

Minimum Viable Reporting Package

A second letter to GPs



ALEKSEY CHERNOBELSKIY

JUN 10, 2024 • PAID



4



4



1

Share

1. Last premium post: [LP Investing Lessons Podcast #4](#)
2. Last free post: [LP Investing Digest #33 & Full Article Digest](#)

If you just joined: I write twice per week and you'll receive those emails as I post them. One article is always premium (such as this one), while the other is a free weekly digest on LP topics that might be helpful to you. If you'd like to upgrade to premium (which includes access to full [archive of my articles](#)), you can do so below. You can always reach me at aleksey@hey.com.

Minimum Viable Reporting Package

Welcome back! 🙌

I recently wrote a letter to GPs titled [Minimum Viable Deck](#) which got a lot of positive feedback. Today, I'd like to do the same, but for reporting packages.

The truth is, there's no standard with reporting packages and - similar to investment decks - I think there's massive opportunity for both GPs and LPs to consider what these could look like.

Why you should read this as a GP: most reporting packages I see don't contain helpful

information and I think this will help you improve your process

Why you should read this as an LP: this letter will give you a glimpse into what truly matters in reporting packages and how to read between the lines



The reporting package devil is always in the details...

Let's dive in:

Similar to the [Minimum Viable Deck](#) article, I'll write this from the perspective of multifamily deal.. but it should be easy to extrapolate.

We'll cover 3 topics today:

1. Timing

2. Communication

3. What to include

Timing

Some GPs send reporting packages every month and, although this is admirable, I find that (1) the quality of the updates suffer and/or (2) it's simply not the highest and best use of the GP's time.

At the end of the day, the LPs want to be passive...they would like to know the good and the bad, but typically won't have the ability to dig in deep. The GP needs to tell them what they need to know - not any more and (this is an important one) not any less.

To wrap up timing, a quick note to LPs: part of the pressure to report monthly comes from LPs and I disagree with it. You're already invested, so the reporting is only useful to you to the extent something has changed or something interesting is happening. the monthly updates are typically noise and are also fairly time consuming for the GP. To put it somewhat bluntly, you should prefer them to spend time on your investments rather than paying someone to show you a picture of the new dog park 🐕 and then cropping the picture to send it to your email. 😊

Communication



Aleksey Chernobelskiy ✓
@chernobelskiy

Promote



If you're planning to tell your LPs that they're going to lose all of their capital please don't wait until the last slide after you've talked about your irrelevant dog park and leasing updates ... can't make this up

1:44 PM · Mar 15, 2024 · 13.2K Views

View post engagements

19

3

71

1



True story...

I don't know how to say this more succinctly but please don't delay bad news. In today's environment, many GPs either (1) **put bad news at the end of a 30 page reporting update** or (2) **skip it entirely**.

It's hard to say anything about #1 other than I don't think that it's the right way of doing business. With that said, #2 comes in three forms - either you're:

1. Skipping it because you think something might change and don't want to alarm LPs too early
2. Are just too nervous to deliver the news, or
3. Withholding the news due to a conflict, such as wanting the LP to invest in another upcoming deal.

Let's discuss all 3:

- I hope it's obvious that #3 is not a good way to treat a counterparty ... particularly if you value long term relationships (which you should as a GP)

- #2 is valid - delivering bad news sucks and it's difficult. One thing I'd say here, though, is that LPs can be quite forgiving when they see that you're being candid and communicate early. In other words, the end result sucks but the fact that you're being human about it by being up front, transparent, and early are all factors that help LPs remember that we're all just human and make mistakes. It also allows them to plan for their financial needs, rather than being surprised at the end with no heads up.
- #1 is complex because it's subjective, but I do want to touch on it briefly. Things could improve at the property and things could turn around from a macro perspective too - rates can get cut, maybe even a few times! But just because something **can** happen, doesn't make it (1) materially helpful to the investment returns and (2) probable. As the probability of what you need for a reversal drops, you really need to communicate with your partners. The same is true even if the probability of an event is somewhat high, but the impact of such a change will have a material impact on the investment's trajectory or returns.

What to include

The most important thing in my opinion is working with numbers that the LP is familiar with. The best version of this is the original memo that you presented to the LP.

What I would suggest is showing a table of the P&L that you acquired the property based on (T12 and annual proforma projections for example) along with updates of your actual performance as the time goes by. Here's why I think it's useful to both parties:

- For the LP, this helps them understand how everything is coming along in a very simple way, against the T12 and the relevant projected period.

- The LP doesn't need to refer back to original documents and you (as GP) build trust as a result.
- To me, this tells the story more than anything else you can show. It also shows your ability to execute on your plan, since you're being compared to what you showed the LP in first place.
- To the GP, I'd argue the feedback loop to your underwriting talent within the firm is critical
 - I see many cases of proforma projections having margins that the GP has never been able to achieve in reality

This is so simple, but I've yet to see it in 10% of reporting packages today. I hope it helps you.

Now, what else should the LP know?

Well, if you open your stock portfolio what do you get ... the stock price, right? Clearly that's very difficult to show on a monthly basis, but there can be real intel over a 6 month period that would help portray what's happening to the investment from a valuation perspective.

At the end of the day, the investment success (more or less) depends on three factors which you should track carefully and report on:

1. **NOI** (bonus points for showing it against underwriting assumptions as I outlined above)
2. **Cap Rates/Sales**
 - a. Did a comparable property trade in the area? How does it compare to the comp table you showed in the original memo?

- b. If you were to sell based on these metrics today, what is the LP equity worth? Of course, you should include any notes that are relevant with this analysis.
- 3. **Any impending maturities (e.g. debt, pref, etc) or upcoming material cash needs** and what you're doing about it
 - a. For example, if there's maturity within 12 months you should definitely be mentioning this along with terms in the marketplace and the implications to the investment
 - b. Similarly, if you've planned to keep some cash aside for a rate cap in the future, you should show the cash balance that's reserved for that on every reporting package
 - i. It's a lot better to show where cash is going every few months, rather than surprise the LP with "we weren't able to save anything despite that being the plan" days before needing a capital infusion
 - c. As an aside, be transparent about the capital stack on the property - I can't tell you how many times I've had to uncover debt or pref equity that the LP was never aware of and it's never a good look

What else should you include?

Here are some ideas, but (1) don't throw in the kitchen sink and (2) remember that anything important should always come first.

I would personally prefer a focused reporting package that comes every 3 (or even 6 months) rather than monthly packages that are void of any useful information.

Think of the ideas below as an Appendix section:

- How have rent comps changed in the area (against underwriting assumptions to compare)?

- What's happening with supply in the area?
- What are some recent leases that were signed (please don't just put in gross rent if you offered 3 months off or a gift card as a concession - always show what matters)?
- How's construction coming along (and how are costs against budget)?
- How are the existing lease maturities staggered (if there's a concentration, what are your plans to address it)?
- Property upgrades and pictures (feel free to include the new dog park, but not on the first page!)
- Are there any planned developments or new employers in the area that are worthwhile to mention?
- What's happening with population trends in the specific market the property's in?

As always, would love your feedback. What would you add?

Thank you!

I advise LPs on existing and potential positions and write articles here weekly on what I see in the marketplace that could help you invest better. You can find me on [LinkedIn](#) or [Twitter](#).

Whether you're an LP, want to learn to become one, or affiliated with LPs (GPs, Attorneys, CPAs, Financial Advisors) I hope you'll consider subscribing and sharing this post to help others make more informed investment decisions.

When you're ready, I could help you in 3 ways - simply reply to this email if one is of interest:

- **Limited Partners:**

- **Potential positions** - you're considering investing and need an independent opinion
- **Existing positions** - there's a lack of communication, you're concerned about fraud, or perhaps you got a capital call request and you're not sure how to proceed. I have also helped LPs with a "post-mortem" analysis on deals that didn't work out - it's important to learn these lessons as opposed to just blaming the GP.
- **LP Course** - review 4 separate memos together with me and other LPs to learn how to find good LP investments.
- **LP Community** - free [2,200+ member LP Investor community](#) on Twitter
- **Find GPs** in unique asset classes/geographies on my [monthly intro post](#) (see [LinkedIn's post](#) as well for more)

- **General Partners:**

- **Deck review** - I'll look over your marketing materials from the perspective of an LP and provide slide by slide commentary to improve your pitch
- **Investment review** - I'll provide independent feedback on an opportunity you are pursuing
- **Capital call advisory** - you suspect that you'll need to make a capital call, but aren't sure how to proceed or communicate the message.
- **Other** - anything from waterfall/fee advisory to disagreements between co-CPs on the proper path given a set of circumstances

- **General Consulting:** modeling, strategic advisory, underwriting training, etc.

If you'd like to speak on the phone, you can reach me at aleksey@hey.com.



4 Likes · 1 Restack

Discussion about this post

Comments

Restacks



Write a comment...



Steve Smith Jun 14

Liked by Aleksey Chernobelskiy

IMO character of the GP is the number one criteria above all. In the past it has been hard for r determine since there isn't a specific set of metrics I can look at. However, with the short tern coming due, rents slowing, expenses increasing, looking for transparent quarterly reports addressing all the points you listed is a really great first step in judging a GPs character.

LIKE (1) REPLY SHARE

1 reply by Aleksey Chernobelskiy



Irwin Boris Jun 11

Liked by Aleksey Chernobelskiy

this is geared to multifamily investing, what about other asset classes ? not much happens in leased commercials properties where the rent is contractual

LIKE (1) REPLY SHARE

1 reply by Aleksey Chernobelskiy

2 more comments...

© 2024 Aleksey Chernobelskiy · [Privacy](#) · [Terms](#) · [Collection notice](#)
[Substack](#) is the home for great culture