SUCCESS CORNERSTONE

GUIDE TO BECOMING A MULTI-MILLIONAIRE IN REAL ESTATE

A GUIDE FROM REAL ESTATE INVESTOR, JOE FLORENTINE

Hello, my name is Joe Florentine and I am the founder of Real Estate Development & Investment company, Florentine Holding Company LLC, and the co-founder of Success Cornerstone LLC.

Now nearing the close of my career in Real Estate investing, I've dedicated my time to giving back to others and educating them on the tools and practices I've used throughout my career to find success.

This guide explains exactly how I went from less than $0 to owning over $60,000,000 in Real Estate in only 6 years. Now, I live off the income I make from thousands of tenants who pay me rent each month. You can do it too! Banks and others will fund the deals, tenants will pay for it each month and you collect the profits. The greatest wealth in the world is in Real Estate, time to get your piece!

This guide is being provided to you free of charge by Success Cornerstone and its mission to help 100,000,000 people live a more successful life in this decade. The information within could be worth millions to you. Success Cornerstone wishes you all the best!

FACT: You can make money with the proper mindset and determination to succeed.

In this guide I reveal exactly how the power of your mind can help you make money. Within these pages are the secrets of success in Real Estate investing that you won't learn anywhere else. These secrets are ones I've personally used to find wealth and success.

FACT: You can become a multi-millionaire through Real Estate investing.

By the time you are finished reading this guide, you will have all of the tools and skill sets that you will need to begin building a Real Estate empire. Even better -- you're going to learn how to do it with none of your own money.

FACT: My Real Estate business has over 2,000 tenants paying rent each month (from larger $20,000 per month commercial tenants to $50 per month self-storage clients).

Our assets are apartment complexes, self-storage facilities, restaurants, office buildings, convenience stores, gas stations, RV Parks and campgrounds, industrial/warehouses, retail buildings, fully entitled and improved subdivisions, condo projects, special needs housing, assisted living facilities and more. This business was built as such without $1 of my own money.

FACT: If your goal is to build a Real Estate empire and to be getting paid tens of thousands per month in residual income, this guide is for you.

I'm going to show you how to find it, fund it, manage it, profit from it and develop long term residual income. If you are just starting out and unfamiliar with some of the terms, on the last page I've provided the definitions of some of the key words used throughout the guide. You should also see the last page for information about how to access some forms that may be useful to you.

4 Reasons Real Estate is the greatest investment ever:

1. Real Estate is generally acquired with leverage. If you made a $100 investment in the stock market and it went up 10% in a year, you made $10 or a 10% return on investment. If you put that same $100 into a Real Estate investment, borrowed $900 to acquire a $1,000 asset and the value increased the same 10%, you made $100 on your $100 investment -- or your return on investment was 100%.

2. Real Estate appreciates in value over time. Real Estate values have, from a valuation/appreciation perspective, historically out-performed any other investments. Add leverage to it and it can't be beat.

3. Real Estate produces residual rental income (mailbox money) and is taxed at a lower rate than ordinary income.

4. Real Estate assets' physical improvements are depreciated, providing substantial income tax savings.

"Whatever the mind can conceive and believe, it can achieve." -Napoleon Hill, Think & Grow Rich

WHAT YOU NEED TO DO: THE ABC'S

A. DEVELOP THE RIGHT MINDSET

The first and by far the most important step in helping you become a multi-millionaire in Real Estate is developing yourself into the person you want to become. I consider this the most important thing in this guide. For things to change in the direction you want, it all starts with changing your thoughts and developing the right mindset.

We are all exactly where we are in life because of our past and present thoughts. Want things to change for the better? That begins with your current and dominating thoughts. We all want more out of our lives. That *more* may not only be related to money or Real Estate -- it can also be in relation to your relationships, health, spirituality, academics, and so on. If you are not where you want to be in any of these categories, it is likely due to the way you look at your current situation. So, for example, if you want financial independence but you live week-to-week and barely get by, the reason is likely how you're thinking about financial independence. Your focus may be on the lack of financial independence rather than on the goal of achieving it.

Go ahead and think about this: Let's say you want a new car and the thought of that makes you happy and excited. But when you think about your old car, you feel bad because you think about the separation of what you want from where you are. The key here is to be happy where you are, not focus on the lack of what you want and instead stay positive that you will get what it is you desire (in this case, the new car).

You don't have to know exactly *how* it's going to happen, just know that it *will* happen. When you stand positive on the subject and then take the appropriate actions to achieve your goal, it will always work out in your favor. The way you feel about the thought you're having will always tell you whether you're heading in the right direction or not. If you're thinking of the new car and feeling good, you're golden. If you're thinking of the new car and feeling that "lack of" thought, you need to reevaluate your thinking. Positive, happy thoughts attract the things you desire in life. Negative, unhappy thoughts do just the opposite.

The mind is a broadcasting and receiving station for thoughts. Picture it like this: When you tune your radio to 104.3 FM, you expect to hear the music played on 104.3 FM, not the music from 88.9 FM. When you have negative thoughts, but are expecting a positive result, it's the same as hearing the programming from 88.9 FM when you want to hear 104.3 FM.

Don't be jealous of what others have -- that always puts you into a negative mindset since you're essentially focusing on the lack of what you have in those moments. When you continue lack thoughts, you reinforce the lack.

Let me share a quick exercise I have personally found extremely effective in making sure I'm properly focused and attracting the things I want out of life. Visualize what you would like your life to be like. Now spend some time writing down what you see in that vision. What things do you envision yourself achieving in order to get there? Don't edit the thoughts -- just write them down. Don't worry about the "how's." Just the end results. Switch gears and now write down everything in your life that you are grateful for. Think big and small as it's all important. Once you're done with your gratitude list, go back to the first list and envision yourself having already achieved all that you desire there. How do you feel? Consider how grateful you'll be once you've achieved the vision of where you want your life to be.

It's a formula that never fails. Being grateful for what you have and grateful for what you are expecting to have in the future brings about those expectations. I could go on forever on this subject, but believe me when I tell you it is a universal law, just like gravity. Remember this very important point -- thoughts become things. I would highly recommend you read the book that my daughter Erica and I wrote entitled, *The Foundation of a Successful Life*. It goes into great detail on this subject as well as all aspects of becoming a happy and successful person in all areas of life.

Lastly on the topic of mindset is to be sure to watch out for the dream stealers. These are the people in your life that will try to convince you that you can't accomplish your dreams. A lot of the time, they are the people closest to you and most of the time they mean no harm. They will tell you all the reasons that you can't do something. Maybe they'll even tell you about people they know who have invested in Real Estate, or any business for that matter, and failed. They unknowingly plant seeds of negativity into your mind. Don't listen to them. It's your life! You know what you want and, by the time you're finished with this guide, you will know how to get it. The dream stealers may be intending to protect you from any disappointment and that's fine. Let them talk but don't let their words seep into your mind. Stay positive. You can achieve anything you want to achieve.

I once heard it put perfectly by a very wealthy gentlemen. This person told me, "When I was a child, I loved the roller coaster. Many of the other children liked the merry-go-round, but to me that just went round and round without any excitement. I've lived my life like the roller coaster -- exciting, challenging and fun. I feel bad for the people who live their lives like the merry-go-round, nothing ever changes." Most dream stealers ride the merry-go-round.

The bottom line here is that you must determine what you want, believe you can get it, and then take action to achieve it. A positive mindset will help you through every step of the way. Conceive what you want, believe you can get it and take action to achieve the result you want.

B. KNOW THE RULES: THE TOP 9

In business, it's essential to understand the rules of the game. I have developed rules for a successful Real Estate investment business that have benefited my career extraordinarily. I would highly advise that you follow these rules. They are easy to follow and, if you don't go outside this set of rules, you will prosper. There are nine of them in total:

1. Don't lose money. This is borrowed from Warren Buffet, as it is his #1 rule. I know no one ever intends to lose money, but this rule is in place to make sure you don't make a mistake. We will talk more about this throughout the guide, but realize here and now that you should never invest/acquire a project unless you are 100% sure of the outcome. I will teach you how to be 100% sure. Money should never go hard (put at risk) until you have completed your due diligence/analysis and have elected to move forward.

2. The end value of a new project must not exceed 70% of the total costs. Florentine Holding refers to this as "The Success Formula." The costs include acquisition price, closing costs, interest, carry costs, construction, etc. This business model is to profit from rental properties, plain and simple. How did I grow the business from $0 to $60mm? This simple formula! I know that once we stabilize a rental property, the lenders/banks will refinance 70% of the value, Sometimes we sell our Real Estate projects, but generally we simply refinance at 70% of the value, get all of our money back that we put into the project and roll those funds into the next deal. This is the formula for successful Real Estate investing and will be addressed in greater detail a little later.

3. Always be honest and don't make enemies. You can't keep everyone happy all the time, but do your very best to find amicable solutions to issues as they arise. You will find that you will run into the same people over and over again, whether they are bankers, realtors, lawyers, government officials, investors, or the like. You must act honestly and with good intent in your business dealings, as reputation will be extremely important to you as your business develops. You will need help, favors, inside track, and so on. Operate in good faith with all concerned and it will pay off big time in the long run.

4. Don't buy based on future values. The minute you tell yourself not to worry about rule #2 (70% value), you may soon find yourself dealing with rule #1 (don't lose money). When I say don't buy based on future values, I mean based on future appreciation. You should always work your success formula based on present values and present capitalization rates. What is important here is that you realize that when someone is telling you that a property used to be worth $1mm in 2017 so you should pay $800k for it now because it will be worth $1mm again in a couple of years, turn a deaf ear. It probably will be worth a lot more later on, but to succeed in accumulating a Real Estate empire, you must deal only with the current market, and not base it on future possibilities.

5. The most important person/people in the deal are the ones with the money. Without funding you can't operate. Therefore, you must make the bank/lender/investors happy first. Likely you've heard the saying that he who has the gold makes the rules -- well, it couldn't be more true in Real Estate. Shortly, I'll take you through the proper funding structure and teach you how to think like and work with the lenders and investors. They want the same thing as you -- to make money.

6. Don't be jealous of other people's success. I don't think I can stress this enough. Be happy for others' success instead. Any time spent thinking about someone else who has more than you or got a better deal than you is counter-productive and draws in negativity. If someone else winds up buying a deal that you were working on, call them and congratulate them on their success. Watch how it will pay off later down the line.

7. Don't make promises you're not sure you can keep. I see too many people out there in the business who are prone to making false promises. It's important to make sure you don't fall into this trap, because there is no way out. Earlier I mentioned that Real Estate investing is a small world. If the word gets out that you don't honor your commitments, it's damaging to your reputation and you will see it come back to bite you later. Be honest. If you're not sure on something, just say so. Everyone appreciates the honesty.

8. Don't complain. Complaining words attract more problems. No one wants to hear about someone else's issues/problems. We all know someone in our lives who is always complaining. It's likely you dread hearing from this person. It's the same way in business. Always focus on the good when in conversations with others. Your words, just like your thoughts, have the power to attract good or bad into your life accordingly.

9. Adversity carries the seed of equal or greater benefit. There are always going to be things in life/business that don't go the way you anticipated. I have conditioned my mind so that every time an adversity shows up, the first thing I do is ask myself, "What benefit is going to come from this?" And there always is one. Sometimes it's not apparent right away. Sometimes it's not at all from the direction I thought it would be. However, it always comes and the benefit derived far exceeds the original adversity. I'll give you an example: About a year into the business, my company had just refinanced our first apartment complex and wanted to use the funds to acquire a mobile home park. The mobile home park appeared to be a great deal and we put a lot of time and effort in.

The day before the closing, we discovered that the seller had an issue that prevented him from conveying clear title to us. It was not something that was going to be rectified in the near future so the deal was dead. I was extremely disappointed to say the least. Two days later I get a call from a broker that a prime downtown building was going to be available from a local bank and the asking price was $1mm less than we would have anticipated. Needless to say we acquired the downtown asset at less than 50% of the value because we were in a cash position to close quickly. As soon as we leased up, the value was over $2mm more than our cost basis.

Every adversity carries the seed of an equal or greater benefit, provided you're looking for it.

C. MAKE THE RIGHT DEALS

The Right Deals: Remember "The Success Formula." We touched on this in the Top 9 Rules. The end value of a new project must not exceed 70% of the total costs. To develop the business model described herein, I can't stress enough not to deviate from this formula. Here's how it works: When evaluating a deal, always make sure you can refinance the property within 2-3 years and recapture all of the costs so you can move the funds into another deal and not leave anything on the table.

To effectively select your acquisitions, you start from the end and work your way back to the offer. This is the road map to success. You have to know the destination before you can plan the trip.

We know that lenders will provide long term "perm" financing for assets that have been stabilized (at least 90% occupied) for at least 6 months. So here's how you proceed to establish the end value: Take what the total rent roll will be at 90% to 95% occupancy, subtract the current owners expenses and come to the Net Operating Income (NOI). Then divide the NOI by the current local cap rate (let's use an 8 cap for now). This will produce the end value of the asset.

Let's say you want to make an offer on a 50 unit apartment building, It's currently only 65% occupied for a gross annual rental income of $312,000, with expenses of $215,000 (includes taxes, insurance, utilities, maintenance, etc). This gives you a current NOI of $97,000.

Then, determine that at 90% occupancy the gross income will be $432,000, with expenses as a constant at $215,000. The projected NOI will be $217,000. If you divide that by a cap rate of 8, you now can determine that the stabilized value of the asset will be $2,712,500. The lender will provide a 70% perm loan for refinance in the future based on this number, or $1,899,000. So the most you can pay, including closing costs, renovations, etc. (referred to as the total capital stack) is $1,899,000. If you figure renovations are $200,000 and it will cost $60,000 to close and insure, the maximum amount you should be willing to pay the seller is $1,639,000. Make sense?

In this scenario, once you have repositioned the property, in a couple of years you will have an equity position of $813,500 and will have recaptured all of the capital stack so you can move these funds into the next deal and have an annual income before depreciation of $84,000 (assumes a 25 year loan at 5% interest). On one deal you have a net worth of over $800,000 and a full time income. It doesn't get much better than that.

For your knowledge, Florentine Holding makes an offer on almost every property looked at based on what we are willing to pay, not what the seller is asking. We use a simple two page "Letter of Intent" that takes less than 10 minutes to do and we email it to the seller or broker. We find that for every 10 we send, we get one deal at our price. I strongly encourage you to make an offer on everything you look at based on what you would pay. You don't have to bother the broker to draw up a big contract. Just send the "Letter of Intent" and see what happens. Most times it's rejected, but sometimes they accept or counter offer close to what you want. Many times they may reject it at first, then 6 months later you get a call because something changed on the sellers end.

ALWAYS MAKE THE OFFER!

The Right Deals: Understanding asset classes and what not to buy/what to buy. First let's address the asset classes to avoid. I'm not saying that you can't make money in these classes, but it is much more difficult.

WHAT NOT TO BUY

a. Single Family Homes: If your goal is to develop a Real Estate empire that pays you residual income for the rest of your life -- one that you can refinance (not sell), recapture the money and continue moving into the next deal -- stay away from single family homes. Single family homes are designed, built and priced for owners to live in, not for rental purposes. No matter how good it looks, don't buy it. You will not make money renting them. The deals I recommend, as you will see, budget for management, maintenance, vacancies, and more. This way you can build a business while not getting calls in the middle of the night for plumbing leaks. You can't budget the necessary expense items into single family homes, so unless you think you want to waste your valuable time dealing with this for probably no profit in the end, avoid this type of asset.

b. Offices: The internet and mobile devices has taken a big bite out of the office market. In most markets throughout the country, there is a glut of vacant office space available. Unless you get a good deal on a prime downtown type building, or happen to come across a good deal with a long term solid tenant already in place, avoid this asset class. Leasing the space will most likely be very difficult and you will have to offer concessions and lower the expected rent substantially.

c. Development Projects/New Construction: This is a very tricky business with many unknown variables. If you are not experienced in this field, the cost overruns will kill you. The only time I may recommend a development project is if you partner with an extremely experienced developer and the developer also has money in the deal. Generally, however, stay away. It's a long and expensive process and if the market turns south on you during the process, you could quickly find yourself in violation of rule #1 (don't lose money).

d. Land Entitlements/Approvals: Again this is a very specialized field and has so many unknowns including utility availability, zoning, environmental, public meetings, endangered species, transportation departments, fire departments, etc. Plus legal, engineering and application fees can drain you, all while you are not generating any income. It's a one-way flow of cash from you to everyone else. Unless you have experience in this field, I highly recommend that you avoid it.

e. General Retail: Unless it has a strong anchor tenant like a supermarket or national restaurant, I recommend against it. Don't get me wrong, Florentine Holding has some great retail properties and I know plenty of people who have done well in this asset class, however retail is certainly on the decline. To sum it up in one word: Amazon!

WHAT TO BUY

a. Apartments/Multi-Family: This is the staple of Real Estate investing. This asset class is where most investors start and many stay with throughout their career due to the fact that this asset class is easily understood and a growing number of the younger generation prefer to rent instead of own. I have done great with this asset class and it produces solid cash flow each and every month. Plus I never have spoken to one of the tenants. Growth in this asset class is very strong and vacancies are minimal on properly-run complexes and it's probably the safest asset class of all.

Here are the keys to multi-family: You should choose the right property. I would highly recommend that you not acquire any multi-family project with less than 50 units. The reason is that you will need management and maintenance personnel to effectively run the business and the economies of scale are much better when you are at 50 units plus. Some exceptions would be if you already have a 50 unit property and a 20 unit becomes available around the block, you can just plug the new 20 unit into the current system.

Also, don't buy in undesirable areas as these properties may be cheap, but can come with a lot of headaches.

A Class multi-family assets are difficult to find in a distressed situation, but if you can get a good deal -- jump on it. They are few and far between as these are predominantly owned by major players in the market and generally are well kept and fully occupied.

I prefer to acquire middle of the road, B-C Class buildings, as good deals on these assets are always available. The reason is that they are owned and run by individuals and mom & pop operations, and they can fall into a distress situation very easily (such as partnership breakups/fighting, divorce, death, and so on). You will also find them with financial issues in many circumstances due to over-leverage, cross collateralization, etc. (For example, an owner of a 100 unit complex could be doing great and decides he's going to borrow from the asset and develop 20 acres of land into 50 single family homes. Two years down the line and $1mm later, he still hasn't gotten a shovel in the ground and the market could turn, the bank calls the loan and he's stuck.)

In addition, the B-C Class buildings always have demand. They are working class housing with reasonable rents and have a constant flow of the younger generation moving out of their parents' home, for instance. When properly run, they are the safest investment you can make.

b. Self-Storage: This is my favorite asset class! Here are the big differences between multi-family assets and self-storage:

- Profitability: Generally, multi-family expenses run at between 45% and 50% of the gross rents. Properly run self-storage expenses run between 35% and 40%, sometimes even less. So right out of the gate, you retain 10% more of the profit.

- The Hours of Operation: Multi-family can be a 24/7 management task. Even though you may not be dealing with it directly, things go wrong at all hours of the day and night. With self-storage the hours are set and there are no (or at least very little) late night and weekend issues to deal with.

- Maintenance: Multi-family needs constant attention. Tenants residing in the property will have maintenance issues -- it's just how it is. Self-storage has basically none of that. A roll up door goes off the track once in a while or light bulbs need to be changed. Ultimately, it's very easy to maintain.

- Tenant Collection-Evictions: In multi-family you will always have a percentage of tenants that you have to track down for their rent. It's just part of the business, and if you have to evict, it could take months in some areas. With self-storage, most tenants are on autopay through credit cards or debits, and the ones who don't pay by the 5th of the month, you simply overlock their unit. If they don't pay within 30 days or so, you provide proper notification and auction the contents of their unit. It's the easiest collection of any asset class.

Overall, we have made more money in self-storage than all of the other asset classes combined.

c. RV & Mobile Home Parks: This asset class can be extremely profitable as well and easier to maintain than most of the others. You essentially are renting out concrete pads/spaces and supplying utilities to them. These parks are generally run from a single office inside a clubhouse, with amenities such as a pool, shuffle board/basketball courts, and more. It's a very pleasant atmosphere, with the tenants generally supplying their own RV or mobile home. The rents can be daily, weekly, seasonally, yearly, or however you'd like to do it. I have done well in this asset class with income similar to multi-family without having to maintain the actual dwelling units. In southern states, these parks are very popular and also provide a good and affordable alternative for retirees.

These 3 asset classes defined above, in my opinion, provide the best money-making opportunities for investors at this time.

Let's Talk Management

Employing the right management team and maintenance personnel is key to ensuring you're able to work *ON* your business, as opposed to working *IN* your business.

Proper management means everything. It doesn't matter if you are acquiring a prime A Class asset or a rundown C Class asset, experienced management is essential to a profitable operation. If you are looking to build a business -- one that enables you to walk away and collect residual income for the rest of your life -- you don't want to handle direct management of the tenants yourself just to save the management fees. When you look at a deal, you should always factor in the expenses for on-site management. It's preferable for managers to live at the property so that there is always someone available on site in the event of an emergency after hours. You can get a good property manager by offering them a free apartment and a very reasonable salary.

Much of Florentine Holding's property is in Florida, and there the on-site managers get paid approximately $2,000-$2,500 per month, in addition to a free apartment to live in for running about 100 multi-family units, or 100 unit RV park, or 40,000 SF self-storage facility. With our multi-family properties, we also employ one full time maintenance person for the same amount and a part timer for about $1,000 per month. In addition to the manager, RV parks usually require one additional full time person, while with self-storage no one else is needed.

In different parts of the country these amounts will vary, but no matter what you will be paying very little to not be bogged down with tenant and maintenance issues and you can focus on building your business. You oversee the managers, set your goals and expectations for them and communicate with them -- but don't get too involved in every little item, It will take away time from focusing on your goal of financial independence.

I've found the most time-efficient way is to have a set conference call with your managers every week to review the goals of the preceding week and structure the new week. I prefer Monday mornings for the call, It gets everyone moving in the right direction for the week. I spend a few minutes on Friday or Saturday morning reviewing the previous week's agenda and developing the new week prior to the call. During the week, be available for questions, concerns and issues that arise, but have all of it go through your manager. Don't allow access from maintenance personnel and tenants, as you will find your day being wasted. I recommend against property management companies because they will fee you unbelievably. Hire your own management and, trust me, your bottom line will be much better.

Assuming you took over a distressed property, as will most likely be the case, do not hire the current manager. There is a reason that the asset is distressed and, while it may be the owner, most likely it's the current management as well. You need to show the current tenants that you are serious about improvements to the property and nothing says it louder than replacing the current manager the day you take over.

Finding the Money

You don’t need any of your own money to start growing your Real Estate empire. Knowledge can replace money. Please read the preceding sentence again. Besides having the proper mindset, your ability to raise the funds that you need for your deals is the next most important thing to your success in Real Estate investing. Never again should you say to yourself, “If I only had the money."

There is plenty of money available for profitable Real Estate deals through lenders and private investors. Let’s discuss how to combine funding from both lenders and private investors to accomplish your financial goals, while making them money at the same time.

Lenders: Lenders come in many shapes and sizes. There are traditional banks, life insurance companies, bridge or hard money lenders, seller financing, CMBS lenders, government-backed programs such as Fannie Mae, and more, just to name a few. I have used most of these sources to secure financing for our projects over the years. Some are better than others depending on the type of asset you want to acquire, the timing of the market and the structure of the deal. I strongly encourage you to reach out to a commercial loan broker and start a dialog with them. They are invaluable in finding the best funding source for your deals.

I have a couple of great broker/lender contacts. For bridge loans/hard money: martin@expresscapitalfinancing.com. For perm loans/life insurance lenders: bcox@tdwood.com.

Please note that I recommend always going to the seller first for financing. It’s by far the fastest and easiest and I've succeeded with short term (2-3 year) seller financing many times. Always ask the seller first.

All of these mentioned above, are generally 1st mortgage lenders and willing to lend between 65% and 80% of your deal/project (assuming the deal makes sense, of course). We’ve already established early on that you want your costs to be no greater than 70% of the end value, and a deal structured this way will make sense to these lenders. The general rule is that they will lend 70% of the cost of the project.

A very important point here is that we're discussing commercial lending, not residential, so you are not subject to the same type of criteria that you would be if buying a single family rental property, or even your own home. It’s actually easier to secure financing for a 3 million dollar multi-family project than a single family rental once you understand the business better. It takes a little time, but it’s worth it. The real question from the lenders is, “Does this deal makes sense and are we going to get paid back?"

Obviously of importance is your credit rating. Good personal credit carries a lot of weight with lenders. In the event that your credit is not good, I highly recommend that you start taking steps today to improve it, and even start to establish new business credit.

I recommend that you visit https://creditrepair.betterqualified.com/heera/. From my experience, they are the best in the business. Even if your credit is poor, you can still get your deals done by bringing in another party to guaranty the loan with the lender until your creditworthiness is re-established. You just give them a small percentage of the deal for their guaranty.

To introduce our deal to lenders, what we’ve developed is called a “Loan Summary." The summary is a simple 4-5 page document that lays out the essential points of the loan request. The summary describes the asset/property, the current cash flow, the planned improvements, the capital stack and the end or repositioned value. See page 14 of this guide for more information on obtaining a sample Loan Summary

Private Investors: There are a lot of people out there with a lot of money to invest. They are friends, relatives, relatives of friends, business associates, co-workers, investment groups, IRA's, realtors, lawyers, accountants and their clients. The list could go on forever. I would strongly encourage you to make a list of people you know that may have money to invest and have a general conversation with them to feel out their potential interest before you even have your first deal locked up.

In speaking to them, simply say that you're going to be buying some great income-producing properties such as an apartment complex or self-storage facility, you're searching now and that you may be seeking some investors. I recommend you offer them a minimum 5% monthly interest payment, a personal guaranty of repayment of their funds, and probably about a 20% return to them when you sell the property in the future.

Ask them if they are interested in hearing more about it if you find the right deal. The answer will likely be yes. If not, move on to the next person. You should be talking as such with potential investors while you are working on finding the right deal.

Here's how I've come to structure the deals with private investors. For each project you start you should form a brand new LLC (Limited Liability Company). It's easy and inexpensive to do. This is formed after you get an accepted offer. The original Letter of Intent is just submitted in your name with the right to assign the contract, which you will assign to your new LLC.

Then write up an "Executive Summary" that provides an overview of the project, including description of the asset, location, condition, and so on, along with the current financial condition of the asset, the turn-around plan and what the end value will be. (Very similar to the Loan Summary, but directed to investors.)

Then offer the investor the following:

- Monthly interest payments at 5% on their money while it's invested in the LLC that is acquiring the asset. (For this they receive a "Promissory Note.")

- A personal guaranty that the funds will be repaid to the investor within a certain time period, usually 2-3 years, (For this they receive a "Guaranty of Promissory Note.")

- A percentage ownership in the LLC/project equal to their investment amount as a percentage of the project costs. For example, if the total project cost is $1,500,000 and they are investing $150,000, then they own 10%. That means that they own 10% of the profits (monthly cash flow, equity, proceeds from the sale, etc.). (For this they receive a "Certificate of Membership Units" in the LLC.)

It's a great deal for them and a great deal for you. Let's say that you have a project that you are buying for $1,200,000, closing costs are $60,000, carrying costs, (initial losses until the projects starts to produce cash flow) is another $60,000 and renovations/improvements are $180,000. The total costs, or capital stack, is $1,500,000. Staying with our 70% rule, the end value will be approximately $2,150,000. You borrowed 70% of the capital stack, or $1,050,000, from a lender, and you secured three investors, each for $150,000. The investors own a total of 30% and you own 70% without a dollar out of your pocket. When the project is complete and stabilized there is now $650,000 of equity. You can either sell and take the $650,000 profit, or refinance it at $1,500,000, return all the money to the investors and original lender, and keep it for monthly cash flow. Even at the new refinanced amount, your monthly cash flow will be very good.

So let's look at what everyone received from this deal, whether you sold the project or kept it. Let's assume that this took 2 years. Each investor who contributed $150,000 received $15,000 in interest payments, usually about ½ or $7,500 in monthly profits, and $65,000 in equity or proceeds from the sale. Each investor made $87,500 on $150,000 (that was personally guaranteed by you) in 2 years. That's a total return of 58%, or 29% annual return.

What do you think an investor's next question is? They're likely to ask if you have any more deals they can get involved in. From this position, you can now move forward on almost any deal you want without having to wonder where you can get the funding. You have a track record going and everyone is going to want to invest with you.

In that example, you made approximately $52,500 in monthly profits and have either an equity position or sale proceeds of $455,000, for a total of $507,500, without a dollar of your own money. We previously discussed how knowledge can replace money. Well, there it is in black and white. I personally did over 30 of these deals in 6 years and now my son who took over the company has done another 15-20 deals in the past 3.5 years using this exact formula. It works! Don't let anyone tell you different.

Just repeat the process over and over and before you know it your monthly income has grown to a point that you previously never thought it would. It's a great feeling.

Below you will find definitions of some of the terms that you may not be familiar with as well as a list of the documents that we have available for your review. I hope that you enjoyed reading this guide and have learned a lot about Real Estate investing.

I strongly encourage you read our book, *The Foundation of a Successful Life*, as it will provide great insights to you and ensure that you develop and keep the right mindset to become a multi-millionaire in Real Estate. It is available now on Amazon and through our website, www.SuccessCornerstone.com.

SUCCESS CORNERSTONE

SAMPLE DOCUMENTS:

The following sample documents are available at no additional charge to those who purchase *The Foundation of a Successful Life* book. If you're interested in receiving these documents, send a copy of your order confirmation to info@successcornerstone.com and we will give you access to the Sample Documents DropBox.

Loan Summary: Used to present the deal to a lender

Executive Summary: Used to present the deal to an investor

Letter of Intent: Used to make offers on potential deals within a few minutes

Promissory Note: Used to outline repayment terms to investors

Guaranty of Promissory Note: Used to guaranty payments to Investors Membership Unit Certificate; Issue to investors representing their share of ownership in the company

Membership Unit Certificate: Issued to investors, representing their share of ownership in the company

DEFINITIONS:

Asset Class: This is the type of property: Single family, multi-family, self-storage/warehousing, industrial, mobile home parks, retail, office, etc.

Cap Rate: Also known as “Capitalization Rate." This indicates the rate of return to an investor assuming they paid cash for the property. You can expect the cap rate to be lower in prime areas and higher in less desirable areas. In other words, an investor would expect less of a return (cash flow wise) in a prime location because the risk associated is less and they will likely make more on the sale later, as prime areas generally appreciate more in value. To determine a typical cap rate for your market area, simply call a commercial broker and ask them what they feel is the current cap rate for the asset class you’re targeting.

Capital Stack: The total of the acquisition price, closing costs, carrying charges and improvements.

Carrying Costs: The costs to maintain a break-even status until the property starts producing a profit.

Cross Collateralization: This is when a lender secures debt on not only the property/asset in question, but on another asset as well to further secure repayment of their loan.

Leverage: The use of other’s money to acquire larger assets than you would be able to acquire with your own funds.

Net Operating Income (NOI): The rental income, minus all expenses, except for the financing/mortgage.

Repositioned Value: The value of the asset/property after improvements and lease up. This establishes the end value that you are seeking to either sell or refinance the property once completed.

Right to Assign: Gives the buyer the opportunity to assign the buyers' rights within the contract to a third party. (For example, the Letter of Intent or contract is in your name and you assign it to the new LLC that you formed.)

Stabilized: When your project is complete and achieved very close to maximum NOI and cash flow.