“Special Report”

13 Ways To Buy “Sweet Spot” Commercial Deals Without Using ANY of YOUR Money

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With our “Sweet Spot” Commercial Deals, it’s a Good News/Bad News scenario. It’s just like trying to get a great deal on a “Junker” house funded. Most of the time we’re interested in buildings where we can get really good deals *BECAUSE* of all the “Hair” that’s on them.

The problem is, those “issues” we’re excited to find out about the property are the exact same concerns that scare the dickens out of most conventional lenders. So how do we resolve that??? We use funding sources other than banks and mortgage companies.

We’ve taken the time to list a few ways we have put together funding on various deals. Some of them are pretty commonly known around Real Estate cirlces, others aren’t so commonly used. Here’s a list of 13 of our favorites, and we’ll discuss each one separately in detail:

1. Seller Financing
2. Private Lenders
3. Hard-Money Lenders
4. Equity Partners
5. “Subject-To”
6. Assume Existing Loans
7. Master Lease Option
8. Joint Venture with Seller
9. Trade or Exchange
10. Private Placement Memorandum
11. Public Offering
12. Syndication
13. Your Own Funding Company

#1 Seller Financing

Two of the sweetest words in the English language are, "Seller Financing". Seller financing can make a marginal deal spectacular. The lack of seller financing can cause us to take a reasonably good deal and flush it down the toilet.

Asking the seller to hold some short-term paper isn't too hard of a question to ask. The major reason we'll pay more for seller financing is that it nearly always eliminates many of the hurdles we'll need to overcome when obtaining new financing. For those of you who have ever tried to convince a bank that you "stole" the property or got an incredible deal, you know exactly what we're talking about.

Most lenders will only loan a percentage of your acquisition price or the "As-Is" appraised value, ***whichever is less!*** By basing their loans like this, they actually penalize you for negotiating a good deal. Get over it. It's the "Golden Rule" (he who has the Gold makes the rules) at work, until you work out our own funding sources.

Many of you are quite skilled in negotiating seller financing and understand it thoroughly. However, many more of you may not be nearly as well versed in it, and might lose the deal without ever knowing why. If you don't feel comfortable explaining it, you need to learn more about it. This is definitely one of those situations where "The more you LEARN, the more you'll EARN".

#2 Private Lenders

Throughout our Investing careers, we've become very familiar with this type of funding. If you've ever read all of the Loan guidelines and scrutiny that the conventional lenders drag you through, you can now understand why it is so important to have the longest list of Private Lenders possible.

What is a Private Lender? A Private Lender can be many people, ranging from FFA (friends, family and associates) to very sophisticated accredited Investors. The main differentiator in determining a "Private Lender" is that they have "Decision Making" and "Check Signing" authority when it comes to funding.

Private Lenders are perhaps the most valuable and coveted resource we have as Commercial Real Estate Investors. Having someone you can count on with the ability to analyze a deal and make a funding decision quickly can make or break your business.

We're only interested in GREAT DEALS, and they're typically snatched up very quickly. Time is of the essence in most of these deals. We only have a narrow window of opportunity to close or to get additional work done in order for the property to appraise for the amount we intend.

Therefore, we draw upon Investors who can make decisions quickly, and for that we're willing to pay a premium in fees and interest. We've realized it isn't a cost of the funding that's important to us, but rather its availability. The list of Private Lenders we work with takes years to build, but once the snowball starts rolling off the mountain it takes on a life of itself.

We usually limit ourselves to working strictly with "Accredited Investors". They tend to be much more sophisticated and should not be impacted by a loss as much as someone who has their life savings at risk. Here are two IRS definitions our Accredited Investors typically meet…

a. *Any natural person whose individual net worth, or joint net worth with that person's spouse, at the time of his purchase exceeds $1,000,000;*

b. *Any natural person who had an individual income in excess of $200,000 in each of the two most recent years or joint income with that person's spouse in excess of $300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year;*

Now that you understand a little about what a Private Investor is and what they typically expect from you, let's explain how we best use this very valuable resource. We use Private Investors for many Investment strategies and the sky's the limit when structuring a deal.

We have relied heavily on Private Investors for acquisition funding on many of the deals we've been involved with over the past few years. One of the biggest reasons is the "Skin in the Game" most conventional lenders or even Sellers willing to Seller Finance want to see.

As we mentioned earlier, many times the projects we are working on have "Hair" on them and are in need of repair. At other times there are additional factors impacting the project's ability to cash flow. Therefore, we frequently use Private Investors to fund not only the acquisition, but also for the funds required to carry the project for up to 18 months.

#3 Hard-Money Lenders

Now that we've spent a little time understanding our favorite method of funding with Private Investors, let's discuss another one of our favorite ways of unconventional funding. Even though it's almost always very EXPENSIVE, it's still a VERY valuable method and can get you through the hardest part of the transaction - the Acquisition.

What is a "Hard Money" Lender? Does Hard Money mean they only have coins? In a nutshell, Hard Money just means it is "Hard" to accept the terms and fees they charge when using this type of financing. However, you must run the numbers to see if the overall profit is worth the initial pain and costs. If the answer is "Yes", move on with the deal. If the answer is "No", hit the road and keep searching.

Hard Money can be defined as an Investor or Group of Investors that loan money on just about anything of value, as long as the LTV meets their Investment guidelines. The loans are usually no more than 50% LTV, and all their fees and interest will usually be deducted from the proceeds.

Hard Money rates for fees range of 4% - 10% and are also paid from the proceeds at closing. The interest rates range from 10% - 20%, and will almost always require 6-18 months of pre-paid interest reserve. This doesn't include any Broker or Consultant Fees to be paid to third parties, which can cost you another 1% - 10% depending on the type of raise they are placing for you.

#4 Equity Partners

A good Partnership is like yin and yang, peanut butter & jelly, hot and cold, etc… many times they represent polar opposites, but their talents just go together. The reason a good partnership flourishes is primarily because the "Partners" bring different and complimentary resources to the table.

Many Investors make the mistake of getting a partner with similar personality, talents and resources. When each partner contributes the same ideas, assets, money (or lack there off), it's a recipe for disaster. The same can be said for "Equity Partners".

Funding a project using Equity Partners has always been one of our favorite ways to get deals done. In a typical project where we bring in an Equity Partner, we provide the following pieces to the puzzle:

- ✓ The project the Investment relies on to be profitable;
- ✓ The experience and expertise to bring it to the closing table;
- ✓ The management expertise to handle the project successfully once we own it;

Our "New Equity Partner" provides:

- ✓ The funding.

If we each had what the other possesses, we wouldn't need each other and the relationship would falter. As you can see, the Equity Partner only has $$$ to offer to the equation. We bring all the other components together. That's a very important theory to keep in mind. Don't sell yourself and your talents short by giving away the farm.

We're meeting each other's needs in a complimentary Business Relationship where we get access to the capital required to acquire, develop and sell or lease the buildings. The Investor gets a chance to put his money to work for a ROI he's happy with.

There is no such thing as a "typical deal" when negotiating with Equity Partners. Each deal and each Equity Player are unique, so we keep an open mind as to what they're looking for. The one thing

you can be sure of is there'll be a lot of discussion about everyone's expectations and what's in it for them.

Each Equity Partner has their own way of doing things and will direct the interaction. At the very minimum, a monthly report is in order. Depending on the expertise and experience of the Equity Partner, you may want to bring them in much more often to consult and assist in making important decisions regarding the project.

#5 "Subject-To" the Existing Loan

"Subject-To" deals are one of the most commonly misunderstood acquisition techniques used by Investors. A "Subject-To" purchase is where a Seller has an existing mortgage on a property and agrees to allow the Investor to take both title and possession of the property while leaving the mortgage in their own name. It's like taking over payments on it.

You as the Investor then have both the legal and moral obligation to the Seller to make the payments until the loan is satisfied. We take those obligations very seriously, and strongly suggest you do as well.

Many people mistakenly think that because of the presence of a "Due on Sale" clause in virtually every mortgage written since the mid-80s, that buying a house "Subject-To" is illegal. The "Due on Sale" clause simply states that the mortgage company has the opportunity to call the loan due if any interest in the property is transferred.

It gives them the option to exercise their right to call it due if they choose to, but it certainly isn't automatically exercised. Although a few states have attempted to enact statutes requiring the underlying mortgage to be paid off at the time of sale, in most state it is not required.

Not only is this considered a "contractual" legal issue and in no way a criminal one, with today's mortgage crises and foreclosure rates, the mortgage companies have enough problems of their own without trying to create new ones for themselves by calling in a loan where the payments are current.

In the hundreds of "Subject-To" deals we've been involved with, we've never had a single mortgage cvompany do it. Now it will probably happen to you on your very first try at one, just because you're YOU. (Just kidding!)

Investors all over the country (including both of us) have been using this strategy for years without any problem whatsoever, so now is one of those times not to pay attention to people who aren't knowledgeable about the facts.

This technique is incredibly powerful for a number of reasons:

1. You don't have to "Qualify" to assume any mortgage. You do have to make the payments, but without the aggravations of the approval process.
2. Since you didn't take out a new loan or agree to assume the existing loan, there is no personal guarantee or liability. Again, you have the legal and moral obligation to make the payments, but the lender cannot come after you to get a judgment if something goes badly wrong.
3. In most circumstances, the seller has got to be extremely motivated to go along with this type of acquisition strategy. With that being the case, rarely is there the need for large down payments unless it is to take care of back payments in circumstances where the loan is in default.
4. There is no limit on the number of deals you can do based on your credit and income, since nothing about the mortgage is ever recorded on your credit report.
5. Because there are no requirements (other than making payments on the loan) when taking over a property "Subject-To", you can easily build a large portfolio of properties (even if they have minimal equity) and still have no mortgage in your name.
6. Since you can build a portfolio quickly, there is a good opportunity for tax benefits because of the mortgage interest and depreciation deductions.
7. There are typically no commissions paid to RE Brokers or Mortgage Brokers due to the fact that very few of these properties are sold by or found through Realtors and no new loans are originated.
8. You are limited only by your imagination when using the "Subject-To" strategy to acquire a property. Virtually any Exit Strategy will work successfully.

#6 Assume the Existing Loan

This strategy is very similar to the "Subject-To" acquisition. The property has an existing mortgage already in place, the payments for which you agree to become responsible. The big difference here is that with this particular strategy you legally "Assume" the full liability of the mortgage in the case of a default. This really is a major difference between the two, because with a "Subject-To" purchase you typically can't be sued for failing to make a payment, whereas you can if you legally assume the loan.

Because many of the loans on Commercial properties are made in the name of a business entity, quite frequently they are both Fully Assumable and are also Non-Recourse (meaning they carry NO personal liability). In this instance, assuming the loan in the name of YOUR business is not as big of an issue as it might seem at first glance.

#7 Master Lease/Option

A Master Lease with an Option to Purchase for Commercial property is very similar in most respects to the same type document for a Residential property. For each you're agreeing to lease the property from the owner and at some point in the future you will have the opportunity to purchase the property at a predetermined price, however you are under no obligation to complete the purchase.

The big difference between the two is the incredible power to increase the value of a Commercial property compared to a Residential one. By simply increasing the rents, increasing the occupancy level, or decreasing the expenses, we should be able to increase the Net Operating Income (NOI) for the property. When you increase the NOI, you also increase the market value of the property.

By establishing a base rent you're paying to the owner, once you are able to increase the rent, you get to keep anything over the base amount. Since you are increasing the income thereby increasing the value property, you're building in an immediate amount of equity/profit that will be generated at the time of your acquisition. You realize that equity/profit at the time you sell or refinance of the property.

During that period of time called for in the Master Lease, you are responsible for all management and collection efforts. You in effect become the landlord and sublease the property out to tenants.

#8 Joint Venture With Seller

We've been involved with several projects where we created a Joint Venture with the current owner. In effect they would put up the property as their part of the contribution to the Joint Venture, and we would bring forth the expertise to take the property through transition to a successful and profitable conclusion.

In some instances the property would be owned free and clear, allowing us to obtain a mortgage using the property as collateral. We would then take those funds and the use them as working capital to get the property stabilized. Once it was stabilized, we would then sell the property and divide the profits as per our Joint Venture agreement, or we would refinance the property and distribute the tax free proceeds accordingly.

#9 Trade or Exchange

Jeff and I have been using trades for quite some time. To be able to give something of yours to someone as part payment for something of theirs in lieu of cash is a pretty neat concept. We've taken

in some really cool stuff from our deals, (furniture, lawn equipment, vehicles, etc.) and given away stuff we really didn't need to get something we wanted. That's the simple basis for trading, swapping assets in lieu of cash. Fairly simple and straightforward.

An Exchange, commonly called a 1031 due to its reference to the section of the IRS code, on the other hand, is a much more detailed situation. The typical scenario comes into play prior to the sale of the property. You elect that you want the proceeds from the sale to be applied toward the purchase of a similar asset, and when following all the guidelines established, those proceeds are not taxed. A 1031 is used much more commonly when dealing with Commercial property versus Residential, because exchanging with a permanent residence is not allowed.

To do a true exchange, there are many steps that must be carefully taken in order for it to qualify. For instance, there is a limit to the number of days between the sale of a property and the application of the proceeds toward another property. You are allowed to target a limited number of properties for acquisition, but you have to select one as you get close to the end of your timeframe. A third party intermediary must be used for the transaction, and you are not allowed to access the proceeds between the sale of your property and the acquisition of the new property

The 1031 exchange is a bit too complicated to go into great detail in this limited report, but once you get involved with Commercial properties, you have a much better idea how powerful the concept can be. When you start seeing 6 & 7-figure checks representing the proceeds from the sale of your properties, you'll quickly realize how important the tax deferability of an exchange might be for you.

#10 Private Placement Memorandum

A Private Placement Memorandum (PPM) is another way we have raised capital for our Commercial projects so that we didn't have to use ours. The concept is that you create a specific Offering Memorandum detailing your project, the management team, the amount of money you're looking to raise, the return you're willing to provide to the Investor, and all the other specifics you can come up with. Once the Offering Memorandum is finalized, you can then solicit Investors for the project.

Depending on the type of PPM on you choose (and there are several), you can raise anywhere from a few hundred thousand dollars up to an unlimited amount of capital. Here again, there are quite a few rules and regulations involved so that you don't get a friendly call from the Securities and Exchange Commission for selling securities without a license. For instance, there are limits to the number of accredited versus non-accredited Investors you can have in a single offering. There are limits to how you can advertise and market your offering. There are restrictions as to who can get involved in private offerings. A PPM is best done by a securities attorney, or someone who is very experienced in private offerings.

#11 Public Offering

A public offering is similar in many respects to a PPM, in that it is recognized as a security that it is subject to scrutiny from both the State and Federal Securities and Exchange Commission. As the name implies, you're putting out an offering to the general public, as opposed to qualified accredited Investors in a PPM.

The SEC is much more concerned about what happens to the general public in comparison to what happens to Investors that supposedly know what they're doing. Because of that, there are quite a few more hoops to jump through in order to get your offering approved. The good news is that depending on the type of offering you apply for, once it does get approved there may be no limit to the amount of funds you can raise. That's a good thing!

#12 Syndication

Syndication is a method of selling property through the **pooling of resources** whereby a sponsor, or syndicator, sells interests to Investors. It may take the form of a partnership, limited partnership, a tenancy in common, corporation, or subchapter S Corporation. In its simplest definition this term is applied to any form of organization which allows two or more Investors to participate in the ownership of an interest in real estate. For example, a syndication was formed in that limited partnership interests were sold to Investors. The limited partnership then bought a building with the equity raised from the Investors.

In the syndicate, the real estate asset is divided into two or more 'Investment Units' which are acquired by the individual Investors. It is important to realize that the Investment Unit refers to the particular asset that is acquired by the Investors (the limited partnership shares in this example), and not the underlying real property itself. The precise nature of the Investment Unit will depend on the form of the syndicate. In essence, Investment Units represent a fractionalized ownership of one or more interests in real property rather than direct ownership of an entire interest.

One of the beauties of syndication is that you can act as the syndicator, raise the necessary funds from outside Investors, and provide an ownership interest in the syndication for yourself even though you made no financial contribution. Your contribution is in the management of the syndication and facilitating the transaction.

#13 Your Own Funding Company

How would you like to create your own bank, and use the funds for whatever legal purpose you chose? Sounds pretty neat doesn't it? Well, you can certainly do that when you start your own Funding Company. A Funding Company is an entity you set up based upon a certain set of criteria for which you will use as guidelines when lending money.

You're able to solicit Investors in your Funding Company who provide capital with the understanding that will be used to fund the types of projects specified in the originating documents for the company. For instance, if you say you want to raise money to acquire small-to-medium defaulted or distressed Commercial properties, and you state the return you will provide to the Investor, you then commence the fund-raising process.

As the manager of the Funding Company, YOU are the Loan Committee, and get to make the decisions as to which projects get funded and which ones do not. Do you think your odds for funding on a project are improved when applying to the company that you manage? We'd think so.

Not only that, but what if you got so good at raising capital that you had more than you could spend? We know it's a silly thought, but follow us on this. Let's say you had all the properties your team could possibly handle and you really weren't pursuing anything new at this time, but you still had capital available to loan out on projects that met the criteria you established for the company.

Do you think you might be able to find someone with a project that met your lending criteria, that might be interested in some capital and would be willing to pay you not only the rate of return specified in your funding company's documents, but would also allow you an equity participation in the project? Once the project is completed, the Investors took their return as agreed, and the funding company keeps the ownership interest in the property along with whatever profits result from it in the future.

In Conclusion

As you can see, there are numerous ways to get involved in "Sweet Spot" Commercial Deals without having to write a check from your own account. We have quite a few more, but we'll save them for another occasion. We hope you enjoy this special report, we look forward to working with you in the very near future, whether it be as one of our students, as a Joint Venture Partner, or perhaps as a Passive Investor/Private Lender on some of our projects. Best of Success to you!!!