

Between 2023 and 2026 a wave of multifamily syndications went to capital calls, special servicing and foreclosure. Almost every one tripped the same seven failure points. Use this checklist on any sponsor before you invest. Every answer belongs in writing.

1 FLOATING RATE BRIDGE DEBT

Pull the debt term sheet before the pitch deck.

- ☐ Is the loan fixed or floating? What is the term, and what tests do the extensions depend on?
- ☐ What does the rate cap cost, when does it expire, and is the replacement reserved in cash?
- ☐ Is the loan recourse to the sponsor? What is the refinance test at an 8 percent rate?

WALK AWAY IF: Floating debt with under 5 years of term and no funded cap reserve.

2 TRACK RECORD THROUGH A DOWNTURN

Verify every deal, not just the exits.

- ☐ List every deal you have led since 2019: price, debt type, current status, distributions to date.
- ☐ Which deals paused distributions, took a capital call, or went to special servicing? What happened?
- ☐ Who was the operator on each one, and are they still on your team?

WALK AWAY IF: The sponsor shows only exits, or has led no deal through 2023 and 2024.

3 THE SPONSOR'S OWN MONEY

Measure cash at risk, not deferred fees.

- ☐ How much of the total equity is yours, in cash, at closing?
- ☐ Is any of it a deferred fee, a loan from the deal, or a promote counted as equity?
- ☐ Will you fund your share of any capital call on the same terms as the LPs?

WALK AWAY IF: Less than 5 percent of equity in cash, or fees rolled in and called equity.

4 FEE DRAG

Map every fee against the work it pays for.

- ☐ List every fee: acquisition, asset management, construction, refinance, disposition, guarantee.
- ☐ What are total fees as a percentage of equity over the full hold?
- ☐ What share of your income comes at acquisition versus from performance?

WALK AWAY IF: Total fees above 10 percent of equity, or most sponsor income earned on day one.

5 RENT GROWTH VS SUPPLY

Stress the assumption against units under construction.

- ☐ What rent growth do you assume each year, and what is the projected return at flat rents?
- ☐ What are units under construction as a percentage of submarket inventory right now?
- ☐ What happens to coverage if rents fall 5 percent in year one?

WALK AWAY IF: The projected return needs rent growth above 3 percent a year to hit the target.

6 THE OPERATOR

Interview the operator, not the capital raiser.

- ☐ Who runs the property manager day to day, and who reads the weekly report?
- ☐ How many units has that person personally stabilized, and where?
- ☐ What is the renovation budget per unit, and what was the actual cost on your last three deals?

WALK AWAY IF: The person pitching cannot name the operator, or the operator has stabilized fewer units than this deal.

7 CAPITAL CALL AND REMOVAL CLAUSES

Read the operating agreement first.

- ☐ What happens to my ownership if I do not fund a capital call?
- ☐ Can the limited partners remove the general partner for cause? By what vote?
- ☐ What reporting am I entitled to, how often, and does it include occupancy, collections, coverage and loan maturity?

WALK AWAY IF: No clear removal right, or dilution terms that are not spelled out.

HOW TO SCORE IT

0 walk away flags: proceed to full due diligence on the property.

1 flag: ask for the fix in writing before you sign. A good sponsor will give it to you.

2 or more flags: pass. The next deal will come. The capital you keep is the return.

From the post "Why So Many Multifamily Syndications Failed (2023 to 2026) and How to Vet a Sponsor Now" at rodkhleif.com. Free book, deal analyzer and community at rodkhleif.com/lcfa-ebook and rodkhleif.com/skool-light.