The SIMPLEST

Guide to Apartment Investing



A beginner's guide to passive ownership and how the money works

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The first thing to know

Real estate doesn't have to be confusing. It can feel that way when you're getting started, mostly because there are so many choices and so many unfamiliar words. Let's make the subject smaller and take it one piece at a time.

This guide is about **passive investing in value-add apartment syndications**. That's a mouthful. By the end, you'll know what it means, how the money works, what the sponsor does, and which questions to ask before you invest.

We'll walk through choosing an operator, understanding a deal, getting the right people on your side, finding investment capital, and following the property after closing. No real estate degree required.

Today, I manage a portfolio of over 950 apartment units valued at more than $100 million. But I started with a value-add fourplex, where I grew my equity from an initial $11,000 investment to over $600,000 using value-add strategies. That experience showed me what was possible: building wealth while improving homes, lives, and communities. It inspired me to establish Westworth Capital.

At Westworth Capital, we like the value-add apartment approach because it gives us practical ways to improve a property and its income. We think it can be a useful way to build wealth. Like any investment, though, it takes work and comes with risk.



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Ready? Let's start.

You don't have to memorize this book. Read it once, then come back to the examples, glossary, and questions when you're reviewing a deal.

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Why apartments?

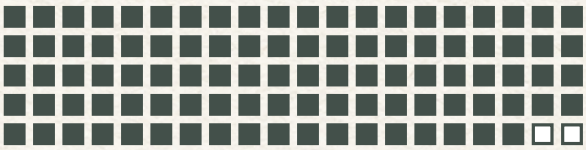


1. Stability
2. Risk-adjusted returns
3. Control
4. Cash flow
5. Tax benefits

People need somewhere to live. That's a pretty good place to begin when you're thinking about an investment. But we like apartments for more than that. Here are the five reasons we'll unpack over the next few pages.

1. Stability

Think about a house with one tenant. If that tenant moves out, all of the rent disappears until someone else moves in. Now think about a 100-unit apartment community. If one or two residents leave, the other occupied apartments can keep bringing in rent.



98 occupied apartments
2 vacancies out of 100 units

That spreads vacancy risk across more households. Housing is also a basic need, unlike an optional purchase. Those two features can help smooth out income.

Does that make apartment values steady all the time? No. Rents, occupancy, financing costs, and sale prices can still move sharply. A property isn't safer simply because you don't see its price changing on a stock-market screen.

Remember this

Demand for housing is a starting point. Demand for *this property, at this rent, in this neighborhood* is what your investment depends on.

Returns and a little more control



A good question to ask

What can this team actually improve, and what does the plan simply assume the market will do?

2. Attractive returns for the risk taken

You may hear the phrase **risk-adjusted returns**. It just means asking, 'How much risk am I taking to earn that return?' A big projected number isn't impressive if the deal has very little room for things to go wrong.

Research published by the Federal Reserve Bank of San Francisco looked at housing, stocks, bonds, and bills across 16 advanced economies from 1870 to 2015. Housing and stocks delivered roughly 7% average annual real returns over the long run, with lower measured volatility for housing at the aggregate level. [1]

Useful context, yes. A promise about your next apartment deal, no. The study isn't a forecast for a single, borrowed-money apartment investment. Local property results can vary much more than national averages, and apartment equity does not have the same risk as government bonds.

3. Some things are within the operator's control

Watching an investment fall without being able to do anything can be frustrating. Apartment operators have practical tools: improve leasing, handle maintenance sooner, reduce waste, review service contracts, and make the property a better place to live.

Those actions can help limit vacancies, manage expenses, and protect income when conditions get harder. But 'control' has limits. Sponsors can't control interest rates, insurance markets, local employment, or the price a future buyer will pay.

Sources 1 · reference notes on pages 34–35.

Cash flow and tax benefits

4. Money coming in along the way

Cash flow is the money left after the property's cash needs have been covered. Rent comes in. Bills get paid. The loan gets paid. Money is set aside for repairs, improvements, and reserves. What is left may be available for investors.

Depending on the deal, distributions may be monthly, quarterly, or annually. You might use them for living expenses, a vacation, or another investment. Just don't build your household budget around a payment the property hasn't earned. Distributions can start later than planned, change, or pause.

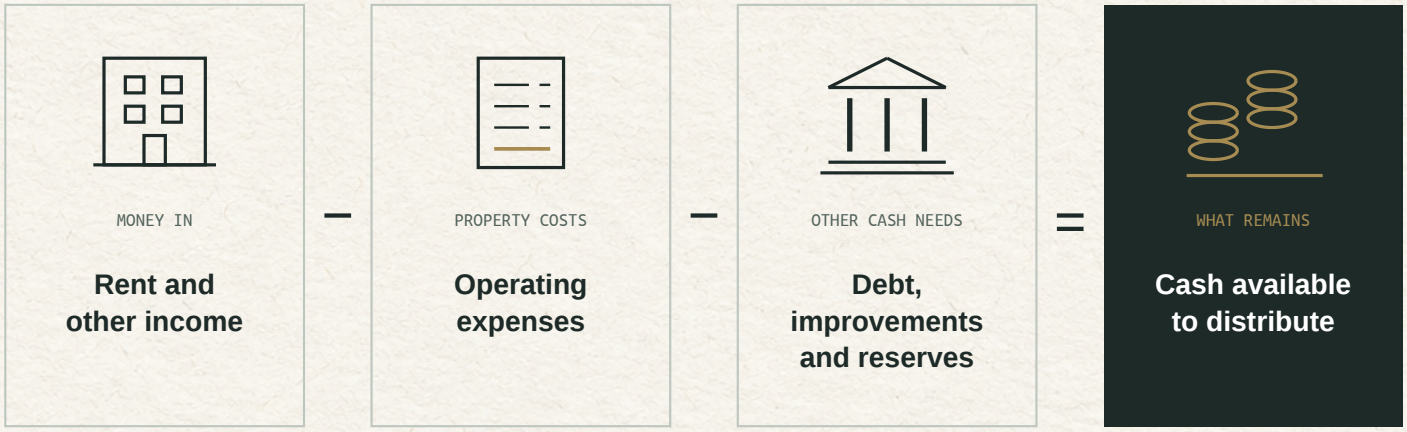
5. The tax side can help

A building gets older, so the tax rules generally let its cost be deducted over time through **depreciation**. Land isn't depreciable. That deduction can reduce taxable rental income even if the property's market value rises. [2]

That's why cash received and taxable income can be different numbers. But a deduction on paper isn't automatically a deduction you can use against your salary. Your personal circumstances and the passive-loss rules matter. We'll come back to this on page 16. [3]

FOLLOW THE CASH

What is left after the property is paid?



Available cash may be distributed. Payments can change or pause.

Two different questions

How much cash did the investment distribute? How much taxable income did it allocate to me? Your bank statement answers the first. Your tax documents help answer the second.

Sources 2, 3 · reference notes on pages 34–35.

How value-add works

The idea is simple: buy a property with room for improvement, make sensible improvements, and aim to increase what the property earns. A better-performing property may be worth more.

Meet the three levers

The operator can influence revenue and expenses. More collected rent and sensible expense savings can increase **net operating income**, usually shortened to NOI. Operating costs include repairs, maintenance, property taxes, insurance, utilities, payroll, and management.

NOI is generally calculated before loan payments, income taxes, depreciation, and major capital improvements. Lender-required reserves still affect cash available to investors, even when they aren't included in a standard NOI calculation. Ask which convention the sponsor uses.

The **capitalization rate**, or cap rate, reflects the yield buyers accept for a property's operating income. Location, condition, growth expectations, financing, and market conditions all influence it. The sponsor can improve the building, but can't command the market's cap rate.



01 **Revenue**

Rent and other collected income

02 **Expenses**

The cost of operating the property

03 **Cap rate**

The market's pricing of that income

01 + 02: OPERATOR INFLUENCE

03: MARKET INFLUENCE

PROPERTY VALUE = NOI ÷ CAP RATE

Use the cap rate as a decimal: 7% = 0.07.

The big idea

Grow sustainable NOI. Then check whether the deal still works if the eventual buyer uses a less favorable cap rate.

Make the property worth more to residents



Before / after concept. AI-generated illustration, not an actual project.

You can't keep raising rent for no reason and expect everyone to stay. A workable value-add plan starts with a property charging below what comparable homes can support, then gives residents a reason to choose it.

That might mean better flooring, cabinets, countertops, appliances, or useful amenities. A unit renting for **$800 a month** might support **$900 after improvements**. The rent premium needs to be tested against actual nearby alternatives, renovation cost, and resident demand.

Rent is only one source of income

For example, an operator might recover eligible water costs at a master-metered property; offer paid preferred parking; or arrange bulk internet at a $10-per-unit discount to the resident price. That discount is a potential spread before other costs, not automatic profit.

Each idea needs to fit the leases, local rules, service agreements, and what residents will actually pay. Improving income should go hand in hand with providing a good home.

How $100 can become a big number

An extra $100 a month doesn't sound life-changing. Across a whole community, though, small improvements can add up. Let's use the same 100-apartment example.

If all $120,000 becomes additional annual NOI and the cap rate stays at 7%, the implied increase in value is **$120,000 ÷ 0.07 = $1,714,286**, rounded to the nearest dollar. That's the basic idea behind **forced appreciation**.

The cap rate changes the answer

These are illustrations, not property appraisals or return promises. They isolate the value of the added NOI. A change in the cap rate affects the value of the entire property, including the income it already earns.

$100	× 12	× 100	$120,000
extra rent per month	months per year	apartments	added annual rent

Same added annual NOI	Cap rate	Implied added value
$120,000	6%	$2,000,000
$120,000	7%	$1,714,286
$120,000	8%	$1,500,000

Keep the example honest

Extra rent isn't automatically extra NOI. Vacancy, concessions, collection losses, and added operating costs reduce the benefit. Renovation spending and financing costs also matter when you calculate the investor's actual profit.

What is a syndication?



A good real estate investment needs the right property, at the right price, in the right location, with a team that can carry out the plan. Most people don't have the time, energy, or desire to do every one of those jobs themselves.

A **syndication** brings people together to pool money and expertise for an investment they may not tackle alone. In an apartment syndication, investors buy an interest in the investment entity rather than personally managing individual apartments.

The passive side: Limited Partners

Limited Partners, or **LPs**, contribute capital. They review the opportunity, decide whether it fits, and then let the operating team handle the day-to-day work. Being passive doesn't mean skipping due diligence or ignoring the updates.

The active side: General Partners

General Partners, or **GPs**, are also called sponsors or operators. They research markets, find and underwrite deals, arrange financing, provide any required loan guarantees, and organize the team. After closing, they oversee property management, the business plan, investor communication, and the eventual exit.

These labels describe the roles. The legal entity is often an LLC, so the actual documents may use 'manager' and 'members' instead of GP and LP.

Three things every deal needs

Time. Knowledge. Money. Sponsors bring time and expertise; investors bring capital. Sponsors may also invest their own money. The partnership documents explain everyone's rights and responsibilities.

Think of it like taking a flight



You don't need to become a pilot to cross the country. You buy a ticket and rely on a trained crew. Passengers help fund the flight; the pilots, cabin crew, and maintenance team do the work needed to get everyone to the destination.

In our apartment example, the sponsor is the pilot and the passive investors are the passengers. Your job is to choose the flight carefully. You still want to know who is flying, where you're going, and what happens if the weather changes.

Does the sponsor have skin in the game?

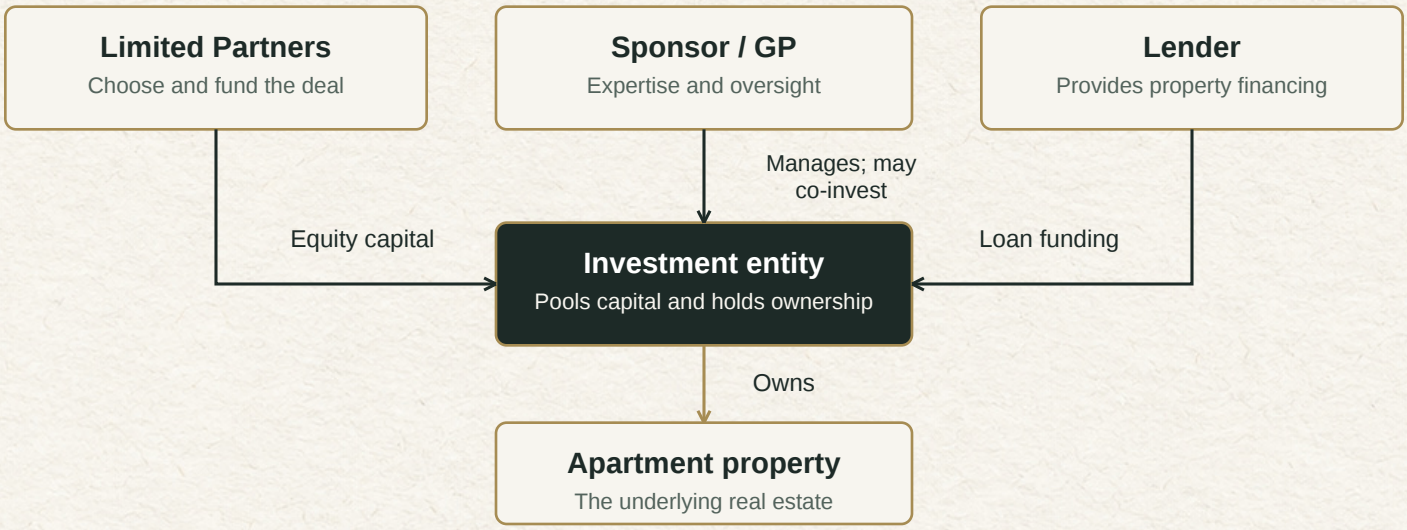
Ask whether the sponsor is investing cash alongside you, how much, and on what terms. Having their own money at risk can help align interests, although it doesn't guarantee good decisions or a successful investment.

At Westworth Capital, our approach is to invest alongside our Limited Partners in every deal, often at multiples of the minimum investment amount. Review the specific offering to see the actual sponsor contribution and terms.

Ask it plainly

How much of your own cash is going into this deal, and is it invested on the same terms as mine?

HOW THE OWNERSHIP AND FUNDING FIT TOGETHER



Illustrative structure. The sponsor oversees operations; the deal documents set the actual terms.

The rules behind the partnership

A passive syndication interest is generally a security. That brings securities laws into the picture. Many sponsors use an exemption from SEC registration under Regulation D, commonly Rule 506(b) or Rule 506(c). An exemption isn't SEC approval of the deal. [4, 5]

Rule 506(b) allows an unlimited amount of capital to be raised, with an unlimited number of accredited investors. It permits no more than 35 non-accredited purchasers in any 90-calendar-day period, and they must meet the sophistication standard, alone or with a purchaser representative. Extra disclosure requirements apply. [4]

What does sophisticated mean?

It means having enough financial and business knowledge to evaluate the investment's merits and risks. It doesn't mean that attending one webinar automatically qualifies you.

A pre-existing, substantive relationship is one way sponsors can avoid general solicitation in a 506(b) offering. A couple of phone calls isn't a universal legal shortcut. Keep learning and build real relationships with operators before you're trying to join a deal. [6]

	Rule 506(b)	Rule 506(c)
Public advertising	Generally not permitted	Permitted if the rule's conditions are met
Who may buy	Accredited investors; limited participation by qualifying non-accredited investors	All purchasers must be accredited
What to expect	Investor qualification and an appropriate offering process	Reasonable steps to verify accredited status

Good first steps

Educate yourself. Get to know sponsors. Be honest about your experience. Let the offering's qualification process determine whether you can participate.

Sources 4, 5, 6 · reference notes on pages 34–35.

Who is an accredited investor?

'Accredited' is a legal category. It isn't a certificate that says you are a good investor, and it doesn't mean a deal is suitable for you. Here are the familiar financial routes for individuals. [7]

The income test also requires a reasonable expectation of reaching the same income level in the current year. The joint test can apply with a spouse or spousal equivalent. The net-worth calculation has specific rules for debt tied to your primary home.

There are other routes, too

Certain professional credentials, including Series 7, 65, or 82 licenses held in good standing, can qualify an individual. Other categories cover certain insiders, knowledgeable employees, and qualifying entities. The full rules matter if you aren't using one of the basic financial tests.

For a 506(c) investment, expect the sponsor to take reasonable steps to verify accredited status. That may involve financial information or confirmation through a qualified professional, depending on the verification method. [5]

>$200,000

Individual annual income
In each of the prior two years

>$300,000

Joint annual income
In each of the prior two years

>$1 million

Net worth
Excluding the primary residence

Two separate checks

Am I legally eligible to invest? And does this investment make sense for my goals, liquidity needs, and ability to handle a loss? A 'yes' to the first doesn't answer the second.

Sources 5, 7 · reference notes on pages 34–35.

Let's talk about risk

Most apartment syndications use a loan as well as investor capital. Borrowing can help buy a larger property, but it also creates payments and deadlines that don't disappear when business gets tough.

Recourse and non-recourse debt

With **recourse debt**, a lender may be able to pursue a guarantor's other assets under the guarantee. With **non-recourse debt**, recovery is generally limited to the collateral, but carve-outs and separate guarantees can create personal liability in specified circumstances. Read the actual loan terms.

The sponsor or another designated guarantor often provides required guarantees. An ordinary passive LP is usually not a loan guarantor just because they invested. Confirm that in the documents instead of assuming it.

Look beyond the loan label

- **Cash needs:** Could the deal need more capital? What happens if you don't contribute?
- **Debt deadlines:** When does the loan mature, and what if a refinance isn't available?
- **Liquidity:** Can you transfer or redeem your interest? A planned exit date isn't a right to get your money back on that date.
- **Execution:** What happens if renovations cost more, rents disappoint, or occupancy falls?

Private placements can be difficult to sell and may need to be held much longer than expected. Only invest money you can leave committed and afford to put at risk. [8]



Limited liability is not limited investment risk

You can still lose all of the money you invested if the property performs badly or the lender takes it back. Being outside the loan guarantee does not protect your equity from loss. [8]

Sources 8 · reference notes on pages 34–35.

How do investors get paid?

There are two main places to look: cash produced while the property is owned, and cash available when it is refinanced or sold. The amount and timing depend on the property and the partnership agreement.

Cash flow along the way

After operating bills, loan payments, needed capital spending, and reserves, the manager may distribute available cash. The schedule might be monthly, quarterly, or annually. Some value-add plans use early cash to improve the property, so distributions may begin later.

A refinance

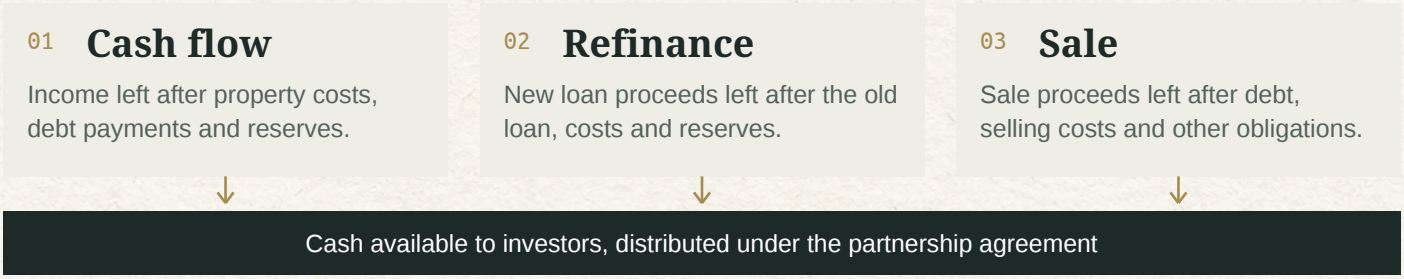
A new loan may replace the old one. If the property supports enough borrowing, there may be money left after repaying the existing loan, covering costs, and funding reserves. Some of that money may be returned to investors.

You may remain an owner after receiving some capital back. That's one of the appealing possibilities in a refinance. But your future preferred-return calculation, ownership economics, and distributions depend on the agreement. They don't automatically stay the same. A larger loan can also mean larger payments.

The eventual sale

A sale turns the property into cash. Debt, selling costs, and other obligations are paid first. The remaining money follows the agreed distribution order. A successful sale may return your original capital plus profit; an unsuccessful sale may return less than you invested.

WHERE INVESTOR CASH CAN COME FROM



No automatic big payday

A cash-out refinance isn't promised. Neither is a profitable sale. Ask to see a plan that can stand on its own if the refinance is delayed or never happens.

The tax benefits in plain English

Here's the part that can sound strange at first: an investment can send you cash and still report little taxable income, or even a tax loss. Cash flow and taxable income follow different rules.

Why those numbers can be different

Eligible operating expenses and interest can reduce taxable rental income. Depreciation adds a deduction that generally doesn't require a new cash payment each year. That's why tax deductions may shelter some of the cash the property generates. [2, 9]

For example, a building's market price might rise while its depreciable cost is being written off for tax purposes. The two ideas aren't opposites: one is market value, and the other is a tax calculation.

A tax loss may have to wait

Your share of a loss may be limited by tax basis, at-risk rules, and passive-activity rules. Unused passive losses may carry forward. Don't assume a rental loss will wipe out tax on your paycheck, or that cash distributions are always tax-free. [3]

What happens when the property sells?

Depreciation reduces tax basis. On a sale, gains can create tax, including depreciation-related tax consequences. The final result depends on the assets, allocations, your circumstances, and applicable rules. Deferring tax isn't the same as eliminating it. [10]

The appeal is timing: cash that isn't currently consumed by tax may remain available for other uses. Just plan for both the benefit today and the potential tax bill later.

Bring your CPA into the conversation

Ask how the investment affects your own return, when losses may be usable, what a refinance distribution could mean, and what tax might be due at exit. This guide explains the idea; your tax adviser applies it to you.

Sources 2, 3, 9, 10 · reference notes on pages 34–35.

Who gets what?

A syndication needs a set of rules for sharing money. You'll hear about an **equity split**, a **preferred return**, and a **waterfall**. Don't let the vocabulary make it sound harder than it is. The documents are telling you who gets paid, how much, and in what order.

The equity split

Let's use a 70/30 split: 70% to the LPs and 30% to the GP. Keep that as an example, not a rule for every deal. Sponsors may use different splits, multiple investment classes, or changing percentages as returns rise.

The split may apply to remaining profits after earlier steps in the waterfall. It does not necessarily mean that every dollar of rent or every dollar received at sale is divided 70/30.

The preferred return

A preferred return gives investors priority to a specified return before certain sponsor profit participation. For example, a 7% preferred return may put LPs first for that amount before the remaining profits are split. We'll do the math on page 25.

Read the details: Is the preference cumulative? Does it compound? What balance is it calculated on? Does the GP have a catch-up? When is capital returned? Sponsor fees may be paid even when the preferred return hasn't been fully distributed.



ILLUSTRATIVE SHARE OF PROFITS SUBJECT TO THIS SPLIT

The document wins

A simple diagram helps you understand the idea. The offering and governing documents determine the actual order of payments, fees, and profit sharing.

Finding the money to invest



'I'd like to invest, but I don't have the money.' Fair enough. Sometimes the answer is to save longer. Sometimes you have money in places you haven't thought about. Let's look at four possibilities.

These are options to understand, not a checklist of accounts to empty. Start with what you can comfortably invest after protecting emergency savings, near-term spending, and your other commitments.

1. Cash-value life insurance

Some permanent life insurance policies build cash value that may support a policy loan. Ordinary term insurance doesn't work that way. Access depends on the type of policy and its terms. [11]

If you're considering a loan, ask your insurer to show the interest cost, effect on the policy and death benefit, and what happens if the loan isn't repaid. A policy loan is still borrowing. Get an up-to-date illustration and advice before putting insurance protection behind an investment. [12]

01 Life insurance

02 Self-directed IRA

03 Former 401(k)

04 Home equity

Start with this question

If this apartment deal sends me no cash for a while, can I still meet every payment and keep my financial plan intact?

Sources 11, 12 · reference notes on pages 34–35.

Retirement money has its own rules

2. A self-directed IRA

A **self-directed IRA** can hold certain alternative investments through a custodian that supports them. That may include a syndication interest. You're changing what the retirement account invests in, not turning the account into personal spending money.

The tax treatment depends on the account. Traditional IRA money is generally tax-deferred; qualified Roth IRA distributions can be tax-free. Neither description means every real estate investment inside an IRA is free of tax. [13]

Retirement accounts have prohibited-transaction rules, and an investment involving debt can create unrelated debt-financed income and a tax obligation. Have the custodian and a qualified tax adviser review the structure, fees, cash needs, and filing requirements. [14, 15]

3. A former employer's 401(k)

An old 401(k) may be eligible to roll into an IRA, including one that supports alternative assets. Eligibility, account type, and plan rules matter. A current employer's plan may have different restrictions.

Ask the plan administrator and receiving custodian about a direct rollover. Done correctly, an eligible rollover can preserve tax deferral. Cashing the account out to yourself, missing a deadline, or converting pre-tax funds to Roth can change the tax result. [16]

Real estate inside a retirement account is still real estate risk. Moving money away from publicly traded investments does not automatically make it safer.

Check before you move the money

Can this account hold this investment? What are the total fees? Who signs and wires for the account? How will expenses, taxes, valuations, and required distributions be handled?

Sources 13, 14, 15, 16 · reference notes on pages 34–35.

What about the equity in your home?

4. A home equity line of credit

A **HELOC** lets you borrow against equity in your home. It can make cash available, but your home is collateral. If you can't repay the loan, your home may be at risk. [17]

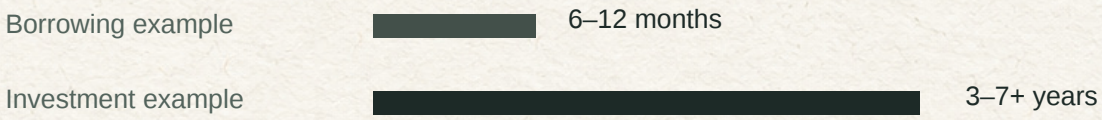
It's reasonable to ask whether your equity is serving your goals. But home equity isn't 'dead money' just because it isn't invested somewhere else. Lower housing debt can also give you resilience and peace of mind.

Many HELOCs have variable rates, often tied to an index plus a margin. Payments can change, and interest-only payments during a draw period do not mean the balance never has to be repaid. A rate example of 1-2 percentage points above prime is not a current quote or a standard term. Compare actual offers. [17]

Suppose you plan to use a HELOC for 6-12 months. That's a short borrowing plan to put against a syndication that may hold your money for 3-7 years or longer. You need a credible repayment source outside the hoped-for distributions or refinance.

Borrowing to invest adds another layer of risk. Discuss it with an adviser who understands both your household finances and the investment.

The repayment clock and the investment clock



Do the uncomfortable version of the math

Assume rates rise, the deal makes no distributions, and you can't sell your investment. Could you still repay the HELOC without putting your home or everyday finances under strain?

Sources 17 · reference notes on pages 34–35.

The 12 steps, before closing

Every sponsor's process is a little different. Here is the full 12-step journey, from your first look at a deal to deciding what comes next. The dates are examples, so check the actual offering schedule.



01–06

BEFORE CLOSING

01 An opportunity arrives

The sponsor opens a deal for funding. Read the summary and decide whether it fits your goals, risk tolerance, and available capital.

02 Place a soft reserve

After reviewing the investment deck, tell the sponsor how much you may invest. A soft reserve is usually a nonbinding expression of interest. It doesn't lock you in or guarantee a place.

03 Join the conversation

Attend the webinar, an in-person meeting, or a one-on-one call. Ask questions about the property, team, debt, assumptions, and downside.

04 Receive the documents

The sponsor confirms the proposed allocation and provides the PPM and related agreements. An example timeline is about a week after the presentation, or as soon as feasible.

05 Review and subscribe

An example deadline is 3-4 weeks for documents and funds. Review the PPM, governing agreement, and subscription agreement with your advisers. Complete the required signatures and qualification checks. Don't rush because a deal may fill.

06 Fund the investment

A sponsor might ask you to wire 1-2 weeks before closing. Follow the actual instructions and independently verify wire details through a known phone number before sending money.

The 12 steps, after closing

Once the purchase closes, the work shifts from evaluating the plan to following how it is being carried out. Keep your documents and updates somewhere easy to find.



07–12

AFTER CLOSING

07 Get the closing confirmation

The sponsor lets you know the property has officially closed. Confirm that your investment is recorded correctly and that you can access the investor portal or records.

08 Follow the progress

Look for regular project updates, often monthly, covering leasing, occupancy, renovations, and progress against the business plan.

09 Review distributions and financials

Quarterly payments and financial updates are common, but the deal's terms and available cash control. Some offerings use a different schedule or delay distributions.

10 Receive tax information

For a partnership-taxed syndication, expect an annual Schedule K-1 showing allocated income, deductions, credits, and other items. Depreciation may reduce reported taxable income; usable tax benefits vary.

11 Follow the refinance or sale

Imagine a projected hold of 3-7 years. A refinance may return some capital, and a sale may distribute remaining capital and profit according to the documents. Neither the timing nor a positive return is assured.

12 Decide what comes next

You may choose to fund another deal. First review what you learned, your results after tax, and how much money you want committed to illiquid investments.

Key metrics without the headache

You don't need to love spreadsheets to ask good questions. Start with five useful ideas: cash-on-cash return, IRR, appreciation, equity multiple, and preferred return. They each tell you something different.

Cash-on-cash return

This compares annual cash distributions with the cash you invested. If you invest **$100,000** and receive **$10,000** of annual operating distributions, the cash-on-cash return is **10%**.

Check the denominator and the source of the payment. Is the sponsor using your original investment or your remaining capital? Are the payments from operations, borrowing, or returned capital? Those differences matter.

Internal rate of return, or IRR

IRR combines the cash you invest, ongoing distributions, and refinance or sale proceeds, while accounting for when each payment happens. It is a time-sensitive way to summarize the investment's cash flows.

The basic idea is familiar: $1,000 today is more useful than $1,000 a year from now because you can use or reinvest it sooner. Earlier cash generally helps IRR, all else equal.

Use these metrics together. A good-looking IRR doesn't explain the risk, and a strong cash-on-cash year doesn't tell you what happens to your original capital.

$10,000 ÷ $100,000 = 10%

Annual cash received ÷ invested cash

Read the label next to the number

Is that IRR projected or realized? Is it for the property or for the LP after fees and the sponsor's share? What happens if the sale takes two years longer?

Appreciation and equity multiple

Appreciation

Appreciation means an asset increases in value. **Market, or organic, appreciation** can come from broader demand, rent trends, and pricing changes. Inflation can influence those trends, but it doesn't guarantee that a particular property will rise in value.

Forced appreciation is the value-add idea we covered earlier: improve operations and grow sustainable NOI. It gives the operator something to work on, although the market still decides the cap rate.

Equity multiple

Equity multiple compares total money received, including returned capital, with total equity contributed. Put in **$100,000** and receive **$200,000** in total, and the multiple is **2.0x**. It is not $200,000 of profit; $100,000 is your original money coming back.

Deal B returns more dollars, but it ties up your money twice as long. If all cash arrives only at the end, those examples imply annualized returns of about 14.9% and 9.6%, respectively. Different payment timing changes the result.

So don't dismiss equity multiple, and don't use it alone. Pair it with IRR, cash flow, hold period, and downside assumptions. The bigger multiple isn't automatically the better investment.

Illustration	Total multiple	Hold period
Deal A	2.0x	5 years
Deal B	2.5x	10 years

Do not bank on organic appreciation

Use reasonable assumptions and test weaker outcomes. A deal shouldn't need a generous market rescue to make sense.

A preferred return, step by step

Think of a preferred return as a place in the payment order. In a simple deal with a 7% annual preference, the LPs have priority for that return before a specified sponsor profit share. It is a priority, not a guaranteed coupon.

Suppose this investor is allocated $10,000 of cash available for distribution, and the documents say: pay the 7% LP preference first, then split the remainder 70% to the LP and 30% to the GP. Assume no catch-up, no capital return, and no separate unpaid amounts.

That's one simple waterfall. Other deals pay capital back at a different stage, have more than one hurdle, use a catch-up, or calculate the preference on a changing balance. The phrase 'LPs get paid first' depends on those details.

What if there isn't enough cash?

Ask whether unpaid amounts accrue, whether they compound, and when they become payable. If the preference is cumulative, unpaid amounts may carry forward under the agreement. If it isn't, the treatment may be different.

$100,000 × 7% = $7,000

Illustrative annual preference on an unchanged $100,000 balance

Step	LP receives	GP receives
First $7,000: preferred return	$7,000	$0
Remaining $3,000: 70/30 split	$2,100	$900
Total cash in this example	$9,100	$900

One last distinction

A return *on* your money is earnings. A return *of* your money gives back capital. Check how each distribution affects your remaining capital balance and future preferred return.

The PPM is worth reading



The **Private Placement Memorandum**, or PPM, can be long and full of legal language. It describes the offering and its risks. Have your own lawyer review it, but read it yourself, too. You're the one deciding whether to invest.

PPMs differ by issuer, structure, and investors. Focus on five useful areas: executive summary, investment strategy, management and experience, principal terms, and risk factors. Use those as your reading map rather than assuming every PPM uses the same headings.

1. Executive summary

Start with what is being bought and why. Look for pricing, minimum investment, investor qualifications, management fees, key disclosures, and the governing documents.

Then compare the legal documents with the deck, webinar, and what you were told. Broad manager discretion, undisclosed conflicts, or a new term that suddenly appears deserve a question. A mismatch is a reason to pause and get a clear explanation.

2. Investment strategy

How will the sponsor make the plan work? Look for the buying criteria, renovation scope, leasing assumptions, operating improvements, competitive advantages, local resources, and exit strategy.

The story should hold together. A vague promise to 'add value' isn't enough. You should be able to explain, in your own words, what will change at the property and how those changes are expected to improve the numbers.

A simple test

Could I explain this business plan to a friend without using the sponsor's slides? If not, which part do I still need to understand?

Read about the people and the terms

3. Management and experience

Read the biographies of the principals and key employees. What experience do they have with this kind of property, business plan, market, and financing? Who is actually doing the work?

Remember the flight analogy. The team are your pilots. A polished presentation doesn't tell you how they handle rough weather. Ask about difficult deals as well as successful ones, and how they communicated when the plan changed.

4. Summary of principal terms

This is where the arrangement becomes concrete: the company structure, fees, expense responsibilities, capital commitments, profit sharing, and business plan. Read it alongside the operating or company agreement and the subscription agreement.

Look for	Ask in plain English
Fees and expenses	Who gets paid, how much, and when?
Distribution waterfall	What has to happen before I receive money?
Voting and manager powers	Which decisions do I get a say in?
Capital calls and dilution	Could I need to invest more? What if I don't?
Transfers and exit rights	Can I leave, and what restrictions apply?
Conflicts of interest	Does the sponsor or an affiliate benefit elsewhere?

Keep the entire document set

The PPM explains the offering. The signed governing and subscription documents create specific rights and obligations. Have your lawyer explain how they fit together.

Don't skip the risk factors

5. Risk factors

This section explains ways the investment could disappoint or fail. Some risks are common across many deals: disasters, bankruptcy, public-health disruptions, and economic shocks. Others come directly from this property's condition, market, business plan, or team.

Read the general warnings, then pay special attention to the risks that could actually derail this plan. Ask what the sponsor has budgeted, insured, reserved, or otherwise done to address them. A listed risk hasn't disappeared just because it is disclosed.

- ☐ **Property:** What repairs, insurance gaps, or deferred maintenance could cost more than expected?
- ☐ **Market:** What if competitors offer concessions or residents can't afford the planned rents?
- ☐ **Business plan:** What happens if renovations run late or the rent premiums don't show up?
- ☐ **Financing:** What if rates rise, a covenant is missed, or the loan matures before an exit?
- ☐ **Sponsor:** What if a key person leaves, the manager underperforms, or interests conflict?
- ☐ **Your investment:** What could stop distributions, require more money, or extend the hold?

Once you've finished the review, completed the required documents, funded, and received the closing notice, congratulations: you're an investor. Now let's look at what happens next.

Before you say yes

Understand the base case, the disappointing case, and the case where you lose money. If an answer is unclear, keep asking until it makes sense.

What happens after closing?



Right after the purchase

You should receive confirmation that the deal has closed. Many operators also send an investor welcome guide or onboarding note. Clear expectations at the start are a good sign.

That information should explain how to access the portal, whom to contact, when updates are expected, how to set up distribution deposits, and what to expect for tax reporting. Ask when distributions are *projected* to start and what could delay them.

Monthly progress updates

Monthly communication is a useful expectation to discuss, particularly during the first 6-12 months of a value-add plan. Updates might arrive by email, recorded video, live webinar, or a phone conversation. The exact reporting commitment should be clear before you invest.

Look for occupancy, leasing progress, units renovated, costs, and whether the work is on track. Photos can help you see the changes, but the explanation behind the numbers matters just as much.

A delay isn't automatically a disaster. Silence, unexplained changes, or repeatedly avoiding specific questions are reasons to follow up.

Leasing

Occupancy and collections

Renovations

Completed units and costs

Business plan

Progress and next steps

The most useful update answers three things

What happened? How does it compare with the plan? What is the team doing next?

Follow the money and the progress

Quarterly financial updates

Quarterly reporting should help you understand the underlying business. Useful financials include a profit and loss statement and rent-roll information. Ask what reports will be shared and whether the rent roll will be summarized or redacted for resident privacy.

Compare actual income, operating expenses, NOI, capital spending, cash reserves, and distributions with the plan. If occupancy is rising but cash is falling, find out why. Loan payments, repairs, insurance, taxes, and timing can all affect the result.

Annual tax reporting

For a syndication taxed as a partnership, expect a Schedule K-1 for each investment entity reporting your share of income, deductions, credits, and other tax items. It is not simply a list of cash distributions.

Ask about the target delivery date and whether an extension may be needed. Give the K-1 and any supporting information to your tax preparer. Your own filing obligations may include state returns.

Where Westworth fits

Westworth Capital focuses on value-add multifamily apartments. Our work is to find opportunities, oversee the property teams, and improve the assets we acquire, with the aim of delivering attractive returns for the risks taken.



Stay curious after you invest

You can be a passive investor and still be an informed owner. Read the updates, keep the records, and ask when something doesn't add up.

The plain-English glossary

Accredited investor

An investor who meets a qualifying category under securities rules. Eligibility does not establish suitability.

Appreciation

An increase in property value. It can come from improved operations or broader market changes.

Capital call

A request or requirement for more investor money. The agreement explains the consequences of not participating.

Capital expenditure

Spending for major improvements or replacements, as distinct from ordinary operating expenses.

Cap rate

Annual NOI divided by property value. At a given NOI, a higher cap rate means a lower implied value.

Cash flow

Cash left after the relevant bills, financing needs, capital spending, and reserves have been covered.

Cash-on-cash return

Annual cash distributions divided by invested cash, using a clearly stated calculation method.

Depreciation

A tax deduction that spreads eligible property cost over time. It is different from market-value change.

Distribution

Money paid to an investor. It may be income, returned capital, or another type of payment under the documents.

Equity multiple

Total cash received, including capital returned, divided by total equity contributed.

General Partner

The active sponsor role. In an LLC, the documents may instead refer to a manager or managing member.

IRR

Internal rate of return. A measure that accounts for both the amounts and timing of investment cash flows.

Limited Partner

The passive investor role. In an LLC, investors are generally described as members.

The plain-English glossary

Net operating income

NOI: property revenue less operating expenses, generally before financing, depreciation, and capital improvements.

Non-recourse debt

Debt generally recoverable from collateral, subject to carve-outs and any additional guarantees.

Operating agreement

The governing contract that sets out management authority, investor rights, and the economic arrangement.

Preferred return

A contractual priority to a defined return before specified profit sharing. It is not a guarantee.

Private Placement Memorandum

The PPM: a disclosure document explaining an offering, its structure, and its risks.

Recourse debt

Debt for which specified borrowers or guarantors may have liability beyond the property collateral.

Refinance

Replacing an existing loan. It may or may not produce cash available for investor distributions.

Rent roll

A schedule of units and leases showing items such as occupancy, lease dates, and rent.

Schedule K-1

A tax document reporting an investor's allocated share of partnership tax items.

Soft reserve

A usually nonbinding indication of investment interest. It does not necessarily secure an allocation.

Syndication

A group investment that pools capital and expertise through a shared ownership structure.

Value-add

A business plan that aims to improve property operations, income, and value.

Waterfall

The agreed sequence for distributing available cash among the parties.

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Sources and further reading

01 **Federal Reserve Bank of San Francisco** · The Rate of Return on Everything, 1870-2015
Historical housing and equity research. Aggregate results are not forecasts for a single syndication.

02 **Internal Revenue Service** · Publication 527: Residential Rental Property
Rental income, expenses, and depreciation.

03 **Internal Revenue Service** · Publication 925: Passive Activity and At-Risk Rules
Limits on the use of investment losses.

04 **U.S. Securities and Exchange Commission** · Private Placements: Rule 506(b)
Offering restrictions and investor participation.

05 **U.S. Securities and Exchange Commission** · General Solicitation: Rule 506(c)
Accredited purchasers and verification requirements.

06 **U.S. Securities and Exchange Commission** · General Solicitation
Pre-existing, substantive relationships and solicitation.

07 **U.S. Securities and Exchange Commission** · Accredited Investors
Financial and other qualifying categories.

08 **SEC Office of Investor Education and Advocacy** · Private Placements under Regulation D: Investor Bulletin
Investment risk, restricted securities, and illiquidity.

09 **Internal Revenue Service** · Topic 414: Rental Income and Expenses
Rental expense deductions and reporting.

How to use these notes

Numbered citations in the chapters link to these references. Click a source title to read the primary material. Your specific offering documents and your advisers are the starting point for an investment decision.

Sources and edition notes

10 **Internal Revenue Service** · Publication 544: Sales and Other Dispositions of Assets
Gain, basis, and depreciation-related sale treatment.

11 **National Association of Insurance Commissioners** · Life Insurance
Term insurance and cash-value policy types.

12 **National Association of Insurance Commissioners** · Life Insurance Buyer's Guide
Policy borrowing, cash values, and benefits.

13 **Internal Revenue Service** · Retirement Plans FAQs Regarding IRAs
Traditional and Roth IRA tax treatment.

14 **Internal Revenue Service** · Retirement Topics: Prohibited Transactions
Retirement-account transaction restrictions.

15 **Internal Revenue Service** · Unrelated Business Income from Debt-Financed Property
Debt-financed investment income under Section 514.

16 **Internal Revenue Service** · Rollovers of Retirement Plan and IRA Distributions
Direct rollovers and distribution rules.

17 **Consumer Financial Protection Bureau** · What You Should Know About Home Equity Lines of Credit
HELOC pricing, repayment, and collateral risk.

About this edition

Rewritten and redesigned from the original 2023 guide, retaining its full chapter coverage, examples, investment steps, and contact details. Explanations of risk, taxation, investor eligibility, and financing have been clarified. Primary references checked as of October 9, 2026; laws and guidance can change.

Author portrait is of Dami Fadipe. The other photographs and ink-and-pencil artwork are conceptual illustrations, not photographs of Westworth properties, personnel, or completed renovations. All numerical examples are hypothetical unless expressly identified as historical research.

Dami Fadipe



Founder & Managing Partner

Westworth Capital Partners

Dami leads Westworth Capital Partners and oversees its real estate investments. His work centers on improving apartment communities and helping investors understand the decisions behind each investment.

He also founded Delco Multifamily Real Estate Investors, reflecting his interest in making real estate investing more accessible.

Dami studied Financial Services Compliance at Seton Hall School of Law. He lives in Pennsylvania with his wife, Melissa, and their daughter, Kemisola.

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This guide is for education, not an offer to sell securities or a promise of returns. Any investment must be evaluated through its own offering documents. Examples are hypothetical. Consult your own legal, tax, and financial advisers about your circumstances.