PASSIVE INVESTING BASICS

Passive Investor Questions Checklist

Questions to clarify before you go deeper.

A good investment conversation should leave you with greater clarity - not simply more information. Use this checklist when reviewing a passive multifamily opportunity or speaking with a sponsor. You do not need every answer in the first conversation, but you should know which questions remain unresolved before making an investment decision.

HOW TO USE THIS CHECKLIST

For each question, mark Clear if you understand the answer or Follow Up if you need more information. A polished answer is not necessarily a complete answer. What matters is whether you can explain the answer back in your own words.

01 WHAT AM I ACTUALLY INVESTING IN?

Start with the ownership structure and your role inside it.

QUESTION	CLEAR	FOLLOW UP
1. What legal entity am I investing in, and what does that entity ultimately own? Can I explain the ownership structure without relying on the presentation?	☐	☐
2. What type of ownership interest am I purchasing? Is my interest a limited partnership interest, non-managing LLC interest, or another form of ownership?	☐	☐
3. Who controls the investment after closing? Which decisions are made by the sponsor or general partner, and are any major decisions reserved for investors?	☐	☐
4. What is expected of me as a passive investor after I invest? Do I have voting obligations, document requirements, future funding obligations, or other responsibilities?	☐	☐

02 HOW IS THE INVESTMENT EXPECTED TO CREATE VALUE?

Understand where potential returns are expected to come from and what must go right.

QUESTION	CLEAR	FOLLOW UP
5. What sources of return does the business plan rely on? For example: operating cash flow, improved property performance, appreciation, debt paydown, refinancing, or eventual sale.	☐	☐
6. How and when are investor distributions expected to occur? Are distributions expected monthly, quarterly, or on another schedule? What circumstances could reduce, delay, or suspend them?	☐	☐
7. What needs to go right for the projected returns to be achieved? Which assumptions have the greatest influence on the outcome?	☐	☐
8. What happens to investor proceeds when the property is refinanced or sold? How does cash move through the investment structure before reaching investors?	☐	☐

03 WHAT AM I PAYING, AND HOW IS THE SPONSOR COMPENSATED?

Know the fees, profit-sharing structure, and economic alignment.

QUESTION	CLEAR	FOLLOW UP
9. What fees are charged during the investment? Examples may include acquisition, asset-management, property-management, financing, construction-management, or disposition fees.	☐	☐
10. How does the sponsor participate in investment profits? Is there a preferred return, promote, carried interest, or other distribution structure?	☐	☐
11. How much of the sponsor's own capital is invested? Is the sponsor investing alongside passive investors, and are the economics substantially the same?	☐	☐
12. Can I explain the economic alignment between the sponsor and investors? When does the sponsor make money, and how does that compare with when investors make money?	☐	☐

04 HOW LONG COULD MY MONEY BE COMMITTED?

Private real estate is generally illiquid, and hold periods can change.

QUESTION	CLEAR	FOLLOW UP
13. What is the projected hold period? What factors could cause the investment to be held longer than originally projected?	☐	☐
14. Can I sell or transfer my investment before the property is sold? What restrictions apply, and is there any practical secondary market for the investment?	☐	☐
15. What happens if a planned refinance does not occur? Could the hold period extend, distributions change, or additional capital be required?	☐	☐
16. Can investors be asked to contribute additional capital? If capital calls are permitted, when can they occur and what happens if an investor chooses not to participate?	☐	☐

05 WHAT ARE THE RISKS I SHOULD UNDERSTAND?

Ask for risks that are specific to this property, financing, market, and business plan.

QUESTION	CLEAR	FOLLOW UP
17. What are the three most important risks to this investment? The answer should be specific - not simply a list of generic real estate risks.	☐	☐
18. Which assumptions have the least room for error? For example: rent growth, occupancy, renovation costs, operating expenses, interest rates, refinancing, or sale assumptions.	☐	☐
19. What could cause investor distributions or returns to fall materially below projections? What would happen operationally and financially if the business plan underperforms?	☐	☐
20. What is the realistic downside? Could investors experience lower returns, delayed distributions, a longer hold, loss of some principal, additional capital needs, or - in an extreme case - loss of their investment?	☐	☐

06 WHAT HAPPENS AFTER I INVEST?

Know what reporting, communication, and tax information to expect.

QUESTION	CLEAR	FOLLOW UP
21. How often will investors receive updates? What operating and financial information should investors expect to receive?	☐	☐
22. Who is responsible for investor communication? Who should I contact when I have a question, and who communicates when the property is not performing according to plan?	☐	☐
23. What tax reporting should I expect? Will I receive a Schedule K-1, and what is the sponsor's typical timing for delivering tax information?	☐	☐
24. How will investors be informed when the business plan changes? How does the sponsor communicate significant changes involving operations, financing, distributions, refinancing, or the expected exit?	☐	☐

BEFORE YOU MOVE FORWARD

You do not need to like every answer. You do need to understand the answers well enough to decide whether the investment deserves a closer look.

- ☐ I can explain what I am investing in.
- ☐ I understand who controls the investment.
- ☐ I understand how the investment is expected to generate returns.
- ☐ I understand the fees and how the sponsor is compensated.
- ☐ I understand that distributions and projected returns are not guaranteed.
- ☐ I understand how long my capital may be committed and that the hold period can change.
- ☐ I understand the primary risks and realistic downside.
- ☐ I know what information and communication I should expect after investing.

A USEFUL RULE: IF YOU CANNOT EXPLAIN IT, KEEP ASKING.

Complex investments sometimes require complex documents. The basic economics, ownership structure, risks, and investor experience should still be explainable in plain English. An answer you do not understand is not yet an answer you can evaluate.

Questions I Still Need Answered

1.

2.

3.

EDUCATIONAL PURPOSE

This checklist is provided for general educational purposes only and does not constitute financial, investment, tax, legal, or accounting advice or a recommendation regarding any investment. It is not a substitute for reviewing the governing and offering documents for a specific opportunity. Private real estate investments involve risk, including illiquidity and the possible loss of principal. Investors should conduct their own review and consult their qualified professional advisers before making an investment decision.