust Corporation denote their proportionate ownership.

When it comes to cashing out a real estate investment, this is truly as easy as it gets.

Compare this to selling a property the traditional way. If you're selling your own duplex building, for instance, you'd have to deal with agents, showings, property inspections, contract negotiations, title fees, tax payments, pay the real estate commissions, and more.

A typical real estate sales commission would be 5% to 7% of the sales price. So if you were selling a building for $100,000, a broker would typically take $5,000 to $7,000 of that.

But with syndicate shares, that's $0, when you sell it internally to another member, since no broker is needed for that. No showings, inspections, property tax fees, or any of those traditional costs of selling. Just the legal fee to exchange the shares and prepare the resolution, and that fee has been very modest. It might be $200 or $300.

There are so many positive attributes of syndicates, from beginning to end, but especially at the end. It's when people go to sell their shares and cash out, where they really see the most valuable aspect of our approach. In traditional real estate investment, selling your investment and getting your cash out is often the most difficult piece of the puzzle. Our structure for syndication really fixes this problem.

· · · · · · CHAPTER THREE · · · · · ·

HOW EVERYTHING WORKS

THE CRITICAL PIECE: HOW WE EVALUATE AND CHOOSE PROPERTIES

Our criteria for investment properties to invest in, as well as how you acquire them, is something that shifts over time. There are some commonalities, however, that can be found in every investment we make.

One rule is that the investment needs to have a predictable and durable likelihood of cash flow. The most predictable and durable of cash flows can be found in the longer contracts, the leases we have with commercial tenants. A national chain is often thought to be more secure than a smaller local tenant, just because the national business is larger and can have more staying power during tough times.

Sometimes this requirement for cash flow is a mystery that we need to solve, and an opportunity to add value. Often a building has the capability for a dependable income stream, and it just needs someone to get that established.

If there's a building that's sitting vacant, many investors will turn away from it, because it doesn't have an income stream. But if we know we can solve that vacancy, then the strategy on acquiring that building becomes a very attractive one, where we have the justification to buy the building at a value that is less than it would sell for if it was tenanted and cash-flowing. But even in that situation, we're intending to hold for the long term.

When a building is in a state of disrepair and looks run down, that's a further level of opportunity. When repairs are needed, that's a deeper mystery than finding tenants for a building that's in good shape. Thanks to years of experience in this area, seeing every repair situation imaginable, I've learned to see the best opportunities and had a lot of success in those types of scenarios.

If you'd like to see some examples and case studies of this, you can go to **www.SundanceCapital.ca**. You'll see photos and summaries of several stunning property transformations that have gone well for us. We buy them for roughly half of the value we think they'll be worth after we solve all the problems. That becomes the opportunity and strategy.

When fixing the physical attributes of a building, those can be interior attributes as well, and value to add to the lot itself. And another way to add value is land use. You might buy a building that's in an industrial area, but is near a more valuable commercial area. An example of that is our West Towne Centre in Red Deer.

CASE STUDY: WEST TOWNE CENTER

The West Towne Center started out as a warehouse, and one that was built in 1959. It's an older building but it's very well built, and that's exactly what I look for. There were railroad tracks beside that property, but we knew those tracks were to be relocated to the outskirts of town.

We felt this building would essentially become a downtown building with retail opportunities, so we bought it in 1993 for warehouse price and converted it to a shopping center. That was a great opportunity to add value. You can go to our website and see exactly what we did originally, as well what we've done recently to the exterior. We've had it over 20 years now, so it's been through significant upgrades twice.

We spent some money on improvements to the building, but the end value of the property is far higher than what we've spent on improvements and the low cost of acquisition. Let's take a look at the numbers.

1993 – 1994:

- Purchase price in 1993: $760,000
- Upgrades/improvements in 1993: $440,000
- Estimated value of building in 1994: $1,800,000

2014 – 2015:

- Estimated value of building in 2014: $2,500,000
- Upgrades/improvements in 2014: $750,000
- Estimated value after improvements: $3,500,000

TOTALS, 1993 – 2015:

- Total investment in this building, as of 2015: $1,950,000
- Estimated value of this building, as of 2015: $3,500,000

West Towne Centre (1993)

West Towne Centre (1994)

West Towne Centre (2015)

THE TYPES OF UPGRADES WE PERFORMED, AND WHY

Our upgrades in 2014 were done to bring the building completely up to date. This includes a new roof, new exterior, new sidewalks, new lighting on the exterior, and essentially a complete overhaul of everything.

By doing all that, we've added an extra $250,000 of value and equity in this property, in addition to the $750,000 we spent. Not only does this preserve the great cash flow we've got, but it enables the potential for higher cash flow going forward.

For example, a prospective future tenant might be up for renewal of his lease in a competitor's building nearby, for $12 per square foot. But he may think to himself that the

West Towne Center building is really a lot nicer than his current building, and will attract more shoppers. So he'd happily pay $2 or $3 more per square foot to be in the building that attracts more customers to his business.

HOW WE EVALUATE GEOGRAPHIC AREAS WHEN LOOKING AT PROPERTIES

Geographically, we look for markets that are less likely to experience the market pressures that cause giant swings in property values or rent rates.

In our area of Canada, Fort McMurray is a good example of a market that's subject to large swings. The reason for this? Its economy is heavily driven by oil-related projects, and the whole city is dependent on that industry.

Well, the oil industry is having some challenges right now, and it's already showing up in Fort McMurray. There's an exodus out of the area, there have been layoffs, and it could become even worse. That's why we would try to avoid that type of market, where one industry impacts an entire community.

There are other markets here, like Lethbridge, that are more stable. It's a modest-sized city but a bit more diversified in its economic influencers, and has a strong base of agricultural business. And agricultural influence is a bit more steady as far as values and rents, where the swings are smaller, and everything just plods along predictably. That's the type of area we would target for our investments.

Understanding the strong points of various geographies is part of what makes syndicate investing flexible and powerful. We don't have to buy all of our properties in the Alberta, Canada area where we'd headquartered. Alberta could be a good place to buy more properties soon, as we're headed into a recession, but it's not time yet. So we can look at other markets where the timing is good now, and the future is just as good or better.

When you have a larger pool of money to work with, you have a larger scope for your acquisitions and investment opportunities. A traditional investor wouldn't normally want to buy a fourplex 1000 miles away, because it's just too small a property for that distance.

But when you've got $10 million to invest, and can get all the professional property and asset managers with that investment, then you can absolutely go to wherever the good markets are, at any given time.

WHEN WE GO INTO NEW MARKETS

When we do deals in different areas, the methodology remains the same. We research the different aspects of the local economy, the history, and the future. If you're not familiar with the market, you've got to learn what's going on.

For example, we're currently looking at a fairly large multi-family project in the Medicine Hat area of Canada. I'm not really familiar with Medicine Hat, but it's nice city with a population around 60,000 people. Very much like Lethbridge, it's pretty stable. It's got a bit of exposure to the natural gas industry though, and we're looking into the effect of that, since natural gas prices are pretty low at this point. Those are things I can understand from a distance.

What takes a bit more research is the knowledge of a city's areas. What areas are good? What areas are not so good? I would need to learn that if we go forward with that project. So I'd visit and do more research there, to find out what's happening.

THE EFFECT OF COMPETITION AND INVENTORY

Another thing we need to look at is the inventory level for the type of project you're looking at. If you're looking at shopping malls, for instance, are there too many? Is the shopping mall footage overbuilt? Are there projects being planned, breaking ground, getting permits? That will all affect the supply of buildings, and the level of competition for tenants, so you need to evaluate that.

High competition isn't necessarily a deal-killer. You might still buy a building there, but you would lower your estimated rates of return based on what you can foresee coming. That would affect everything in your strategy, especially the price you pay for the property.

We might have to tell the seller that we won't be able to offer the full asking price on this building, because there are 700 units coming into the local market in the next 16 months. That's going to affect the returns, so the price we pay for the building needs to be lower.

WHEN THERE'S NOT ENOUGH TENANTS IN A MARKET

There was a shopping center in Blairmore that didn't make the cut for us, and it was only because of the small size of the market there. A small market size gives you less opportunity for tenants, and a healthy supply of tenants is important when it comes to cash flow.

The smaller the market, the smaller the stable of potential tenants that you have. Often those properties will end up with vacancies and problems. I would just rather stay in fairly robust even if they're modest-sized cities. You've still got more tenants available there, than small markets.

On the other side of the coin, I don't typically look in big cities like Calgary, Vancouver or Toronto. When you get into big cities, the competition for projects goes up. There are many more people and investors looking for them. Return rates get squeezed: purchase prices go higher, returns go lower.

So I like high-traffic areas in modest-sized cities, where you still have the availability of tenants, and also a reasonable number of potential buyers, if you decide to sell a property. Things just work better and have safer options for different circumstances.

HOW WE BRING DEALS TO OUR INVESTORS: SUMMARY INVESTMENT PROPOSALS

The Summary Investment Proposal is exactly what it sounds like: a summary of the investment or Executive Summary, and a very short outline of the opportunity on the table. In order to better illustrate the form and function of this document, I've included the proposal we used in the 2007 deal for the Henday Center project.

Below is the actual Summary Investment Proposal document. I'll summarize each section's function and purpose on the pages to follow.

Summary Investment Proposal

Have in Acquisition:	Henday Mall, Innisfail, AB., a 73,933 square foot Shopping Centre.
Location:	4804 50 Street, Innisfail, Alberta.
Investment Opportunity:	**Invest in ownership of a Shopping Centre being repositioned and re-tenanted. Going in value $4,000,000, current AACI Appraised Value $4,325,000, value after improvements and re-tenanting estimated at $6,500,000+. Return on Investment 17.43% per annum**
Background:	Current owner 997034 Alberta Ltd purchased the property August 15, 2002 at a price of $2,700,000. During their holding period they maintained approximately 27 tenants in the Centre. The anchor tenant, Westfair Properties / Loblaws, the largest grocery chain in Canada relocated out of the property in 2005. Even though Westfair's space is vacant, they have renewed their lease in January of this year for a further five years. Their purpose is to prevent grocery competitor, Sobey's from leasing the space. This vacancy caused some of the smaller tenants who depended on the anchor traffic to lose business and close. The end result is a Shopping Center that does not work properly. From a Real Estate Investors perspective, this type of situation presents an <u>opportunity</u>. I personally managed this property from 1984 to 1995. In 1996, with some partners, I purchased the property at a value of $2,200,000. We maintained near full occupancy until we sold to 997034 Alberta Ltd in 2002 at $2,700,000. We, 1308130 Alberta Ltd (Bare Trust), have negotiated the purchase of the property at $2,300,000 – Closing April 15, 2007. This price calculates to a stunningly low $31.11/sq. ft.; our end cost ($4,000,000) with improvements and tenanting calculates to $54.10/sq. ft. and our projected end value ($6,500,000) calculates to $87.92/sq. ft. Absolute minimum replacement value land and building is estimated at $165.00/sq. ft. or $12,200,000. Two national tenants, The Bargain! Shop and Dollarama have agreed to lease approximately 10,000 sq. ft. each. Those two leases essentially solve the occupancy of the property in addition to drawing tremendous traffic for a smaller number of other tenants. The Henday Mall was built in 1978 (and opened in 1979) on land leased for 60 years from the Royal Canadian Legion #104. The land lease is very economical at $20,800 per year until 2039 but the reality is that our preference is to own the land so that objective will be factored in to the over-all project. $500,000 has been allocated to purchase the land.

Business Plan:	**Purchase the property for 2,300,000 assuming the existing financing of approximately $2,000,000 (ATB Financial, $1,400,000 and 671781 Alberta Ltd, $600,000). An additional $1,700,000 will be raised to purchase the Underlying Land Lease, place the new tenants, install a new roof and install a new façade to upgrade the Center from 1978 to 2008 architecture. The value when improvements are complete and tenants are in place is predicted to be $6,500,000. It is planned to replace the existing financing with premium new first mortgage financing and hold the property for cash flow income and appreciation medium to long term. Notwithstanding the intention to hold for medium to long term, the Real Estate market in Alberta is extraordinary at this time and the Unit Holders may choose to exit early if a higher than predicted sale value is available at any time.**
Cash Requirement:	**Cash to Close** **$2,000,000**

Projected Cash Flows

Net Operating Income (NOI) September 2007	$499,487
Less Debt Service on $2,000,000	$200,745
Cash Flow	$298,742
Plus Principal Reduction	$ 49,897
Composite Return on Investment	$348,639

Investment Yield on $2,000,000 equals 17.43% (16.5% after Asset and Property Management)

Acquisitions & Allocations

$300,000	Cash to Close on Purchase
$500,000	Land Lease Purchase
$950,000	Tenant Improvements, New Roof, New Facade
$ 250,000	Leasing, Brokerage, Legal, Closing and Procurement Fees
$2,000,000	Cash to Close

Partnership Structure: Joint Venture via a Bare Trust Corporation, Forty (40) Investment Units at $50,000 per unit

20 Units @ $50,000	$1,000,000	**Available**
10 Units @ $50,000	$500,000	Pend- Royal Canadian Legion
4 Units @ $50,000	$200,000	Sold - Daryl Hillman
6 Units @ $50,000	$300,000	Sold - 997034 AB Ltd
Total 40 Units	**$2,000,000**	

Asset and Property Mgt: Sundance Capital Corp. (Daryl R. Hillman CCIM, SEC, RECS)

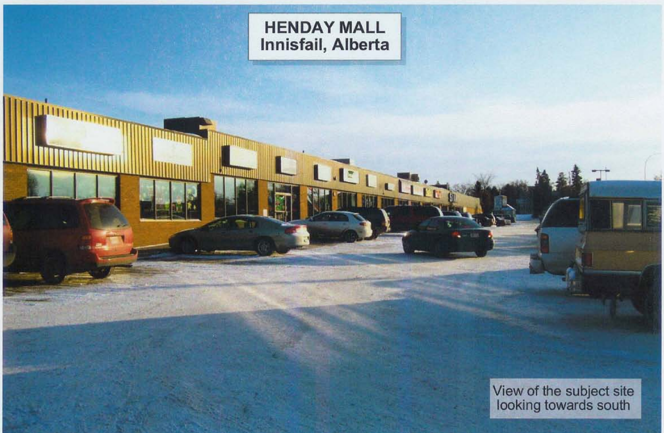
Note: Full details of existing Leases, Building Improvements, Appraisals, Survey, Environmental Assessment must be reviewed by the Investor prior to investing in this project.

<u>Risk of Real Estate Ownership</u>

Purchasers are subject to certain risks inherent in the ownership of Real Estate or Real Estate Mortgages. These risks include; fluctuations in occupancy rates and operating expenses, changes in supply and demand of competing properties in the area, changes of interest rates and availability of permanent mortgage funds which may render the sale or financing of a property difficult or unattractive, changes in Real Estate zoning laws, fiscal policies, God and other factors beyond an owner's control. Since the investment is dependent on these factors, no absolute assurance of profitable operation can be made.

Prospective purchasers can review the liabilities and risks of ownership with their legal and taxation advisors.

HENDAY MALL
Innisfail, Alberta



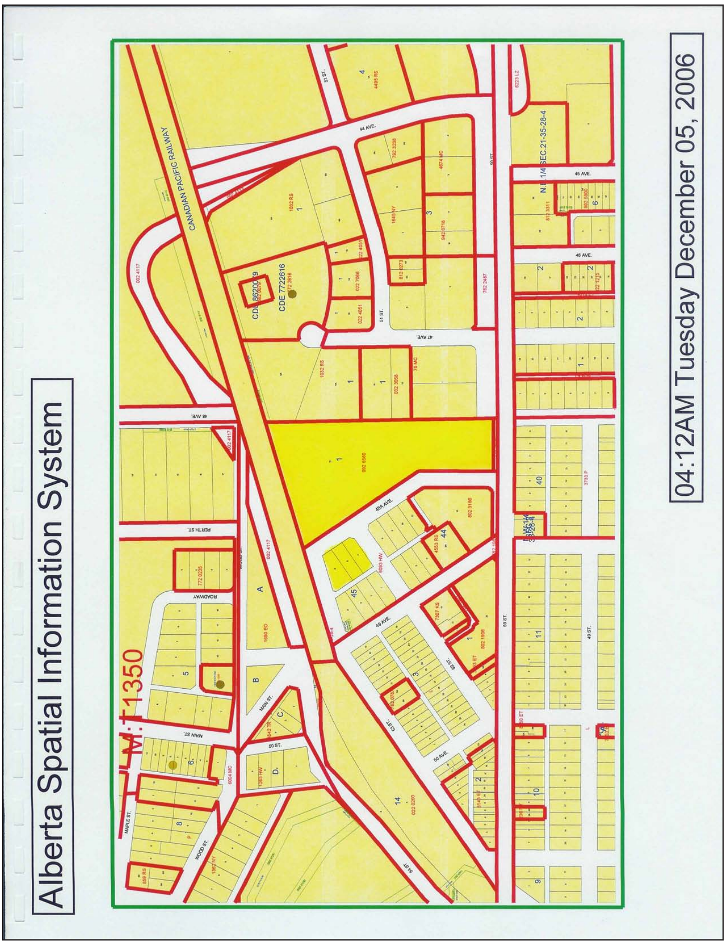
View of the subject site looking towards south

View of the subject looking towards the vacant Extra Foods Store

HENDAY MALL
Innisfail, Alberta

View of the subject mall from the west parking lot

Additional view of the subject from the west parking lot


Alberta Spatial Information System
04:12AM Tuesday December 05, 2006
CANADIAN PACIFIC RAILWAY
M:T1350
CDE 7722616

A summary of each section of the proposal follows.

1. HAVE IN ACQUISITION. This is the property and a quick description of its address, size, and function. By the time we tell investors about it, we've normally negotiated the right to purchase the property, and have it tied up in some form of contract.

2. ADDRESS. When investors get the address, they could get in their car to go take a look at it, if they wanted to start some due diligence of their own. They could just go and see how they feel about it. Having an address is a very valuable piece.

3. INVESTMENT OPPORTUNITY. Here we get into a condensed description of what the investment opportunity is. We start drilling down on the essence of the deal, from the basic numbers to the basic strategy.

In this particular proposal, when we say being repositioned and re-tenanted, that means it's a distressed property. It needs to be repositioned in the market and re-tenanted, which might concern some investors who are more conservative. That's why we explain this as early as possible.

Then I can outline what the value is when we're going in, $4 million, as well as the value given in the real estate appraisal that we have done at the outset. That's part of the passivity of this investment, as that appraisal is something you'd have to pay for on your own, in traditional investments. All of this upfront work is done before you even get to the point of making a decision.

So, our going in value is $4 million, and the appraised value is $4,325,000 based on the improvement being completed. After we get the problems fixed, we'd estimate the appraised value to become $6.5 million. That would be an estimated return of 17.43%, which is our target.

The targeted return on investment was 17.43%, and in 2007, that was squarely in the middle of the market. It was a good target ROI, many people were interested, and we had the syndicate filled in three days.

Here's what I mean by "middle of the market". With the investors who bought in, the perception was that this deal had some risk, because of the needed repositioning of the property and the re-tenanting. For that level of risk, the 17.4% return was high enough that it made sense.

It was enough of a return to get them to agree to go ahead and take on that additional risk. If the return estimate would have been 11.43%, I think there might have been a different outcome, as people may not have been willing to take that lower rate of return for a (perceived) moderate level of risk.

The appreciation of property value is not included in the 17.43% rate of return. There is something related, however, and that's the calculation of the equity gained through the repayment of principal on the loan.

This is what I call a composite return: your distributable cash return, plus the amount of equity you're gaining by paying off the loan principal. But appreciation of property value is not factored in, as a conservative measure.

I believe we've experienced appreciation of property value in every cash flow project we've gone into, but we never want to rely on that. It is a bonus when it happens, and we'll continue to treat it that way. In the 17.43% target return, we don't factor in the property going from $4 million to $6.5 million, and we don't factor in that the $6.5 million value will likely appreciate from there.

What we can rely on, more than appreciation of property value, is contract rent. That's less subjective, and that's what goes into our targeted returns. We know exactly what that rent is going to be.

And once the mortgage payments are started, we know exactly to the penny how much is retired on that loan every month and every year. Those are quantifiable, so that's what we prefer to work in when it comes to down to targeted rates of return.

4. BACKGROUND. In the background section, we tell the story about how we came across this opportunity, and what happened with the property that it became available to us.

We're looking to answer all the same questions we'd have as investors:

What's causing this property to come to the market?

When you are making an assessment as an investor you want to know what's motivating this deal to happen.

Is there something wrong with the property?

In this particular case, the issue was the lack of tenants. The owners were not particularly experienced with shopping center properties. They were very experienced in the multifamily sector, but not the shopping centers. They'd had difficulty figuring out how to solve the vacancy in this property.

In this section, we explained that the anchor tenant was moving out, and that was the seller's motivation to bring it back to the market. Then I recount the fact that I personally managed this property in the past, which would comfort any investor, that this is not a brand new mystery to figure out. I'd managed this one for 11 years and had added value before, and planned to add value again.

We also talk about a replacement value here, to help investors understand what it would cost to build this type of building brand new. It was $12.2 million in this case. That helps investors know how much opportunity and upside there is, if we bring it up to date.

Appraisers look at commercial property values from a few different perspectives, and one of them is the cost approach. In that approach, the estimated cost to replace the improvements is established, and is adjusted by the estimated depreciation for age and deferred maintenance.

Another method of valuation is the income approach, where the property is evaluated based on its potential to earn a net operating income. That is the approach we work from the most. That's getting right down to returns based on the cash flows of the property, and we like that because generating long-term cash flow is our strategy.

Do you have tenants standing by?

We talk about tenants because that's another question in investors' minds. How is that going to work, getting new tenants? In this particular case, again before we even go out to the market to ask people to consider coming in with us in ownership, I had already pre-negotiated the entry of two tenants into this market.

It was two national chains, the Bargain Shop (Now called Red Apple) and Dollarama, who were willing to come in with about 10,000 square feet each. That solved the majority of the concern for re-tenanting the building, and that's a massively important part of the background story that investors needed to know.

Re-tenanting properties is easier when you know who is who, and you're heavily networked in the world of businesses that would become tenants. That just comes from being in the business for a few decades.

5. BUSINESS PLAN. This comes right down to the specifics of the deal. We are going to purchase a property for $2.3 million, with $2 million of that being assumable financing, and the $300,000 being cash. Then we were planned to raise an additional $1.7 million to acquire the land and do improvements.

Then it reiterates bringing the building up-to-date to what at that time would be a 2008 architectural treatment to the building. Predicted value would be about $6.5 million (and we surpassed that. As of 2015, it's worth $9.5 million).

Then we laid out our intention to hold the property from medium to long-term. And as of 2015, that's looking very long-term. It's distributing cash distributions of $30,000 a month, every month, in addition to paying down the loan by about $18,000 a month. It's doing amazingly well.

We added another small building to the property four years ago, and will have that paid off next month, so that'll add another $5,000 to the cash flow. When the primary mortgage is paid off, there will be $60,000 per month of cash flow distribution available from this property, each month.

6. PROJECTED CASH FLOWS. The annual cash flows were projected for this property prior to our purchase of the property. In 2007, in this example, we projected a $499,487 net operating income. That's total income less operating expenses.

Out of that we have to pay the debt service, which at that point was $200,745 per year, leaving a Net Operating Income of $298,742. When we add principal reduction on the mortgage of $49,897 per year, we arrive at our projected composite return on investment of $348,639/year.

When the mortgage is fully retired, the distributable cash flow will increase to $60,000/month, or $720,000 per year. That gives you an idea of how powerful these investments are.

The composite return was projected to be 17.43%, and in reality, it's averaged 23%. Without taking any appreciation into the equation.

7. RISK OF REAL ESTATE OWNERSHIP. I feel strongly that people should be as knowledgeable as possible, and check out the details with more of their own due diligence. I'm looking for people to be astute in that sense, and understand what they are buying into when they write their check, and not have any surprises later on.

Regarding the risk of real estate ownership, we have to put in the disclaimer that this is an investment where there will be some level of risk. As much as we try to take out the risk, it is an absolute impossibility to take out 100% of the risk of any investment, including real estate.

TRANSPARENCY THAT BUILDS UNDERSTANDING AND TRUST

At Sundance, we have a complete open-book policy with our investments. We show you everything we see and know, and that's not always something that is common at other firms. But this policy really makes sense for us, because we fully expect to be long-term business partners with all members of each syndicate investment. For a good long-term relationship like that, I think you need to have complete transparency.

When we discover something, everyone gets a report. In the example of an environmental report, everyone will get a copy of that. If the environmental report unveils anything that presents a level of risk, we want everyone involved to know that.

If we have an appraisal done and something comes out of the appraisal that we weren't expecting, we'll talk about that among the entire group of investors. If there is a survey done and there's an encroachment of some sort, whether in our favor or not, then again, we'll talk about it.

All of those issues are important to everyone's investment, so nothing is swept under the carpet. It's all brought out and everyone knows what's going on. We don't want to have any surprises for anyone going forward.

A POWERFUL ALIGNMENT OF GOALS: PROPERTY MANAGERS

A very unique arrangement in syndicated investments that has powerful implications is this: our property management company has the same objective you do, and is compensated accordingly.

The compensation structure we've devised for our property managers ranges between 3% and 10% of annual gross rents, and 5% is the going average. It depends on the level of management, oversight and maintenance the property requires. But the real beauty of this arrangement is that gives property managers the same incentives as we have as shareholders: preserve the existing cash flows, and do everything possible to grow the cash flows over time because they are compensated based on a percentage of the rental income.

Property managers have perhaps the most important role in the investment, because they oversee the property, collect the rents, pay the bills, and handle minor repairs and maintenance.

I originally owned our property management company, until it was purchased by one of the company's most outstanding employees, Denise Lester. On our SundanceCapital.ca website, you can see her bio and experience, and we're really lucky to have her involved with our investments. She's been involved with this company and these syndicate investments dating back to 2004.

Denise and her company make it really simple to see everything going on with a property. There's online access to the monthly reports for each property, financial statements for your accountants, and electronic distribution of funds to your bank account.

Our investors love that you don't have the wait for a check in the mail. It is automatically deposited directly into your chosen account. In today's digital world, electronic payment of utilities, property taxes, other operating expenses, and the collection of rents electronically from tenants is far more efficient than only a few years ago, when we dealt with checks and mail time.

Denise and her property management company are now our default property management company for syndicate investments, while asset management is left to the board of directors of each Bare Trustee Corporation.

HOW WE SPOT RED FLAGS AND RISKS

As I alluded to earlier, we see a large number of deals and there are very few that fit our strategy of maximum returns with minimal risks. There are many concerns we've had with properties that are deal-breakers, and I'll go through a few examples of those.

RED FLAG: VERMICULITE ISSUES

We've walked away from two buildings recently because of vermiculite issues. Vermiculite is an insulation that was used as block fill in cinder block construction. It comes out of a mine in Montana for the most part, and was very popular because it is granular. You can just pour it into the block cavities when you are building the building, and it works like an insulator. It has been determined that vermiculite has a carcinogenic attribute to it, and it's classified in our country as an environmental concern.

When we go in and have an inspection done of a building, it is typical that the environmental Phase I inspection includes a test for vermiculite. Frankly, many times it's not an issue and will never become one, as long as you don't disturb it or open up the block. But if you chopped a hole in the wall to put in a window in, it would have to be completed with prescribed environmental safety and precautions in mind.

RED FLAG: ASBESTOS ISSUES

Much like vermiculite, asbestos is a known carcinogen that presents issues when it becomes airborne. If you have asbestos or vermiculite in a building, you want to ask how it got there, and why. Can you take on the additional risk of it being there? How does it affect your market going forward? Is it something that is going to be an aggravation if you ever wanted to divest the building?

You have to think through that. Will a future buyer have the same concerns as we did, going in? Because of this, we typically provide for a complete remediation process or walk away from buildings with asbestos.

RED FLAG: ENCROACHMENT ISSUES

We had a lot line encroachment that ended up being a costly issue for us, and we're pretty motivated to make sure that never happens again. We look at real property reports to check for any encroachment issues, where our property is using neighboring properties in some way. How does the building sit on the lot? Is it within the setbacks and the side yards?

The other thing that we look at here is utility rights of way, and caveats of other encumbrances that might be registered on the title. We check the titles over for this, and we are fortunate here particularly in Canada that we have the Torrens Land Title system to provide definitive proof of all registered interests in the property.

If there is a caveat, we can search the caveat documentation to determine why someone is claiming an interest in this property. What is it? Who is it? Can it be solved? Then if it is something that concerns us when we check it out, it's possible we turn away from the property because it is something that we are not wanting to get involved in.

RED FLAG: EASEMENTS

An easement is a situation where someone else is claiming an interest in use of all or part of a property. An easement can be a right of way or an access route for somebody else, en route to their adjacent property. A neighboring property that didn't have access to maybe a front street or the back street adequate to their needs, so they go to their neighbor and say "I'd like to buy from you an easement so that I can go across the corner of your property to get access to mine. Then I don't have to move my building."

Easements are often used for power lines, so they can go across your property.

RED FLAG: STRUCTURAL ENGINEERING

There are a number of red flags to check for in the physical analysis of the building, but the largest of those is the overall structure. If the building doesn't look straight for some reason, is there a foundational problem? Is there a framing problem? That is what I call the bones of the building, and it is important to consider the structural integrity of a building, because we intend to own the property for many years.

LEVERAGE: GOOD AND BAD

Leverage may be necessary, but my overall opinion is that the less debt you have, the better. Being free and clear, owning a property outright, is what our objective is. With that in mind, when we take on leverage (via loans), it is as little leverage as possible.

It is as economical as possible, at the lowest interest rate possible. We take as short a loan amortization period as possible, with the plan to eliminate it.

But leverage has positive attributes as well. That happens when the cost of money is less than the return of the property, or what we call the capitalization rate of the property.

Forty years ago, I would've never believed it if someone told me that someday we could borrow money at 2%, as is available now. Back then, we absolutely wouldn't have thought it possible. But it is, because of what's going on in the economies around the world.

Right now, just about every country in the world is taking on debt, and they are trying to save their own economies by keeping your interest rates low in an effort to spur consumers to spend. In some cases, they even find the central bank rates at 0 or even less than 0. It's crazy. In fact a couple of European countries now offer Treasury Bills at negative interest rates. What that tells me is that investors willing to invest in those instruments are more concerned about preservation and return of their money over a return on their money.

Currently, in the United States, although the government has said it wants to raise rates to show economic progress, they haven't had the confidence to do it. There have been some relatively good economic numbers that are starting to get some traction, but I believe that the central bankers are worried about disturbing or destroying the momentum for growth in the economy.

If the interest rates are raised too quickly then it will take the wind out of any improvement in the economy, and we'll quickly slip back into recession. We have that already in Canada. We are in a different part of the cycle. We've had six months of negative growth numbers, and we are experiencing a recession. There is nowhere for us to go, and they won't be able to raise rates to a healthy range for the foreseeable future.

For borrowers, this low interest rate future is a good thing. Borrowers can continue to borrow at low rates. But for savers, it is the worst possible thing. If you are retired, you've got a retirement nest egg, you used to be able to get 6 or 8 or 10% return on that money when interest rates were higher. Those days, for now, appear to be over unless we take advantage of specialty investments that can still generate a higher return.

That's part of why people who are planning to retire, or are in retirement already, tend to love real estate syndicates. It takes advantage of these low interest rates, uses the positive leverage where it can, and eliminates the debt as fast as possible. And it helps many investors get those double-digit returns they sought, with low to moderate risk.

HOW WE (AND OUR LENDERS) SET TARGETED LOAN-TO-VALUE RATIOS (LTV)

One of our internal guidelines is that we don't want to have a property with 65% or more of its value in debt. The is called a Loan to Value Ratio (LTV). So with a $1,000,000 property, we'd take a loan for no more than $650,000, which would equal a 65% LTV. Luckily, that's also where our primary lender's comfort zone is too.

That would apply to commercial property for buying retail property, office property, or industrial property. The 65% LTV is squarely in their wheelhouse, and makes for an easy approval of the loan. Some lenders can go higher in LTV, but everyone is always more comfortable at the 65% level, or less.

There may be situations in the future where this will change. Now, having said that, I'm looking now at a multifamily housing project that is strong enough that, if I can borrow 10-year fixed money at 2.2% (as it was quoted here last week), I could be persuaded to go with an LTV of 75% there. This is because of exponentially improving yield rates, when you go from 65% LTV to 75% LTV, when you've got a building with a 6-7% cap rate and a 2.2% cost to money.

Again, it all depends on how comfortable we are with the project, how durable the cash flow is. We have to be careful with the big picture if we are going into recession. How durable is that cash flow, if we start to have vacancies? Because of the recession, higher vacancy rates could happen.

Ultimately, I probably want to err on the side of safety, and less leverage is better than more leverage. We sit today with the majority of syndicate projects being 100% free and clear.

We have to bite our lips sometimes, because it's tempting to think, "Oh there is a great deal over there. We could refinance one of our existing projects and go and buy another one." Many investment strategists would play that type of strategy, but we haven't done that. Once we get free and clear, we just enjoy the cash flow, and we look for new equity for the new projects.

We don't go leveraging back up an existing free and clear, because cash flow was the firm objective for those people when they went into it some years ago. Get free and clear and get to higher cash flow. If you mortgage it back up, then of course you are eating into that cash flow and starting that process over.

The whole area of a syndicate group's demographics comes into play too. If you went into these projects when you were 50 years old, and it is 20 years later and now you are 70, you won't likely want to be taking on mortgage debt again. You likely want the higher cash flows.

ANOTHER WAY OUR CONSERVATIVE LTV PAYS OFF: INTEREST RATES

In a shopping center or an office building, typically a lender today is going to be looking for less than 75% LTV. They are going to be looking for closer to 65% LTV. Some could be persuaded to go to 75%, but the rates are probably going to be higher, as the bank takes a higher value for a higher risk on their part.

Because of this, syndicates can often gain a huge advantage in interest rates. If we came in to the bank asking for a smaller loan, with a 50% LTV ratio, we can often negotiate a better interest rate. We are taking some risk out of the project for the bank, and we are asking for some relaxation on the cost of money. That's one of the many strategies we implement as asset managers.

MY "10 TO 12 SCENARIOS" APPROACH TOWARD LOAN DECISIONS

When I'm looking at loan decisions and financial due diligence in general, I like to implement what I call a "10 to 12 Scenario" exercise. That's where I take a blank piece of paper and imagine how the property and cash flows would react to many different scenarios that are possible.

I'd start with some questions:

- We've got net operating income numbers for this year, but what was last year's NOI?
- What were their expenses last year? What would our NOI look like in that expense structure?
- If we took a 65% loan to value mortgage, what would that look like for yield?
- If we took a 70% loan to value, what would that look like?
- If we took a 75% loan to value, what would that look like?

- If we did a five year fixed rate return loan, what would that look like?
- If we did a 10 year fixed rate, with a little bit higher rate, what would that look like?

Then, I would completely shift gears and assume it's possible that I could do even better than the previous owners' past performance. I'd then ask:

- What lease rates do I think the market currently offers, or will soon?
- How do the lease rates fit in the market, right now? Are the lease rates lower than what the market offers?

If I touch up the lease rates and operating expenses to fine tune what I think would be realistic in the market, I'll get what I call a broker's forecast, compared to the seller's numbers. The two different views of the same property will likely result in two different scenarios and yields.

Then I can go through all the scenarios available, or as many as I can think of:

- What does that mean if we need the cap rate to be 4% above our cost of money?
- What if we take a 75% loan to value versus 65%, can we achieve our goal for yields?
- If we do a five-year fixed-rate loan, or a 10-year, or a dozen different scenarios as far as rate and term?

Then I throw away the bad scenarios, one at a time, until we're left with one or two scenarios that we feel are a good, safe fit for us.

Then I'll know, for example, that we'll use the income and expense numbers from my broker's forecast, not the seller's reported numbers. We'll know that we're going to go with a 10-year fixed cost of money, with the lender offering 2.2%.

All of those things come into play before we even think about putting it into an executive summary or a summary proposal. All of this stuff has been workshopped and tested. We've walked around it, picked and probed, torn it apart, put it back together, and and repackaged it in the way that works for us.

We never know who will be interested in a syndicate investment, until this work is done and it's packaged up with a bow on it. That's when people are willing to come in as investors.

THE BIG FOUR

The "big four" factors that need to work for an investment to come together are these:

1. The bank rates or cost of money, based on loan to value

2. The rental income and the durability of the tenancy

3. The durability of the building improvements and market location

4. The current needs of our investors being in alignment with the investment project

When it's a good project and these four things align well, then you'll find yourself feeling quite comfortable that the investment will perform, year after year after year.

Now there are fear factors that can disturb that periodically. One of them is the recession. People start to have a bit of that anxiety, thinking "Oh my gosh, what's around the corner? What can surprise us? Maybe I ought to just sit tight and sit on cash, until I know what's going to happen next."

A recession atmosphere and mood like that, it certainly affects us. It does push up the need to offset that anxiety or that discomfort with additional returns, sometimes. But most times, if people can believe in a project, they'll still invest during a rough economic time.

THE OPPORTUNITIES DURING RECESSIONS AND TOUGH TIMES

Here's a good example of how we take advantage of opportunities during down periods, and how we assess the risk of it all.

Currently in the Alberta area, office space is just in dire straits, with high vacancy rates and empty (what we call "see-through") buildings. There are vacancies popping up everywhere because the major companies, particularly oil and gas companies, are giving up their office space like crazy.

Calgary, for example, has topped 20% vacancy in their primary office space at the time of this writing. That's a very unusually high rate of office space vacancy, but it is what's real today. They just don't want the space. They are laying off their employees, and they just don't need the space, so they don't renew their leases. Or, if they have time left on their lease, they may attempt to sub-lease their space or sometimes just walk away.

In the short-term, this steers me away from office buildings. But there are two elements that I look for: chronic issues, and critical issues. Chronic issues are where the tenants have gone away and are probably never going to come back. If it has a chronic problem, even if it seems to be good deal based on historical data, we don't want it. This might be a situation where an entire industry disappears, like a form of manufacturing that will never be back.

MORE LIKELY AND OPPORTUNISTIC: CRITICAL PROBLEMS

A critical problem involves business demand that's gone away for now, but it's going to come back. A great example of this happened in Quebec, some years ago when they had an ice storm.

There was a quick downturn in the real estate market that just scared everybody, it was a very high fear level. It was unusually cold weather. Their power lines were down. Their homes were freezing up. They were trying to buy generators. There were none to buy. It was a terrible mess, but only for awhile. That's what I would call a critical problem.

There were people that went in, investors actually probably more likely speculators, who went in and bought properties where people just said, "That's it. Get me out of here. This thing has been nothing but a problem. My pipes are all frozen. It is flooded out. I don't even want to go back to the place."

It could have been an office building. It could've been a shopping center. It could've been a home. It could've been an apartment building. That wave was critical, though. It was going to go away when the sun came out.

And of course, the ice went away. They fixed all the power lines, and six months later, you wonder what was that all chaos about? Investors got some really, really good deals at that time, during that downturn.

What we have in Alberta right now with the downturn in oil and gas, it's something I think will be medium term. Somewhere between critical and chronic. I think office buildings are going to be a great deal. There will be some sellers who are going to say "That's it. I'm going to get out, even if have to sell at a steep discount."

That's when somebody creative and experienced goes to work and says "Okay, what can I do with this property? Can I repurpose it? Can I convert it into something different that will lease?" And that's exactly why my creativity has served me quite well in these situations.

Somebody coined an adage at one time, that out of chaos comes opportunity, and I'm a big believer in that. When everybody is rushing for the exits, that's when you want to move forward, go in and see what you can find.

I believe that we've got that time coming, in this country. We are going into recession. It is almost time to get off the old fence and start looking for projects.

It's a little bit early though, for sellers to understand it. My offer on the multifamily building was turned down, for example. But I think I'm right. I believe I am more right than the seller is, on what that property is worth, moving forward into this recession. They just don't know it yet.

HOW PERSONAL GUARANTEES AFFECT LOAN RATES AND TERMS

A personal guarantee is a comfort measure for a lender, and that's why they normally require it. In addition to the investment property that they hold as collateral, they get the borrower to make double-sure that the bank can recover their loan plus interest.

As I mentioned earlier, I am strongly opposed to allowing an investor or myself to give a personal guarantee to a bank. That has a cost. When we go in and apply for financing, that's one of the first terms we lay out for the lender: personal guarantees are not available. Are we still talking? We've gotten way past that with our primary lenders.

The cost comes in the form of loan terms and rates. The bank, having less safety, is going to price their loans accordingly right off the bat. But it's a very small amount, compared to the potential risk you're avoiding as an investor.

Think about an investor who is in their 50s, 60s, or 70s. If they have assets and investments, outside of our syndicates, and they're depending on those for retirement and income, they absolutely cannot afford to lose that because of any one investment. There's just not enough time to earn it back, when you're that close to retirement, or already retired.

Younger investors may not be as concerned with this, but I believe they should be. If we are doing a project today and we are attracting a demographic that's in their 30s or 40s, we still tell them that they're better off avoiding personal guarantees in any investment they make, when possible.

THE OTHER DOWNSIDE OF GUARANTEES: YOUR INVESTMENT LEVERAGE

In avoiding personal guarantees, we are doing a favor even beyond the deal itself. That's because anyone who signs a personal guarantee has that to take forward, when making any other acquisitions that require a loan. If you go to buy an automobile, one of the questions asked of you will be "Do you have any personal guarantees out there?" And the same with home loans, business loans, or any other type of large loan.

If you can say no to that question, it's going to be a lot better than answering, "Well yeah I do, actually. I've got a shared guarantee on a four million dollar loan." That's probably going to scare a lender into at least charging you more on your interest rate, to offset the additional liability and risk they perceive.

RAISING MONEY FOR RENOVATIONS

In each syndicate deal, if renovations or upgrading is contemplated, there's a budget for those renovations built into the initial fundraising, so there are no surprises to anyone. When we have a property like the West Towne Centre, where it's been 20 years and it's time to do more renovations, we talk about it as a group.

The options at that point? We could either raise more money internally, or we could borrow it from a lender. In that case, we chose to borrow it. That was a decision made by all of the investor participants after the pros and cons of doing the improvements were discussed and voted on.

Being as careful as possible in all aspects of investing in real estate, there may still be a surprise now and then and sometimes you do have to rock and roll with it a little bit. But the thing we really attempt to avoid any situation where we have to go back and do a "cash call" with investors.

We just never ever, ever want to do that. That is a bad day.

We've never had this happen, although we have had situations where the investors in a project have chosen to inject cash rather than borrow additional funds to cover an unbudgeted expense. Because it is a possibility that there may be a need for additional capital, there is a provision in the joint venture agreement to provide for additional capital needs.

There is an offset. If someone puts the money up and someone else in the group doesn't, then the person who puts up the additional money gets a priority position to get their money back first before the person who doesn't contribute. Again, we've never had to face anything like that, but there is a provision for it, to protect everyone.

LIQUIDITY IN TAX EFFICIENCIES, FOR THOSE WHO SELL TO US

We've already discussed how a piece of real estate is somewhat illiquid (because you have to sell it to get your money back), and how the syndicate shares fix that problem. But for sellers who are looking to sell their property to one of our syndicates, there's an especially powerful form of liquidity and tax efficiency for them.

With the Henday Center deal, I showed how a seller stayed into the syndicate with owner financing, and turned $300,000 into $900,000, along with cash flow. We've got a similar deal we've been looking at recently, with two senior citizen gentlemen who own a portfolio of properties that they want to start selling and moving out of their estate.

If they just went to the market and sold all of their properties at once, they'd have a huge capital gains tax to deal with. And they'd have to find buyers for all those properties.

But with a syndication, there's a method we could deploy whereby they could swap their properties for syndicate shares, then sell those shares over several years to spread out the tax liability. It's what you might call an installment sale.

In Canada we call it a reserve sale, where you average your gains and spread out your taxable liability over time. We'd just take the portfolio over, and the sellers would roll it into the syndicate under Section 85 of the Canadian Tax Act. They'd still be owners, and we would be owners along with them. We'd then orchestrate a divestment program to go out over time, by having other investors purchase their shares.

This is a very attractive attribute for both sellers and investors. It creates a really positive synergy within the new group that's formed, because you've got the former owners in there with experience to help manage the ongoing success of the cash-flowing property. The new investors eventually buy up the rest of the shares, as their investment grows.

It's a total win-win situation for everyone involved, and that's rare to find in real estate transactions.

WE HAVE OUR OWN MONEY IN EVERY SYNDICATION DEAL

Investors take comfort in our syndications that we'll always have skin in the game, with our own money in every deal.

There are two methods that we use to do that, and one of those is called a procurement fee. A procurement fee is a budgeted amount in each project that goes toward finding and capturing the deal, doing the due diligence on the deal, setting up the financing, structuring the syndication, and over-seeing the closing of the purchase.

The procurement fee also covers conceptualizing the re-tenanting the property if necessary, lining up contractors to do upgrading work and dealing with lawyers on various issues. Procurement fees are usually plowed back in to the syndication in exchange for an interest in the property.

The second method we use to invest money is simply cash out of pocket, to buy investment units of the project. As to how much cash we have available to invest into it, that varies based on the timing of each syndication deal, but at the end of the day we'll have some combination of cash and procurement fees in every deal.

Putting my own equity into each deal provides comfort to other investors that I believe in it. I'm in the deal and I'm going to be fully involved in that deal, along with everybody else going forward.

Compare this type of goal alignment with a typical property transaction, where you're dealing with a realtor. Realtors, once they get the signatures on paper and the sale is done, they have no incentive to remain involved and active with the deal they have gotten you into. The performance of the property is not their problem after the sale. In my world it is, and I actually enjoy that.

My reputation and my experience are all on the line, and that's part of why investors get comfortable with every syndicate investment. They feel like the deal has a better chance of being successful when the person who set it up (and understands it most) is still involved. And they're right.

The goals and incentives of everyone are aligned, from beginning to end.

DO WE SELL OUR PROPERTIES AFTER THEY APPRECIATE IN VALUE?

Usually, no. We wouldn't sell a property on the basis of appreciation in value, because that's not typically what our investors are looking for. They want cash flow, and if we sell the property, the cash flow is gone.

Often the question comes up, when we have an opportunity to sell a property, "What will we do with the money? Where could we put our money that would be better than this?"

If there's a better deal that we could go into, then, yes, maybe we'd consider selling. If there isn't, why would we sell? Why not just keep it? I think it all goes back to the primary motivator among the syndicate owners that we attract, and that motivator is cash flow.

If we're getting a 10% or 12% yield, or even higher like the 23% on the Henday Center, it's going to be tough to find something of a similar risk level to outperform that. The typical paper asset cash flow investments are typically going to return 2% or 3%, so it's not even close.

PROACTIVE SELLING IS A POSSIBILITY

All of our syndicate decisions are a group vote when it comes to selling property, but at Sundance we've often got some steering capability because of our knowledge of the market. I'll give you an example.

Let's say we realize that the market for office buildings is about to tank and lose value. If we see this coming, we might go to the syndicate owners and say, "Look, we better take a look at the possibility of selling that office building we've got, because we've got a downturn coming."

If we were invested in regional shopping centers, I'd be watching really, really closely right now, because I feel that the anchor space is vulnerable. The worldwide powerhouse brand Target completely closed out of Canada, and that left huge holes all over the retail market here. It's a big problem now, and there's a growing shift away from the big box retail to online retail.

Amazon just surpassed Walmart for market cap. What's going on there? Amazon doesn't really have a comparable net to the bottom line income but the market cap is strong, because there's a belief that Amazon is the way that we will be buying in the future. Rather than going to the bricks and mortar stores, we'll be buying online.

So, we keep an eye on those kinds of things and steer many of the selling considerations. Ultimately, it's the owners who will decide. If we're going to sell, it's the owners that, by majority vote, would decide that it's time to let go of a property.

WHAT HAPPENS IF WE THINK THE ENTIRE ECONOMY IS ABOUT TO CRASH?

On occasion, there has been a situation where we sold a property without identifying an alternative investment. It's been very rare, but it's possible that we'd close out ownership on a project and just go to cash, to keep the powder dry for an opportunity that hasn't identified itself yet.

Sometimes the hardest thing to do, in this business, is to do nothing. It really is. We've been in a situation like that for the last year here. We know the market is turning down in Canada, particularly Western Canada. We're still shopping every day, making offers, but not having a lot of success getting those offers accepted quite yet.

It's because it hasn't fully crashed into a recession yet. The sellers are relying on evidence of what the value was yesterday, last month or last year. But as buyers with a future investment perspective, we're thinking, what's going to happen tomorrow and next year? In a market with a downward trajectory, a buyer has very different ideas of what the property is worth in the future, compared to what the seller thinks it should be worth based on the past.

We offered $7.8 million for the property with 91 multifamily units. The seller said no, that's not even close. They wanted $9.4 million. And as conservative buyers, we just can not compress the return rate enough to provide for that price and still attract investment capital to the deal.

We're looking forward and knowing that this area has probably got higher vacancy coming. The seller wants $9.4 million based on last year's strong performance, but when there's more evidence that the high vacancy is coming, and they start to experience that, perhaps they'll come around.

So, we're in that mode now, of trying to be patient. Waiting for the market to mature into its new state, and waiting for sellers to understand that.

I've heard stock investors say that they'd rather have money in a declining market and take a loss, rather than doing nothing, because at least it feels like they're attempting to do something. Obviously that's not our perspective, but it is part of the natural human emotion that we all have to manage. It is hard to sit on the sidelines.

It's a good time to go run the tractor out at the farm, and just sit and think for awhile. That's better than investing big money into a big downturn.

HOW PEOPLE SELL THEIR SYNDICATE SHARES

If one person wants to sell, we've got a mechanism built into our joint venture agreement providing for that person to sell. It offers the other co-tenants (or the other joint venture syndicate share owners) the first opportunity to buy those units.

If for some reason there isn't a taker, then that person can go outside of the group and sell their interest. And we'd guide them through that process. If they'd want to sell their shares on the open real estate market, we'd help with that too.

But as I mentioned earlier, no shares have ever been sold outside of a syndicate group, because the other happy owners have always wanted to expand their ownership. It bodes well for the quality of the project, that other owners are satisfied with their ownership and take the opportunity to pick up more units if they become available.

HOW DO SHARES APPRECIATE?

When cash flows grow and the property values grow within a syndicate, then each share grows in value as well. In the Henday center, the original $50,000 share is now worth at least $180,000, according to the latest valuation.

Why does this happen? The ownership share/unit is just like owning real estate itself. If the income has gone up, then (based on the income approach) the value of the property goes up.

Often what we've done is gone in and enhanced the income of the property and redone the leases. Or at least if it's 50% vacant, we would lease it up. Now we've got a higher gross operating income. We've got a higher net operating income and consequently a higher value.

There are other things that work for you in the market. Appreciation does work on lease rates. The lease rate that we ascribe to a property in 2007 is probably less than the lease rate we would give it today, which is just inflation working. Typically costs go up, lease rates go up, and therefore syndicate share values go up.

As far as establishing the value of the unit, that's ultimately up to the seller and the buyer. A seller to say, "Here's what I'm asking for", just like any other type of real estate. And it's up to the buyers to say, "Well, I don't think I want to pay that, but I would pay something less. Here's what I'll pay for it." It's the negotiation that has to happen.

There is not a rigid requirement to sell based on any appraised value, or any measure like that. It's 100% negotiable between seller and buyer.

Because every share thus far has been sold within its own syndicate group, I think people who are already in the investment together will pay a little more than an outsider would, because existing investors already know the project and trust its ability to perform well.

CASH FLOW YIELD + INVESTMENT RISK PERCEPTION = PERCEIVED SHARE VALUE

Similar to buying a bond, buyers will value a share based on what the cash flow yield will be, given a certain level of risk. Let's take a $10,000 share that is generating $2,000 of cash flow to the investor annually. That's a 20% ROI, as it stands.

Now, let's look at three different investors' opinions of the risk level of the syndicate investment: high risk perception/high return expectation, moderate/moderate, and low/low.

1. The "high risk perception/high return expectation" investor might say this: I feel this syndicate is risky, like my stock market investments. I might lose all my money. I need a 20% ROI to take this gamble, just like my targeted high-risk stock portfolio. Therefore, the share is worth $10,000 to me, because it generates $2,000 of cash flow, or 20%.

2. The "moderate risk/moderate return" investor might say this: I feel this syndicate is moderate in risk, like a diversified mutual fund in dependable industries, where I target a return of 10%. I'm unlikely to lose my money, although there's a moderate risk in a crash. I need a 10% ROI to take this gamble, just like my targeted high-risk stock portfolio. Therefore, the share is worth up to $20,000 to me, because it generates $2,000/month in cash flows on $20,000.

3. The "low risk/low return" investor might say this: I feel this syndicate is low in risk, like a bank CD or treasury note that's insured by the government, where my targeted return is 5%. I'm unlikely to lose my money. I need a 5% ROI for this level of risk, so this share is worth up to $40,000 to me.

An investor's needs for the investment returns, combined with their perceived risk of syndicate investments, is what drives share value in the end.

ANOTHER BENEFIT OF HAVING SHARES: ESTIMATED NET WORTH

It's quite often that a syndicate investor owner will come to us and ask, "How are we situated now? I'm doing some refinancing and I need to an estimate of my net worth, so I need to know what my units are worth."

So, we'll have that discussion, and it's just like evaluating any other income property. We take a look at a property's current value, and divide that by the number of syndicate shares, and arrive at their estimated value of each share.

Most banks and lenders, when asking for this estimated value, don't require the expense of an official appraisal. In our experience, the evaluation given by Sundance has been adequate.

HOW SYNDICATE INVESTORS REINVEST THEIR PROFITS

Our investors tend to generate extra funds, and look to us to put those funds to work. The first thing I tell them is to make sure you're on the VIP email list for investors. You're going to hear about the new deals first, through that. And you want to be among the earliest to hear, because these projects are first come, first served.

Usually the email will have the offering memorandum or the summary investment proposal attached to it, and all it takes is just a quick email back to us, to hold your spot. We'll pencil you in for two units, five units, or however many you're looking for. Then you've got a little more time to check it out further and do your own due diligence.

We've had some deals that have sold out in a day. These are typically existing investors who have worked with us, and have the advantage of knowing how we operate, and trusting us.

That's the big piece that saves our existing investors time in deciding. They already know us and trust us.

When a new person comes to us and says that they're thinking of getting involved with our syndicates, we start building that trust, so that they at some point are willing to go through with a lifetime of successful investments and ownership.

The compounding effect of your money, as well as getting into the best deals for the longest period of time, is a compelling argument for someone in their 30s or 40s to get started in this strategy today.

For a 35-year-old getting involved with us today, you'll get the opportunity to pick up some pretty high-caliber investment units that are already producing and already cash flowing. The work is already done. The risk has been taken out. The loan has already been paid.

And 20 or 30 years down the line in a syndicate, that same 35-year-old is going to have even greater opportunities that you can't ordinarily get at the beginning. If you're in a syndicate group for that long, you'll likely be able to pick up extra units within your syndicate over time, when they are really paying the highest dividends, because everyone around you will be older and cashing out.

WHAT HAPPENS WHEN THERE ARE NO DEALS AVAILABLE?

We're normally able to find more deals, but it's not always easy. I'd guess that I look at dozens of pretty good deals, before I find one that I really like.

Again, a lot of things are build-to-suit, and that's not in our wheelhouse as of right now. We've seen it as too speculative, although that could someday change, in the right situation. If we had an opportunity to fill a gap in the market with a strong, national tenant, that would be a situation we'd consider.

An exception to this would be if a national restaurant chain or retailer identified one of our markets as a place they'd like to open a brand-new outlet. We'd tie them up in a contract and do a build-to-suit for them.

In a situation like that, we've now got one of the hardest mysteries solved: the anchor tenant. We can sign the tenant up based on doing the build-to-suit, then we can go to the investors and say that we've got the anchor tenant. That's where the cash flow comes from.

We'd get three quotations from three good builders, pick one, get a loan set up, and send out a proposal to our pool of potential investors. That proposal would look just like the Henday Center example that we've gone through. Soon after that, we'd have our investors for the syndicate, and move forward.

CAN YOU LOSE MONEY IN SYNDICATES?

It's real estate, so there is always an inherent risk of the market going flat, or going down. But one of the benefits of real estate is that it doesn't go away. The values may go up, and may go down, but the property doesn't go away.

When the market is down (and we're heading for that time now), we know some of our projects will have a lower appraised value than last year. We just understand that. But if you don't sell, you don't crystalize a loss, and you don't lose that money.

You only crystalize a loss when you sell. If you're buying for cash flow and the cash flow continues, your reason to stay in the property continues, so you just don't sell. You just stay in it.

We've had some projects that didn't perform the way that we projected them to perform. We have had the odd one where our strategy didn't work out. One of the few times we were going to do a build-to-suit, with a good tenant, and the tenant was ready to go.

It was a transport company, they needed a new operating facility in our market. Their shop was too small and outdated, and their land base was too small. They had outgrown it. This was in 2007. We negotiated a long term lease and a build-to-suit on a piece of land that we had, and we designed a building for them.

We were all ready to go, just about to pull the trigger on building the building, and then the huge downturn of 2008 came. The recession of 2008. With a great amount of uncertainty in the market, we weren't sure we wanted to be putting a brand-new building up for a tenant that might be vulnerable to an economic downturn. What happens if their business declines?

So, we went to them and said, look, what is your position on this? Are you going to be able to weather this downturn if it lasts for a while? In the end, we mutually agreed to back away from the deal. They said, we'd rather not go into that new building at a higher lease rate than what we're at right now until we see what happens. We agreed to all back away and we didn't build the building. There's one that we had all good intentions. It looked like it was going to work out perfectly. We had the land ready to go and we back away because it just wasn't the right time.

The rest of the story is we owned the land free and clear. It didn't hurt us. We waited it out to see what was going to happen in this recession.

It took two years where we just sat and did nothing. We're talking about 2010 now after the beginning of the 2008 downturn, and then went back to the same people and said, look, now we know where we're at. We're going to come out of this. You're still in business. Everything is working fine. It looks like you're actually expanding, you're growing.

They said, you're right. In fact to the extent we'd like to go ahead, but rather than be a tenant, we'd rather buy the land. So we ended up just selling them the land and exiting. It wasn't our preferred position because we're cash flow people, but it presented an exit for us.

That's as close as we've come to losing money. We've had some properties like that, where we've really had to bear down hard, figure it out, get our principal back, and look for another deal. And in the recession of 2008-2010, it was a big win to just get our money back.

Part of what contributed to that success was that we didn't owe any money on the land. If we had been carrying debt on the land, it would have been a different story. It would have been eating our lunch the whole time where we're sitting. Our cash wasn't making us a return at the time, but at least financed debt wasn't gobbling us up.

Again, that goes back to our underlying strategy that leverage is best to be minimized. We just raised enough capital that we paid for the land, and didn't owe anything on it, as far as leverage.

Compare that to what a stock investment or paper-based investment would've done, during the same period of 2008-2010. The Dow Jones on October 9, 2007 was 14,164. On March 9, 2009, it was 6,443. It's a 54% drop.

But we lost nothing. We retained our hard asset, and later sold it for more than we paid for it.

A LESSON IN OVEREXTENSION: OUR HOTEL DEAL

One of the most stressful mistakes I ever made, and also one of the most tedious, was when I ventured into the world of hospitality investments. I knew little about this type of investment, but determined that it couldn't be that difficult, so I invested in it anyway.

It nearly killed me.

The property was called The Country Lodge. It was a 40-unit hotel, a full-service facility with a tavern, lounge, banquet room and restaurant. When we purchased it out of Receivership, it was closed and not operating. I'd had some exposure to hospitality, but I wasn't really a hotelier, and I learned that the hard way.

I put a group together, and we bought that property free and clear. We were told the original owners paid $3 million to build the hotel. It was built by a group of professionals, a group of lawyers, doctors and business people who likely knew even less about hospitality than I did. They were really good people, but like me, they just shouldn't have been in the hospitality business.

We bought the hotel for $475,000. Again, it was a $3 million property (in terms of replacement value) at that time. We felt we got a bargain-basement price for this 40-room hotel. Our estimate for improvements was about $600,000, to go through and upgrade all of the rooms, and open the restaurant, tavern and lounge back up.

Well, one of the issues that affected the hotel negatively was the access, and we knew that going in to the deal. The hotel was adjacent to our primary highway from Calgary to Edmonton, with great visibility and you'd drive right by it. The problem was it was difficult to get to it. There was no off-ramp.

No problem, to me. Part of the value I'd planned to add was to go to Alberta Transportation and apply for an off-ramp off of that main highway. Prior to purchasing the hotel, we had assurances from Transport Canada that we could get that critical off-ramp.

So we closed the deal, bought the hotel, and went about improving it. We spent our $600,000. We're in at $1,050,000 cost by this time. We got everything opened up and cash flowing.

But that off-ramp didn't come in as fast as they said it would, so we were having a hard time getting that optimum amount of traffic we expected. And then, they gave us the bad news.

Alberta Transportation decided not to do an off-ramp, saying they'd rather do an interchange further down the highway. It would help us a little, but it also would be a much larger project, and it was going to take years before that would be done.

That became the deal-breaker for us, for a long-term hold. Additionally, it became really clear to me that I didn't want to be in the hotel business for a long time. Therefore, we just went to the market and found a buyer from Ontario who came in and took it over. Up to that point, we were the only people that had ever made any money.

We got out with a profit. We sold it for, as I recall, $1,400,000. But it was a failure in the sense that it wasn't a long-term, cash-flowing investment for us.

My lessons? Be careful when your investment depends on the approval of a big government project, and ideally, stay out of the hospitality industry unless you really have a passion for it and understand it.

MY SWEET SPOT AND FAVORITE INVESTMENTS

At this point, I've explained why I don't particularly like these situations:

1. Complex speculations and short-term flipping.

2. Development property, unless it's build-to-suit for a specific tenant and the lease is already in place.

3. Hospitality projects. I simply do not enjoy working on these.

4. Office building projects, but only temporarily in our market. Office buildings can be great investments and I understand them well, I'm just staying away a bit until the recession here bottoms out.

So what's my sweet spot, then? The types of projects I really enjoy and specialize in? Primarily, it boils down to these three:

1. Commercial retail projects (like the Henday Center)

2. Industrial buildings in healthy markets

3. Large multifamily residential buildings

In those three, we really know how to add value and manage them well.

If we can find a retail project that is challenged, maybe it's got a vacancy problem. Maybe it's got a need for an upgrade. Maybe it's a change of use. Maybe it's not really a retail property or it hasn't been a retail property, but it could be, because of other changes in the market. Maybe there is an ownership problem that we can solve.

Ultimately the end result that we're looking for is cash flow. We want to make sure that it can be leased to good long-term tenants and we get a good long-term cash flow.

Knowing these sectors at a deep level helps to unlock my creativity. In the Henday Center, for example, we took out the 10,000 square foot hallway that went all along the front of the building. It was an old-fashioned interior mall that was designed like a strip center, and that 10,000 square feet of hallway cost $60,000 a year to maintain, by the time we cleaned it and lighted it and heated it.

At the time we made the decision to buy the property, lease space in Henday Centre was leasing at $10 a square foot. That would be $60,000 more on the income side. If you take $60,000 off of the expense side and add $60,000 to the income side, you've got $120,000 as an incentive to convert the hallway to lease space.

So that's what we did, and it's part of the incredibly good return on investment that we've enjoyed for a very long time. And it all comes from staying inside my sweet spot of commercial retail, where I have my highest levels of experience, creativity, and success.

BEFORE YOU GET STARTED IN SYNDICATES, THIS IS WORTH REPEATING

Although you may be excited at the thought of investing in syndications, and ready to get started immediately, I'd like to quickly repeat what I advised earlier: please, please go through all of your financial planning with a fee-based financial advisor. It really is in your best interest.

Sometimes this advice comes back to bite me a bit, because you might run into an advisor who doesn't understand our syndication investments and won't take the time to do so, and they might bad-mouth it all and steer you away. But I'm willing to take that risk, especially if the advisor is willing to give me a call and allow me to open up the books and explain it all.

My hope is that a good financial advisor will see our meticulous structure, strategy, risk level, and returns, and help you understand where this fits in your personal investment strategy and risk tolerance.

What we're looking for is for the financial advisor to look outside of our particular investment, toward how syndicate shares would fit in with everything else you've got. Hopefully that advisor is asking:

- How are you situated overall? How are you situated with other investments?
- Where will the cash come from during retirement?
- What's the debt level you have? What's the debt level you want?
- What's your risk tolerance overall? Where do syndicates fit within that?

All of these questions (and many more) are things that good financial advisors will talk about with you. We don't generally get into that level of discussion, because it's not our area of expertise, and it could be considered to be a conflict of interest.

Tax advisors and legal advisors typically give us the most support with clients. The trouble normally comes from financial advisors who are 100% stock and bond market-oriented, because they try to convert everyone into the only market that they know, which is the stock and bond market (both of which are riskier than syndicates holding hard assets, in my opinion).

We have to sell against the stock-market-focused advisors often, but even knowing that, we still advise our new prospective investors: Get this checked out. Take it to your tax, legal, and financial advisors. Make sure it's right for you.

And again, I'd recommend that you go and pay a fee to an advisor, to avoid the commission-focused salespeople who are titled as advisors. It might be $500 or so, but it's worth it to go get it checked out entirely, free from the bias and influence of product-pushing.

Ask your financial advisor how they are compensated. Ask them if they earn money by selling shares of stocks, bonds, mutual funds, annuities, insurance, or anything else. Consider where their "bread is buttered", as we say, and then you'll understand where the bias may come from in their recommendations for you.

LEGAL, ACCOUNTING, AND ESTATE ADVISORS

Whether it's on the accounting side or estate planning side, I definitely recommend advisors for that as well. We have people that we can recommend, if you don't already have someone for this.

There are ways of making your estate passive, and I've been looking at that a lot recently for myself. There are mechanisms available, like a family trust, whereby if you grow a large estate at the time that you passed away, everything can already be looked after. The taxes can be already be taken care of. The succession plan can already be in place. It can be easy, and can be set up so it is automatic, so it's not a burden on the beneficiaries of the estate.

I really recommend the process of being in good shape with estate planning. It's one thing to be happily growing your estate over several decades, but a tougher thing entirely to have it looked after properly when you pass away so that it doesn't create a huge burden.

If it's not set up properly, sometimes it requires years of probate processes and working through selling everything, let alone being faced with a huge tax bill on death that applies in many countries. It's the deemed disposition of many tax laws that when you die, everything that you own is deemed to have been sold, and your estate potentially has a huge tax liability. And possibly your heirs will have to go into a quick distress sale of assets, just to pay the tax. We don't want that for our investors.

COMBINATION IS THE BEST APPROACH

You really need all three types of advisors (tax, legal, financial) working together, to have the best succession plan. In my case, I started off with a chartered accountant who specialized in succession planning. That person designed the entire structure. Then it was sent over to the lawyer who understands how to set that up, and it actually does all the technical transferring of interests into the trust and so forth. It's a team.

CANADIAN AND AMERICAN INVESTMENT STRUCTURES

For Canadian investors looking to buy shares in a syndication, it's easy if we're buying in Canada, which is the focus of our business at this time. The structure of that purchase happens either personally through an individual, or through that investor's own corporation.

If you're outside Canada, it gets to be a little bit more complex, because we must be mindful of cross-border investing regulations. But it's something we're dealing with a lot now, because Canadian investments are becoming increasingly attractive to American investors, given our upcoming recession in Canada. Our investments are essentially on sale from an American perspective, at a 25% discount rate now, and possibly further from there.

There would be some technical hurdles for an American investor to come into Canada. An American would essentially incorporate in Canada, using that investment entity to buy shares in the syndicate. You'd want legal advice from both sides of the border, on this one.

I've been through it going in the reverse direction, where we incorporated in the US, bought US properties, filed US tax. Under the tax treaty between US and Canada, we then filed in Canada. Again, this is something for which we'd have to rely on expert legal and tax advice.

We have syndication investors from several countries, but

Americans especially should make sure they're comfortable before they pull the trigger on buying in Canada. You can start by reaching out to me or my firm, as we'll always be aware of the current state of affairs in cross-border investing, and be able to refer you to a legal advisor who knows the details.

CONCLUSION

WHEN YOU'RE READY TO GET STARTED

At this point, we've discussed the many reasons I believe in real estate syndicates, as well as how the process works when the syndicates are set up. So what's the next step, when you're ready to get started?

FIRST, CHECK WITH US FOR UPDATES

Many of the investment levels, structures, and strategies have the possibilities of changing. Market conditions, governmental legislation, and a variety of other factors could impact every aspect of what we do.

Therefore, the safest thing to do when you're ready to get started, is to simply reach out to us. We'll give you an up-to-the-minute update on minimum investment levels, available projects, and get you on our VIP list if you're ready to invest.

You can find our contact information on our website at **www.SundanceCapital.ca**. Feel free to reach out to me directly!

NEXT STEPS AFTER OUR INITIAL DISCUSSIONS

At the time of this writing, the minimum level of investment in syndicates is $10,000. There's a possibility it will be a higher or lower amount in the future, but in any case, after our initial discussions and updates, you'll know the current minimum investment level for our syndicates.

We'll once again advise you to discuss this with your financial, legal, and tax advisors. But once you've done that, you should have a good understanding of how much you're comfortable with investing, and you'll be ready for your first syndicate deal.

BLIND POOLS VS PROJECT-BASED FUNDRAISING

There are two common approaches to the fundraising structure of large real estate projects: blind pools, and project-specific fundraising.

A blind pool is where you raise the money first, before you know exactly where it will be invested. You outline what you're proposing to do, raise the money and then go looking for the projects.

It's my belief that you get mixed up in the motivation, with blind pools. If you've got the money sitting there, there becomes a subtle, growing pressure to get it deployed into a new project. That could potentially lead us into buying properties we wouldn't normally buy. We'd rather find the new project first, do the due diligence, and then raise the money.

For those reasons, we don't currently do blind pools, although it may be an option in the future.

Instead, we do project-specific fundraising. We like that much better, although the downside is that we've got less room for new investors. But we've created a VIP list for new investors and current investors, and if you're qualified and ready to invest in syndicates, you can get on that list by going to SundanceCapital.ca and signing up.

We like to have a VIP list that contains our entire pool of investors who might be interested in any given project. It would be a shame to pass on a great investment property because of a lack of funding from our side. Luckily, we've never had to do that, because so many people want to be involved with these projects.

WHICH VIPS ARE EMAILED FIRST?

There's no handpicking or preferential order, when it comes to our VIP investor list. It is strictly first come, first served. If you're on the VIP list, you've already made the cut, and you just need to be one of the first to reply and say "Pencil me in for X number of units", and you're in.

Unfortunately, there's no way I can guarantee there will be room for everyone, in any of the Sundance deals. The supply of high-quality properties is historically limited, especially with our conservative approach. We don't find a good opportunity every day, or even every week. Sometimes we don't see a good deal for four or five months.

We just keep munching through information that we get, and continually check with real estate experts regarding what they have coming through. We're out there looking at buildings, tipping over rocks, and keeping our eyes and ears open.

Good quality deals with excellent cash flow are scarce, but we are determined to continue the extended effort to find those deals.

THE REASON TO START NOW

I can't stress it enough: I think we're headed for a major correction in the markets. Especially in paper assets and manipulated currencies. We've got currency movements around the world right now, and a dive for the bottom in currency values and interest rates.

Recently the Chinese government surprised everyone by devaluing their own currency. And not just one devaluation, but three devaluations in a row. Three days in a row, they did that. It was a real shocker for the entire economic and financial world. It's creating stresses and strains around the world that ultimately will come home to roost in our own backyards.

The ripple effect will spread. We here in Canada are not insulated from what goes on globally, and parts of our economy are attached at the hip to the American economy. More and more discussion is happening around the American dollar right now, because it's riding very, very high. It's currently the go-to currency for safety, and it's simply perceived around the world as the least-risky currency at this time.

When people feel fearful about anything in the rest of the world, they gravitate to the American dollar, as a safe haven. That's helped to keep the American dollar value high, so far.

Other currencies like ours, however, are falling away. We're a commodity-based economy here in Canada, for the most part. Commodities are suffering right now in the markets, and therefore Canada's dollar is suffering. Australia is another commodity-based market, and their currency is down.

But when it comes to the end game of the world economy, it really all depends on America, and whether America can continue to be the economic engine of the world. But if the Chinese economy falters, can America go it alone? I don't think so. I believe the American economy is probably going to capitulate to its overwhelming debt at some point as well.

Why? You can't print trillions of US dollars and hope for a good outcome. You can't "paper over" existing debt, paying for it with more paper debt and more paper debt. If you do that, you get into a situation like Greece, or Cyprus, or Zimbabwe, or (years ago) Argentina. Those are examples of countries that have gone that direction, and the US is doing many of the same things they did.

The one thing that is boding well for the US, that's helped to keep it alive for such a long time, is that the US dollar happens to enjoy being the reserve currency in the world. The minute that changes, this whole thing is probably going to collapse around our ears at some point.

Nobody knows when it will all collapse. It appears to be getting closer and closer, as the little canaries in the coal mine start tipping over. Greece, for example, is technically bankrupt. Cyprus went through what they call a "bail-in" where the government raided their citizens' bank accounts.

There are starting to be scenarios now for that in North America, and Canada too. Imagine going to your ATM and there's no money in it. You go to the bank on Saturday and the ATM is closed, and the bank is closed. Then they announce that they're not opening the banks for a week or two, because there are stresses and strains in monetary functions and operations.

Those will be bad days, for people who have everything in paper assets.

WHY INVESTOR MONEY IS CURRENTLY POURING INTO HARD ASSETS

I think that the belief in hard assets as a hedge against a currency collapse is becoming more common, especially when it comes to cash-flowing, long-term real estate. People are starting to agree with my opinion that this is a hard asset with a very good chance of surviving an economic collapse, in most situations.

I'm not saying that there wouldn't be some rocking and rolling when it comes to cash flows and property values, and maybe some tough times for businesses, if there's a currency collapse globally.

I'm simply saying the real estate—the physical building—will very likely still be standing. Some level of cash flow will likely still be there, at a time when dividends generated by paper assets have virtually disappeared. And because of that, I believe this will be one of the best-performing investments to have during a collapse.

OUR ADVANTAGE IN CANADA

From what I've been reading lately, I sense that the many financially astute US citizens are starting to internationalize their investments and assets. There's a move to Puerto Rico, for example. It's a US protectorate, but it's got different tax laws. It's friendly and familiar, culturally. So it makes sense that Americans would be moving money into Puerto Rico.

Similarly, I think that Canada will be a popular choice for US investment dollars and business people, when it comes to internationalization. Our culture is similar to America's, we speak the same language, and I think we could be part of the solution for those who are looking to internationalize.

There might be people who are looking at investing in Argentina or Belize or Costa Rica, but Canada can provide many of the same solutions those countries can. We have very similar laws, in many respects. We have the same feeling as far as return rates, but we're closer geographically and in our cultures.

American investors are going to feel comfortable here, and still have some advantages of moving their investments and assets out of the risky American economy. And because the Canadian dollar is lower than than US dollar, their money will go further here, when it comes to buying hard assets like real estate.

For these reasons and more, I like our positioning in Canada, and have been getting an increasing amount of investment interest from people in other countries.

THE FINAL STEP

The final step toward getting involved with real estate syndicates is perhaps the easiest one: come to our website at **www.SundanceCapital.ca** and subscribe to our free email list.

Once you're a subscriber, you'll get access to the types of information that, until now, wasn't available to the public. This will help you to learn more about the actual syndicate opportunities as they happen, and stay informed of any big news or market developments.

On our website, you'll see the photos and summaries of past and current syndicate investments, along with summaries of their high-yield, tax-efficient cash flows. You'll see exactly how we add value to the hard assets, year after year, decade after decade.

Lastly, I wrote this book because I want to give back to future generations. I want to give people a chance to learn the information and strategies that have been very successful for me. I want you to be able to experience this success starting today, without making some of the painful mistakes I made along the way.

With that in mind, I invite you to contact me personally, with any questions you might have. My contact information is on our website, and I look forward to hearing from you.

I want you to experience a happy, secure financial future. And I believe real estate syndications can help you get there.

ABOUT THE AUTHOR

DARYL R. HILLMAN is an author, entrepreneur, Real Estate broker, Syndicator and investor.

A 35-year veteran of the Real Estate industry, Hillman is an expert when it comes to finding and making a deal, and was a participating Broker in an award winning transaction of the Society of Exchange Counselor's 'Most Creative Transaction' award.

Hillman now focuses his time on Real Estate Investment Syndications. As detailed in his first book, *The Cash Flow Solution*, a syndicate is an investment vehicle which allows individuals to pool their money and invest in stable, long-term, cash-generating assets like commercial, industrial property and large multi-family housing developments.

Hillman currently lives in Alberta, Canada, where he is President of Sundance Capital Corporation, which he founded in 1993 and continues to operate to this day.