SPECIAL REPORT

OPM & Profitable Partnerships

Michael Sarracini & Scott McGillivray

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OPM – Other People's Money

As the old saying goes: "it takes money to make money". While this is very true for every business, there is a very important detail that is missing:

It doesn't have to be your money.

That's right, you can use other people's money, or OPM, to start and grow your business. In fact, many successful businesses are started by using one of the OPM sources outlined in this report.

What about real estate? Real estate is a very capital (a fancy word for money) intensive business. You will need capital to acquire property and add value.

Can you build a real estate investment business using other people's money?

This report is about just that. There is no reason at all that you cannot invest in real estate with little or no money of your own. The only requirement is that you know where to look for money from others.

Not having a pile of your own cash shouldn't stand in your way if you want to be a successful real estate investor. However, one of your first tasks is to get past any misgivings or doubts you may have as to why others would allow you to use their money for your business. There are sound incentives for others to allow you to use their cash to buy and sell real estate:

- They lack the knowledge to invest in real estate, but they have cash they want to put to work.
- Returns on savings deposits are extremely low, making real estate returns and security look really enticing.
- While cash can be accumulated, there is only so much time available, even for the rich, who may not have the time to devote to real estate.
- There can be a mandate to do so, with government programs tasked to put money to work in redevelopment or to fund real estate investment that improves lives or communities.

• There are often great tax advantages when using retirement accounts to invest in real estate.

Here is the important part for you to understand: Your challenge to being successful isn't that you may not have the cash to buy and sell real estate. Your only challenge is to locate people and resources with money to invest and then develop relationships for mutual profit. This report is a great start to get you knowledgeable about raising capital.

The Two Faces of OPM

From the corner lemonade stand to the biggest Fortune 500 companies, OPM always comes in two forms: Debt and Equity. Your real estate business is no different. You will use a combination of debt and equity to fund the birth of your business, and the growth of your business.

When using debt, the person with the money is called the "lender" while with equity the person with money is called the 'investor'.

Debt

Debt is a bad word for most people. This is unfortunate because debt is a very powerful way to use OPM to create success. The problem is that most people think of consumer debt, which IS a bad word. Here we are talking about business debt, or more specifically, debt that produces income.

Debt's impact on your life quickly changes from negative to positive when you use it to buy an income property instead of a new big screen TV. This way your debt payment is covered by the rental income, with extra cash for you (profit).

For real estate investing we call this debt "hard money lending" or "private lending". The borrower will not give up any equity, or ownership, in the property. Instead they will pay a debt premium, measured as an interest rate, to the lender for the use of the money. We will discuss borrowing further in this report.

Equity

Equity can be best described as "ownership". That is, someone trades capital for a portion of ownership in the business. Some businesses are 100% funded by the capital of one person (investor), while other businesses are funded by the capital of thousands of people (investors) around the world.

Equity can be either private equity or public Equity.

When starting a lemonade stand, you would likely have one investor own the entire business, and use their private capital to start the business (buy supplies). This is private equity.

With a Fortune 500 company, you will have many investors contribute their capital through a public market, like the New York Stock Exchange, for a portion of ownership. This is public equity.

As real estate investors, and in this report, we focus primarily on using private equity to fund our business. We can use all our own capital and own 100% of the equity in the property.

Or, we can use another person's capital and give them a percentage of equity in the property. This way the investor will share in the profit (and loss) of the property. Since this is a private transaction and not posted on the public markets, we call this capital investment "Private Equity". A private equity deal can occur between two investors or multiple investors. The combinations to raise capital with this method are endless.

The business relationship is often called a 'partnership' and can apply to the entire real estate business or just one individual property. We will discuss profitable partnerships in this report.

Investment Strategies

There are a number of real estate investment strategies that lend themselves well to the use of other people's money. Just about any strategy can use OPM, since it doesn't matter what the source of funds is, only that they're there. However, there are some strategies that work especially well for newer investors or for investors with experience but no cash to do deals.

Simple Wholesale Deal

The simple wholesale transaction is done by purchasing or locking up a property and flipping it to another investor without doing any renovations. Obviously, with enough cash to buy the property outright, you can just purchase it and sell it to the other investor immediately to take your profit.

Using our marketing strategies to locate distressed sellers, you can negotiate a deal for purchase well below current market value and still have room for profit when you sell it to an investor at a bargain price that fits into their investing plan.

OPM opportunity is great for wholesaling, since investors with cash are attracted to fast but secure returns. If they can fund a $95,000 purchase and you turn over the property in days for $125,000, paying them anywhere from 2% to 5% for the use of their money for a few days, they are happy and so are you.

Double Closings

This is really just a wholesale strategy with the scheduling of the buy and sell closings hours or a day apart. You are still wholesaling to another investor, but you're doing it with a tight schedule and the cooperation of the closing agent (depending on where you live, this could be a lawyer, title company or escrow company) in funding the buy-side with funds from the sell-side transaction.

With the mortgage crisis that hit hard in 2008 still influencing lender and closing agent policies, the double close has become more challenging. Most closing agents will refuse to fund one deal with the proceeds of another closing even minutes later.

Using OPM to fund the buy-side deal, you can have the OPM source listed in the closing settlement sheet for the sell-side deal so that they're paid back at closing, leaving the balance after closing costs as your profit.

Rehab & Flip

Selling to longer term investors who want income properties can be a very profitable investment strategy. Buying properties in need of work or major rehab and doing that work can provide some of the highest profit margins in real estate investment.

In this strategy the need for OPM is for an interim term of weeks to a few months while the work is being done. The funding pays for the purchase and/or the rehab work, and the resource is paid off when the property sells.

Longer-Term Funding

OPM can be a major resource in long-term investing in rental properties as well. Conventional mortgages are usually preferred for longer term funding, but with the lending regulations continuously making it more difficult to buy an income property, working with an OPM resource can get deals done that wouldn't be possible otherwise.

When we discuss profitable partnerships later in this report, you'll find that rental property ownership partnerships can work well for you. However, if you want to own the property outright but need OPM funding, you can get private money on a longer-term basis. Perhaps a two to five-year loan with a balloon payoff and an attractive interest rate can get you that OPM funding. This gives you time to acquire conventional financing later.

Money Sources

Family & Friends First

Forget the old admonition that you should never borrow from or loan to family or friends. Forget them because you're not going to be doing either.

Once you're out there putting together deals and taking profits to the bank, you'll have demonstrated your knowledge and ability to make money in real estate investing. Before you go out and leverage strangers' money to put profits in their pockets as well as yours, you owe it to your family and friends to allow them to invest for higher returns than they're able to get elsewhere.

Some of the first people who will know about your knowledge and success will be your family and friends. Don't be in the position of being asked why you didn't let them in on a great deal when they're getting under 2% CD or GIC returns on their savings.

Hard Money & Private Money Lenders

For short term OPM funding, especially for wholesale deals, double closings, and other flips, hard money and private money lenders can help you a lot.

Generally, hard money lenders are businesses (non-banks) where lending capital is their core business. Private lenders are everyday people with extra cash that want to get a better return than they are currently getting (family, friends, etc.).

The business plan of hard money lending companies is to fund short-term real estate deals for high profits. Their fees and interest rates are higher than with other forms of funding, but they are often the only resource available to make a deal happen. If you've structured your deal with enough margin for their fees and a good profit, then hard money is an OPM resource you'll be glad you have.

Private money lenders do not necessarily have a stated investment plan nor are they always as organized as hard money lenders. They are private individuals or partnerships with the desire to do short-term investing for higher-than-average returns.

Transactional Funding Companies

When you're doing double closings, a transactional funding company can be your best source of OPM funding. Their fees are high, typically between 1.5% and 3% of the amount of money loaned.

The transactional lender funds the buy-side deal by providing the money needed to the title company to close the purchase. The transactional lender is on the settlement sheet for the sell-side deal so that they'll be paid off for the amount they loaned on the buy-side plus their fees. You get the balance after closing costs. It's their business, and you can find these companies with a simple Internet search. If you structure your deals properly, they'll be happy to fund them.

Government & Community Funding

Every investor should spend the time necessary to research and keep track of local, regional and national government programs that provide funding assistance for home purchase and rehab. Every locality is different, and government programs provide grants to localities to use in the development and improvement of properties, especially for low income housing.

Profitable Partnerships

There are many really successful real estate investors who have remained a one-person show. They reach a level in their investing business that suits their abilities, time, and income desires, and they cease to grow beyond that level. And there's nothing wrong with that.

However, far greater and more rapid growth is possible by strategic use of partnerships for profits. Sometimes partnerships are solely for funding reasons, but many times they're also for time and resource goals. Two people can do twice what one can, and more than two people leverage results even better.

Partnership isn't a decision to make lightly or without careful research and planning. Partners must get along and have compatible goals and ethics. Short duration partnerships can be less carefully researched, but great care must be exercised in longer term relationships.

Short-Term Single Deal Partnership

Usually for funding reasons, you can choose to partner with someone for funding when you need OPM. Instead of paying a transactional lender or hard money lender their fees, you can take on a single transaction partner.

This can be done very loosely, with a simple written agreement for the deal that dissolves your relationship after all closings and fund dispersals. It's very similar to Private Lending, in that you get funds to make the deal happen from a private source. And it could reduce your profits per deal, since you will usually have to give up more in a partnership relationship.

However, when you're working with family, friends, or individuals who are risk-averse, they may want more return on their short-term funding, and a partnership of some sort may be more to their liking.

Ongoing Multiple Deal Partnership

One extremely successful young investor concentrated on building a wealth of knowledge and a marketing approach that put him into frequent situations to do really profitable flip deals.

After one very successful deal with a private investor who funded a wholesale flip, our young investor presented a partnership approach to work together in an ongoing relationship. It was accepted, and these two went on to do more than 30 deals in the next couple of years, all highly profitable for both.

They chose to do a simple agreement for each deal rather than a longer-term legal partnership. This worked well for them, as the deals turned over very quickly, and there was never the anticipation of long-term ownership.

Long-Term Rental Property Partner Ownership

One reason we chose to talk about the young investor in the previous example is that his business continued to develop, and he wanted to own properties for rental cash flow.

His first deal was a partnership with a parent. His father had a significant amount of money in savings, and the interest rate was far from exciting. Once his son was doing successful deals, he wanted to join with him in a deal. However, he wanted a rental property to pay him a solid monthly positive cash flow as well as grow in value over time for his retirement.

They partnered-up in the purchase of a home for rental, and their 50-50 split of the property's income and long-term value appreciation worked for both of them. The positive cash flow for the father, even at half, was four times the cash returned from the interest on the money he took out of savings. The son parlayed his expertise, time, and management of the property for his half.

However, this was just a learning experience for the young investor, since he went back to his single-deal partner in the previous example and pitched the idea for a more structured long-term partnership owning rental properties. They became partners and are very successful.

Investment Clubs or Groups

A young, newly-married couple was working to get their real estate investing business going. Part of their learning strategy was to join an investment club. They hoped to make contacts, learn, and build investing relationships.

When a local builder/developer associate member mentioned that he was looking for short-term funding to develop a large parcel into single family lots, the club decided to pool their member resources and become his only investor in the development.

This was a very large investment club, and the members saw great potential with reasonable security, so they managed to pull together \$5,700,000. They loaned this to the developer for the land purchase and development of lots, streets, and utilities.

It was a seven-month loan, and the club knew that even if the developer defaulted, the value of the property would be greater than the money they loaned. This developer couldn't get funding elsewhere, so it was more of a partnership, since the interest on the loan was 50%.

Our couple invested \$26,000 and received \$39,000 when the loan was paid off in full at the end of the seven months. This is an excellent example of finding partners in places you wouldn't expect and profiting from the relationship.

Full Partnerships or Business Structures for Long-Term Growth and Expansion

This report is sharing information and experience from Michael Sarracini and Scott McGillivray, real estate investing partners who have built a significant real estate business from the purchase of their first rental property in college.

They are an excellent example of a partnership that comes about without any real plan; a business discovered by accident.

Renting a home with other college students, Michael and Scott delivered the rent money to the bank for their landlord. Running the numbers, it was clear that the landlord was pocketing around \$500/month in profits, and a new business was born.

A love for business in general, the desire to copy and replicate their landlord's cash flow, and a lot of ambition all came together to create a partnership that continues today. You may not fall into a successful partnership this easily, but you can find the right person or people to leverage your success if that's your goal.

It helps that they had complementing talents and a common goal. From do-it-themselves remodeling and repairs to property management, their abilities combined to cover all of the facets of growing a real estate investment business.

Growth Through Structure and Diversification

Partnering doesn't have to stop with people who have common goals and interests in real estate investment. It can be a part of a growth strategy based on bringing functions in-house that were previously performed by outside hires and contracted services and companies.

As a business grows and properties are accumulated, both residential and commercial, the business of management becomes a major function. The same is true for building, remodeling, and repair contracting. The more properties you own, the greater the time and money invested in these activities.

Partnering with the contractors you've been working with over time may be your next growth phase. Creating a corporation or multiple companies under one umbrella is a profitable strategy. There are tax and liability advantages only your accountant and attorney can explain, but they're definitely worth investigating.

You're in Charge – Grow Your Way

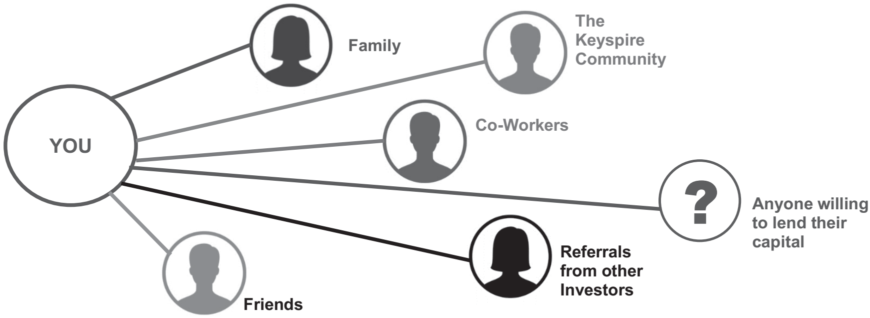
Using Other People's Money and Profitable Partnerships are both ways in which many of the largest and most successful real estate investing businesses have gotten that way.

This report gives you information that will allow you to decide how large you want your business to become and how many other people, if any, you want to involve.

Knowledge is power, and you've just increased your real estate investment power considerably with this report!

Borrowing OPM – Getting to Yes

WHO are your OPM Sources?



How do you ***ATTRACT*** *OPM?*

DO THIS…

UNDERSTAND the Private Lending Process

KNOW the numbers of your deal inside-out

CREATE a presentation package that outlines your opportunity step-by-step

BE HONEST about any credit history problems

DETERMINE how you will pay back the loan before you borrow

NOT THIS…

DON'T focus on getting a property under contract without considering how you will finance it

DON'T misrepresent the numbers or the deal

DON'T assume you know more than the lender

DON'T forget to make it a Win-Win situation for you and your lender

DON'T underestimate the power of word of mouth and referrals

How to Prepare for ***SUCCESS***

Create your Value Add Statement

Who are you? How do you add value? Why should a lender work with you?

Understand *The 4 Ways to Win™*

Evaluate each property using Keyspire's straight-forward system. Confidence in your numbers will give confidence to your lender.

Showcase your Experience

Create a presentation package of your previous property investments. If you are a new investor, focus on the skills you bring to the deal and your attention to detail.

Treat it Like a Business

Prepare and practice your presentation in advance. Anticipate questions the lender may ask and prepare your answers. Dress for success!

UNLOCK OPM

1. Work with your Keyspire Coach to develop your strategy
2. Practice how you will present your deal to a private money lender
3. Network with other Keyspire Members to share experiences

The Power of OPM

WHAT is a private money lender?

A private money lender is a non-institutional individual or company that loans money, generally secured by a note and deed of trust, for the purpose of funding a real estate transaction.

WHO are your private lenders?

Primary Connections

Family, Friends, Neighbours, Co-workers

Secondary Connections

Keyspire Community, Associates of your Primary Connections

Tertiary Connections

Strangers, Individuals found through outside networking and/or advertising

Why Private Lending?

FLEXIBILE Opportunity to negotiate rates & terms

FASTER Quicker and easier than banks

ADAPTABLE No set lending requirements

WIN-WIN Benefits the lender and borrower

PREPARED Will lend on properties banks won't

VERSATILE Opportunity for higher LTV

SECURED Loan is secured on a real estate asset

RESPONSIVE Less focused on borrower's credit

Who Uses OPM?

Opportunities with private lending are endless. Investors use Other People's Money for:

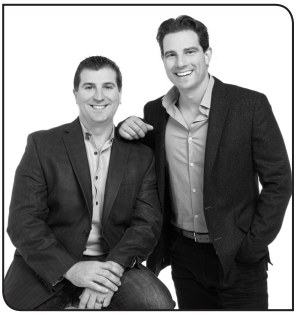
- Flipping
- Wholesaling
- Rehab properties
- Underperforming properties
- *Flip to Yourself*™
- Short-term loans
- Quick closings
- When the bank says "No"

UNLOCK the Power of OPM

1. Learn about Private Lending on your Keyspire Member Dashboard or schedule a Coaching Session
2. Evaluate if Private Lending aligns with your Investor Profile
3. Start networking and find your next private lender!

Building Real Estate Wealth from Student Debt:

The Journey of Michael Sarracini and Scott McGillivray



It was September 2000; two guys in University, Michael Sarracini and Scott McGillivray, were living on their own for the first time. Like most students they found a house to rent with some friends and the five of them moved in. Since their student loans were going directly to rent, they got jobs as waiters at a nearby restaurant to pay for tuition and living expenses.

After talking during many late nights at the restaurant, the guys realized that they had a common goal: to be very wealthy and make an impact on millions of people around the world. They agreed they would stop at nothing to reach their goal. They realized that by working together, they would be much more likely to succeed.

At their student residence, Michael and Scott took charge of collecting the rent from their house-mates and taking it to the bank to deposit in their landlord's account. One day they made the deposit and quite by accident the teller gave them a copy of the deposit slip that displayed: "deposit $2500, mortgage payment $1200". That was the moment they knew they were on the wrong side of the equation; If they owned the house then they would be the ones making an extra $1000 or so per month. Their landlord lived out of town and they never saw him after the day that the lease was signed. They knew that not only could they be the ones collecting this money, they would also commit to being the best landlords out there so none of their tenants had the experience they had. Because of their inattentive landlord they were always on the lookout for a better rental property to live in.

Working at the restaurant they met many Realtors. They would always ask the 'Realtor-of-the-day' if they knew of any good places to rent. One day, a Realtor suggested they forget about renting, and just buy a house. Because they were still students,the guys thought it was a crazy and unrealistic idea. The persistent Realtor said she would help walk them through the process. Their first step would be to talk to a mortgage broker and get financing. After going over their combined assets, the broker suggested that they combine their student loans for a down payment; it was the same annual cost as renting! The student loan money would go to housing whether they paid rent or bought a house. They combined income from the restaurant including tips to qualify and bought their first rental property. It was a mess and needed lots of work. The guys were not intimidated, they learned all they could about renovations through books, volunteering and the big box store training sessions to rehab the property to an acceptable condition.

Word of the guys activity got around campus and many other students wanted to rent from them. Michael and Scott realized that they needed 10 or more properties to meet the demand. And, that if they had 10 of these properties they wouldn't have to work anymore! They set out to grow the business and replace their job income with rental income. Since they had no more money for down payments they had to explore strategies that accounted for this, which led to their very first investing strategy. It was then that '*Flip-to-Yourself*™' was created. Within a couple of years they had grown the business to realize their original income goals. The insight they gained was documented; everything they created, from checklists and blueprints to phone scripts was put on paper and used time and again. They didn't realize it at the time, but they were creating the foundation for a powerful real estate investing system, one that spans geography, age, income, and time. A system that eventually became Keyspire®.

Family and friends were now extremely interested in how the guys had achieved this success. So Michael and Scott helped those closest to them first to grow their passive income through income properties. They realized that this ability to have others follow their system and achieve consistent desirable results was very powerful.

As word of their success spread, the guys were invited on local TV and radio shows to showcase their success. They became local celebrities and figures of inspiration, all before graduating university. This publicity landed Scott on the set of a well-known national renovation show as a carpenter. Michael, a couple years younger and still in school, focused on growing their investing business while Scott grew the profile on Television.

One day on set of that first reno show, Scott was talking to the producers about how he didn’t have a ‘real’ job and therefore had the free time to work on the show because his rental properties provided him the income to support his lifestyle. This casual conversation evolved into the development of the longest running real estate investing show in TV history.

Michael joined Scott on the show as the Project Manager for each renovation, and working together they started to build the powerhouse hit TV show, *Income Property*. It was around season 2 when the show had gained such popularity that Michael and Scott were receiving hundreds of emails a week from investors across North America asking for help. So many people had so many questions. They realized that a TV show couldn’t begin to answer them all; in fact it couldn’t even scratch the surface! As a result, they set out to find a better way to help the growing demand for their system. This led them to build their next endeavor: an education and networking organization that could show people their system, providing guidance and support to people through the three critical stages of becoming a real estate investor: Information, Education and Implementation.

They worked with experts all across North America to transform their proven system into the most robust learning experience in the country. They developed new tools and software to support the growing member base that was developing. They built new relationships and negotiated exclusive deals for their members. All this while maintaining the personal and professional friendship that was sparked so many years ago while scraping by to pay the rent and daring to dream big. The driving force of their focus and dedication is to help people improve their lifestyles through investing in real estate.

Today the Keyspire organization touches the lives of tens of thousands of people all across North America, adding millions of dollars to the personal wealth of North Americans annually. Keyspire continues to grow and impact lives, forever changing the landscape of North American real estate investing. We are honoured and excited that Keyspire has impacted you.

Keyspire®

Knowledge Empowers You®

$24.95 US/$30.00 Canada

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