



**AirburstCapital**

# GENERAL PARTNERS VS. LIMITED PARTNERS

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# INTRODUCTION

IN THE DYNAMIC world of real estate investment, developers play a crucial role in managing and executing various aspects of a project. These professionals work closely with limited partners (LPs) to bring projects to life and generate profits for investors. This e book aims to shed light on the intricate relationship between general partners (GPs), the developers who manage projects, and limited partners, who provide the capital for investments. We will explore the reasons behind the profit distribution and the responsibilities GPs shoulder to ensure the success of a real estate venture.

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***“THE REAL ESTATE DANCE: GENERAL PARTNERS VS LIMITED PARTNERS”***

**CHAPTER 1:** *THE CAST OF CHARACTERS - GENERAL PARTNERS AND LIMITED PARTNERS*

***1.1 GENERAL PARTNERS: THE CHOREOGRAPHERS OF REAL ESTATE PROJECTS***

General Partners (GPs) are the individuals or entities responsible for managing real estate projects from start to finish. They are the architects of the investment strategy, overseeing all aspects of the project, from sourcing deals to negotiating contracts, assembling teams, and ensuring project completion. One notable example of a successful GP is Stephen Ross, the founder of Related Companies. Under Ross's leadership, Related Companies developed the Hudson Yards project in New York City, which is now a thriving mixed-use development.





## 1.2 LIMITED PARTNERS: THE FINANCIAL BACKERS

Limited Partners (LPs) are the investors who provide capital for real estate projects. They rely on the expertise and management skills of GPs to drive the success of their investments. LPs enjoy a hands-off approach to investing, as their liability is limited to the amount of capital they contribute. For example, the California Public Employees' Retirement System (CalPERS) is a well-known institutional LP, which has invested billions of dollars in real estate projects managed by GPs worldwide.

## 1.3 ROLES AND RESPONSIBILITIES OF GPS AND LPS

GPs and LPs have distinct roles in real estate projects. GPs focus on management, execution, and day-to-day operations, while LPs provide the necessary financial resources. LPs often benefit from GPs' expertise and industry connections, which help them grow their wealth while minimizing risks.

## CHAPTER 2: *PROFIT DISTRIBUTION - UNDERSTANDING THE NUMBERS*

### 2.1 WHY GPS EARN A SMALLER SHARE OF PROFITS

GPs earn a smaller share of profits because they assume a more significant risk by managing the project and taking responsibility for its success or failure. Their compensation typically comes in the form of a management fee and a share of the profits, known as the "promote" or "carried interest." This structure incentivizes GPs to perform well, as their earnings are directly tied to the project's success.

### 2.2 HOW LPS EARN THE MAJORITY OF PROFITS

LPs earn the majority of profits because they provide the majority of the capital required for the project. They are entitled to a "preferred return," which is a predetermined percentage of the profits paid out before any distributions are made to the GP. This arrangement ensures that LPs receive a return on their investment before the GP earns any profits.

### 2.3 THE BALANCE BETWEEN RISK AND REWARD

The profit distribution structure between GPs and LPs strikes a balance between risk and reward. LPs provide capital, but their exposure is limited to the amount they invest. GPs, on the other hand, assume more significant risks, such as personal guarantees on loans and potential legal liabilities. The distribution of profits reflects this balance, ensuring that both parties are adequately compensated for their contributions and risks.





### *3.1 SIGNING LOANS AND TAKING ON FINANCIAL RISKS*

GPs are responsible for securing financing for the project, which includes negotiating loan terms, underwriting, and signing loan documents. They also assume the financial risks associated with the project, which can include personal guarantees on loans and potential legal liabilities. One high-profile example of a successful GP who took on significant financial risks is Sam Zell, the founder of Equity Group Investments. Zell's investments in distressed properties and businesses have earned him the nickname "the Grave Dancer" and made him one of the wealthiest real estate investors in the world.

### *3.2 NAVIGATING LOCAL REGULATIONS AND MUNICIPALITIES*

**GPs must navigate** complex local regulations and work with municipalities to ensure that their projects comply with zoning and building codes. This can be a challenging task, as regulations can vary widely from one jurisdiction to another. One example of a successful GP who navigated complex local regulations is Aby Rosen, the founder of RFR Holding. Rosen is known for his ability to take on ambitious real estate projects in cities such as New York and Miami, where regulatory challenges can be significant.

### *3.3 COLLABORATING WITH ENGINEERS AND ARCHITECTS*

**GPs must work** closely with architects, engineers, and other professionals to design and execute their projects. This requires strong communication skills, as well as a deep understanding of the technical aspects of real estate development. One high-profile example of a successful GP who collaborated effectively with architects and engineers is William Zeckendorf Jr., the co-chairman of Zeckendorf Development. Zeckendorf has worked on a variety of high-profile projects, including 15 Central Park West, which has been called the most successful condominium development in New York City history.

### *3.4 WORKING WITH CPAS, FUND ADMINISTRATORS, AND BANKS*

**GPs must work** with a variety of professionals, including accountants, fund administrators, and bankers, to manage their projects effectively. This requires strong financial management skills, as well as an ability to build strong relationships with financial partners. One example of a successful GP who worked effectively with financial partners is Barry Sternlicht, the founder of Starwood Capital Group. Sternlicht has built a successful real estate investment firm by partnering with leading financial institutions and investors worldwide.





## CHAPTER 4: *DELIVERING ON PROMISES - HITTING TARGET GOALS*

### *4.1 UNDERWRITING AND PROPERTY SELECTION*

GPs must carefully underwrite and select properties to ensure that they meet their investment criteria and generate attractive returns for their LPs. This requires strong analytical skills, as well as a deep understanding of market trends and dynamics. One example of a successful GP who excels in underwriting and property selection is Jon Gray, the president of Blackstone. Gray has led Blackstone's real estate division to become one of the largest and most successful real estate investors in the world.

### *4.2 MANAGING THE PROJECT LIFE CYCLE*

GPs must manage the project lifecycle effectively, from initial design and construction to ongoing operations and eventual sale or disposition. This requires strong project management skills, as well as an ability to navigate unforeseen challenges and changes in market conditions. One example of a successful GP who managed the project lifecycle effectively is Rick Caruso, the founder of Caruso Affiliated. Caruso has built a successful career by developing and managing high-end retail and mixed-use properties in Southern California.



### *4.3 PROVIDING UPDATES AND MAINTAINING TRANSPARENCY*

GPs must keep their LPs informed about the progress of the project and maintain transparency throughout the investment lifecycle. This requires strong communication skills, as well as a willingness to share both good news and bad news with investors. One example of a successful GP who maintains transparency with his LPs is Tom Barrack, the founder of Colony Capital.



CHAPTER 5:

CASE STUDIES -  
SUCCESSFUL REAL ESTATE PROJECTS

5.1 GP-LP COLLABORATION IN ACTION: THE HUDSON YARDS PROJECT

The Hudson Yards project in New York City is a prime example of successful GP-LP collaboration. Led by Related Companies and Oxford Properties Group, the \$25 billion mixed-use development was financed by a mix of debt and equity from various LPs, including sovereign wealth funds, pension funds, and private investors. This partnership allowed LPs to capitalize on the expertise and vision of the experienced GPs, resulting in a thriving development that has transformed Manhattan's West Side.

5.2 PROTECTING AND GROWING WEALTH: THE SUCCESS OF LPS

Limited Partners can achieve success in real estate investing by carefully selecting GPs with a proven track record of success, managing risks effectively, and maintaining a long-term investment horizon. One example of a successful LP is the Teacher Retirement System of Texas (TRS), which has invested billions of dollars in real estate projects worldwide. TRS has achieved attractive returns for its members by partnering with leading GPs and taking a disciplined approach to risk management.

5.3 ADAPTING TO MARKET SHIFTS: THE EVOLUTION OF REAL ESTATE INVESTING

The real estate investment landscape is constantly evolving, and successful GPs and LPs must be able to adapt to changing market conditions. One example of a successful GP that has adapted to market shifts is Michael Fascitelli, the founder of MDF Capital. Fascitelli has built a successful real estate investment firm by focusing on emerging trends such as e-commerce and logistics, which have become increasingly important drivers of real estate demand.





# CONCLUSION

The real estate investment landscape relies on the symbiotic relationship between general partners and limited partners. By understanding their respective roles and the risks they take, it becomes evident why GPs earn a smaller share of profits while LPs reap the majority of the rewards. This ebook has provided an in-depth look into the world of real estate development, allowing readers to appreciate the hard work and dedication of GPs and the trust placed in them by LPs. The case studies and success stories illustrate the importance of effective collaboration, risk management, and adaptability in real estate investing.

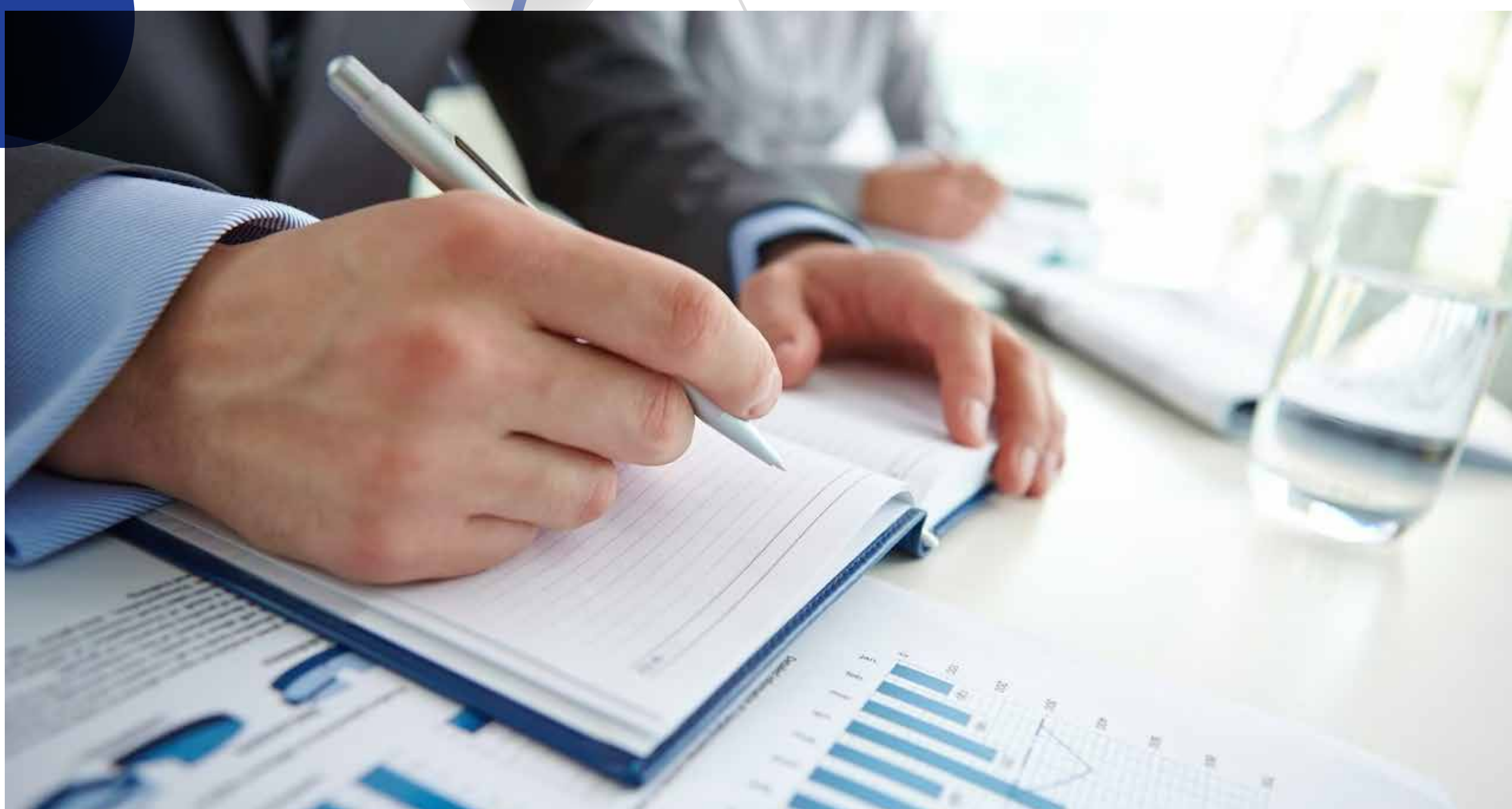
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