

GETTING RICH

In Real Estate
Partnerships



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"The Paranoid Banker"

Getting Rich in Real Estate Partnerships

by

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“The Paranoid Banker”

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Introduction

It was apparent to me that something needed to be done.

It was late in the year 2001 when I finally came to the conclusion that things were changing. I am not quite sure why the change was happening to be honest. Maybe it was timing? It was just a few weeks after 9/11 happened and this probably had an impact on investors' attitudes. Maybe it was about the time of that so called "generational shift" where Generation X was starting to shift into Generation Y/Millennials. Maybe too it was the cultural shift of the internet in our lives as more acceptable place to get information and do business.

I could theorize all day on this but what I did notice was a big change happening.

You see after graduating from college and spending a few years as a prison guard of all things I decided that I wanted to be involved in the real estate and finance field instead of my college major of Criminology. So, I entered the real estate business in late 1993 specifically working on the sale and acquisition of apartments and commercial investment property. This was all that I focused on. I worked with landlords and those people that wanted to be landlords. For about 10 years my livelihood and my daily business life consisted of working with all types of landlords. Local landlords wanting to sell their local properties to the other local landlords. I acted as the broker for a majority of these transactions.

Sure, every once in a while I worked with an "out of state" owner. That usually meant they owned a large (over 100 units) apartment complex with an onsite management team. Sometimes I had insurance companies contact me to help them find a large apartment complex to buy too. But these things happened about 5% of the time. The other 95% of the time I am meeting with, inspecting, going over the financials of a local landlord apartment property usually with another local landlord.

Heck, I even had a landlord that lived in Denver, Colorado buy a few apartment properties here in Cedar Rapids, Iowa and move himself and

family here so that he could landlord the properties.

It was all about the landlord. But again... That changed...

It was mid 2001 when I started to get calls and emails about investing in apartments and other commercial investment property in Iowa. You notice I said “investing” I did not say “owning”. Since I had a reputation among many by now in the apartment and commercial investment property community as the “Go to Guy” I was starting to get calls from investors, most outside of the state of Iowa, wanting to invest in some apartments and commercial investment property.

Nothing so different about this, except, these people did NOT want to be a landlord. They did NOT want to oversee the day to day operations of the properties themselves. Heck, most of these investors did not even want to deal with a management company who could theoretically run the property for them. They were simply interested in owning terrific real estate properties, passively, without dealing with any of the day to day property management, accounting and tax issues that the typical landlord deals with.

Bottom line is these investors wanted the benefits of being an active landlord and get all of the active landlord benefits of owning a really good investment property, but, did not want to be a landlord.

Make sense?

Now the number of investors was not significant at first but over the following months it did start to steadily increase. Not knowing how to deal with this at first I basically tried to talk these investors into actively owning the properties or at the very least I could refer them to a management company. I was not sure what else to do. As I said it was not like I was getting 100 calls or emails a day with this request so for a while this is how I handled it. As the year went on though and as I kept getting more and more of these inquiries I thought I had to do something but just was not sure quite what to do about this growing trend.

Finally in late 2001 I was having a conversation with one of these investors and he said something to me that changed everything. He suggested that since I had so much experience in the apartment and commercial investment market in Iowa and since I had sold so much of this real estate and knew the market as well as I did that I put together a partnership where I would manage the property and partnership and this investor and a couple of his acquaintances would be my partners and be passive investors. We all would own part of a 48 unit apartment property, I would manage the property and run the partnership and they would be passive investors.

At first I did not like the idea. I had managed a lot of my own property and was pretty much at capacity. Plus, I was not a big fan or loved property management in the first place. Second, now I had to answer to investment partners that did not live here or really know nothing about the market but did have expectations of good returns, good income and a good investment. I was not so sure. But the more I thought about it, the more that it started to make sense. It was apparent now, and it took me months to figure out, that there was a major shift going on. The shift was from landlord to investor. The shift was also from investors just considering the conventional kinds of investments like stocks, mutual funds, money markets, etc. to owning investment real estate. There was a shift and demand for this kind of investment diversification. Not a tidal wave kind of shift mind you but a shift that I could not help but notice.

So, even though I did not have experience in starting, running or overseeing real estate partnerships I decided it was time to start and time to jump in.

I put my first 5 member partnership together in 2002. Fast forward to today and I have been a part of dozens of real estate partnerships that have purchased and owned hundreds of millions of dollars in real estate. Where 95% of my business in the past was just with landlords now 95% of my business with investors, passive investors that own good real estate properties producing nice incomes and nice returns and they own these passively. I have almost 300 partners involved in owning various properties that live all over the US and some in other countries. I have

basically become the “Go to Guy” for many investors wanting to invest in conservative real estate properties passively.

So the question then is why? Why would an investor do this?

That is the question this book will answer and answer in detail as this is no longer an investment trend but an investment way of life. I will explore:

1. The main reasons real estate partnerships are an investment to consider.
2. I will explore in detail not only the financial reasons but why investors should consider investing in real estate passively in the first place.
3. Why “boring” places like Iowa are places that these investors prefer investing and why these investors are richer as a result.

Passive real estate ownership in good income producing real estate is no longer a trend. Together let’s explore this way of investing and see if it is something you too should consider.

Darin Garman

The “Paranoid Banker”

Chapter 1

Getting Richer Now

One of the best ways for investors to grow their income and net worth is by investing in well located real estate.

This one sentence is fairly obvious and is far from any kind of investment secret or revelation. Real estate investment is nothing new. The other thing that is far from new for investors is real estate investment partnerships. Real estate partnerships in various forms have been around for a long, long time.

So, I will be putting away the notion fairly quickly that passively investing through real estate partnerships is a new way to get rich fast or a magic investment pill that will double or triple your money in a short period of time or is some kind of an investment miracle. It's not. Getting richer in real estate investing is nothing new.

However, I go back to the song lyrics: "What is Old Is New Again" and though I have no song to sing I will tell you when it comes to real estate investing these song lyrics are right on target.

And many investors are getting richer as a result of these lyrics.

WHY NEW AGAIN?

In order to talk about why real estate investment partnerships have become one method of investing that investors are using more and more to get richer lets go over some quick general changes in real estate partnership investing and why this type of investing has evolved and now become more mainstream by going back in time just a bit.

In the 1970's and through the mid 1980's real estate partnerships were very popular. During this time many people that were involved in investing and selling these partnerships to investors actually called them 'syndications.'

Syndications were the investment of the day! Syndications were built and marketed to investors as the magic investment pill.

However, the main reason for syndications popularity during this time was NOT because of the benefit of income through cash flow that investments like say apartment properties would produce or income through appreciation of the properties. Though these were reasons given to investors to get involved in syndications these were really not the main reasons investors got involved.

The main reason investors got involved in syndications was because of the massive tax write offs that were available at this time.

Without going through a boring and lengthy accounting explanation the tax laws of this time would allow investors to get back their investment into a syndication in within one or two years through tax write offs.

That is correct. The depreciation schedules for investment real estate at this time was so aggressive that an investor in one of these syndications would get their investment back within a very short period of time. Usually one to two years.

That actually sounds pretty good doesn't it?

Nothing like getting a return of your investment in a year or two and still own the real estate that, theoretically, would not only produce great tax savings but would also produce income through cash flow and appreciation.

It looked like an investor in a syndication could not lose! It was the magic investment pill!

But many investors did lose.

A Brief History of Investing for the Wrong Reasons

Over time as investors were getting involved in syndications for the sole purpose of the massive tax savings they would receive most were not paying attention to the real economics of the property(s) that the syndications were buying.

Rather than investing for income, cash flow and return investors were mainly investing to get the tax savings. Period.

In short, thousands of these syndications were overpaying for properties and buying these property just for the sake of buying them so they could take advantage of the massive immediate return on investment through tax savings. Not paying as much attention and doing as much due diligence as the needed to make sure the actual economics of the properties worked.

This practice went on for years until finally, when the property economics could no longer pay the loan payments and the expenses of the real estate operations many of these properties went into foreclosure with the loan amounts being much more than the properties were worth.

Non-performing loans were starting to become more and more commonplace as a result.

Partly at fault were many banks who bought into this as well by freely loaning money to these syndications, however, the main lenders of the time to syndications were called Savings and Loans.

Thousands of Savings and Loans existed across the US with a majority of them having most of their assets wrapped up in mortgages on commercial real estate that were owned by syndications.

Things finally came to a head when the tax laws changed with the tax reform act in 1986. Under President Ronald Reagan congress decided to

change the tax savings dramatically for real estate properties. In short Washington decided that aggressive depreciation schedules for investment real estate was no longer going to work. Instead of being able to aggressively depreciate the value of a property over a 5 or 10 year period now owners and investors were going to have to use a 27.5 year period for residential real estate and a 39 year period for commercial real estate.

In other words investors that were simply using real estate for tax shelter to get their investment back in a few short years through tax savings would now would get it back over 27.5 years or 39 years.

Overnight the income tax structure for an investment in real estate went from returning your investment in a few short years to 30 years or so. A huge difference! Now real estate properties would need to be purchased solely on the economics of the property or its cash flow with depreciation still being a benefit but obviously not the benefit it had been.

So, what was the result of this change?

In the big picture what I call the “false marketplace” for investing in commercial real estate disappeared overnight. The aggressive tax savings rules that had been responsible for years in falsely propping up values of commercial real estate had disappeared and so now the values of commercial properties plummeted overnight and investors lost billions of dollars.

Not only that but now thousands of Savings and Loans and even some banks failed because investors and property owners were so upside down in the amount of debt exceeding the values of these properties that millions of commercial real estate foreclosures were now taking place at break neck speed.

Why continue making the loan payments when the apartment property you paid \$30,000 per unit for is now worth \$12,000 per unit? Plus you lost all of those big tax deductions too!

In response to this commercial real estate crisis the US Government created what was called the Resolution Trust Corporation (or RTC) in 1989. The RTC's main job was to help these failing Savings and Loans provide liquidity for their customers. The FDIC did the same for banks.

How did the RTC and the FDIC provide liquidity?

By selling these foreclosed commercial properties fast and the only way to sell these properties fast was to sell them for pennies on the dollar. The RTC and the FDIC would swoop in and take over the failing Savings and Loan or bank and then sell individual properties or even blocks of properties.

On the flip side of this one benefit was that it was a great time to be a bargain hunter. An apartment property was worth \$30,000 per unit but is now worth \$12,000 per unit. The RTC comes in and sells that apartment property for \$8,000 per unit to get it sold and create some liquidity for the failed Savings and Loans. Being a buyer at this time was very advantageous.

Oddly enough though there were not investors lined up like you would think to buy commercial real estate properties at even what looked like a bargain because of how much and how fast values dropped and continued to drop. There was risk that even if a property was purchased at an apparent large discount would the value of that property still continue to fall??

So, it was really still risky to purchase property at this time because you just did not know what the property values of many of these commercial properties would do and because of this uncertainty many properties remained for sale for years until sold.

So, where did all of the money then come from to shore up the differences in what was owed banks and Savings and Loans and what the RTC would sell the properties would sell for?

That is right – the taxpayer paid the cost and made up that difference.

Over \$300 billion dollars.

The RTC continued to operate for the government taking over failing Savings and Loans for many years until things finally started to get back to normal in terms of the commercial real estate market finally bottoming out and values starting to increase once again. But in the end most Savings and Loans had failed and disappeared. Of those that were left they were bought or absorbed by competitive banks or other financial institutions.

The Syndication Effect of The Commercial Real Estate Crash

With a swift change in the 1986 tax code the economics of syndications changed and millions of people that participated in these syndications lost billions of dollars during the Savings and Loan crisis. As a result for many years afterward syndications and real estate partnerships had a terrible reputation for losing investor's money.

Even today I will run into an investor that lost money back then and will avoid partnerships as a result harking back to the days of Savings and Loans and the Resolution Trust Corporation.

But the big difference with today's investment real estate is the success of a property depends on one important item – The Basic Economics of the Property!

There are quite a few litmus tests that an apartment property needs to pass in order to be considered a worthwhile investment and not just how much you can write off on your taxes.

First, the property needs to not only pay for itself economically it also needs to provide a return on and a return of investment for the investor. Though investment real estate still does provide some tax savings through depreciation and interest deductions this is no longer the sole reason to invest as it was in the 1970's and 1980's.

So, the main question today is does the property really cash flow based on

the price that can be paid for the property?

In addition properties are heavily scrutinized not only by lenders before placing any kind of loan but also by appraisers who have to follow strict standards in valuing investment real estate. Lenders also require larger down payments of typically 25% - 35% of the value or purchase price of the property, whichever is less. Occupancy and property performance histories are also scrutinized by lenders and appraisers as well.

Condition. What is the condition of the property? How good is its location? Will tenants rent this property?

Management. Can the property be managed effectively and produce a good return to its owners and investors?

And of course the obvious litmus test is by the investors in the property in terms of the properties meeting their investment and projected rate of return and income criteria.

So, if a commercial investment property passes these kinds of litmus tests only then is it considered a property that is worthy of investment which is the way it probably should always have been and not involved any kind of false economics in order to be attractive.

Fast Forward Landlord vs. Investor

Now, if you fast forward to today commercial investment real estate is a place many investors choose to invest money. From large insurance companies, private equity funds, hedge funds that may own thousands of apartment units all the way down to the single landlord that may own his own single family rental investment is still a choice for many investors.

Why?

Well we now know it is not because of the huge tax writes offs investors would receive by owning the real estate that returned their investment in a matter of a few short years even though there is still tax savings to be

had by ownership.

We also know it is not because commercial investment properties are easy to purchase, own and manage. Remember, there are a lot of litmus tests that need to be considered.

There are only four reasons investors own good commercial investment real estate properties:

1. Superior Cash Flow and Income Produced.
2. A Good Rate of Return and Yield on Investment.
3. Diversification of Investment.
4. Tax Savings.

That is it. Only four reasons but some very important reasons because these reasons combined make many investment real estate properties fantastic income generators and net worth builders that work automatically.

I will dig a bit deeper into these reasons a bit later in the book and detail how investment real estate is truly unique in how it wraps four investments into one and why it is one of the best wealth building investments that exist for investors today and why I think everyone should own some kind of real estate in addition to owning their own residence.

A Quick Example

Let's use a quick example of a property that passes all of these litmus tests and is an excellent income generator and net worth builder for investors. The following example is a REAL property.

Raintree Apartments

Number of Apartments: 72 Units

Year Built: 1994

Income Rate of Return: 10.7%

Projected Overall Rate of Return
Over A 7 Year Period: 13.9%

Income Received by Investors: Quarterly

I realize in this short page I have not given every shred of detail on the Raintree Apartments but use this real apartment property as an illustration. This apartment community is well located, well maintained, produces a very good return to its investors, a solid quarterly income (cash flow) to the investors and a nice projected future return as well. So, if you owned this property you would have a nice property running and operating that produces a good double digit return.

I am going to go back to the first sentence of this chapter. ***One of the best ways for investors to grow their income and net worth is by investing in well located real estate.***

So what would stop an investor from considering this kind of investment? Simple. Lack of knowledge and no interest in tenant and property management.

Sure, there are still some investors that remember the RTC, etc. from years ago but these folks make up less than 2% of investors that would pass on a real estate investment.

These two reasons together make up about 98% of why investors avoid investing in real estate. Not enough knowledge to feel comfortable buying an apartment or commercial property on their own and no interest whatsoever in dealing with management of the property and tenants and all of the hassles and problems associated with this.

For example, tune into any of the financial networks on TV and you will find hours and hours of expert knowledge and analysis on the conventional investments of stock, money markets and bonds but there are no shows devoted to buying and running an apartment property for

maximum return and net worth building. The most the average investor knows about an apartment property is that he or she may have lived in one at some point in time or maybe they drive by some apartments on their way to work. That is about it.

So, since buying or investing in an apartment property as well as even thinking about dealing with any kind of property management issues or decisions is so uncommon most investors choose to invest in what they know best which is usually the conventional type of investments.

I am going to be spending the remaining part of this book explaining why, even if you have no clue about investment real estate, it should be at least one tool in your investment tool box. From a rate of return, income and investment diversification standpoint you SHOULD consider investing in real estate. Heck, there is still some good tax savings from real estate investments too.

I will be going over real examples of how you can benefit by owning your own apartment or commercial investment property and how investors just like you benefit from this unconventional type of investing and why it is actually smarter to be a passive investor and let the experts do the heavy lifting.

Keep in mind this is not a get rich quick book nor do I think you should abandon conventional investments altogether. But if you truly want to become richer, faster, keep reading and to find out why this type of investing can really pay off for you.

Key Chapter Point: Today it makes sense for investors to diversify their investments to include the unconventional investment of passive real estate investment partnerships and more investors should be looking at adding passive investment real estate partnerships to their investment toolbox to help them get richer faster.

Chapter 2

Why Good Real Estate Partnerships Work With New Lifestyle & Economic Investment Realities

I oversee over 30 real estate partnerships that own about every kind of income producing property you can imagine and almost 300 investors from all around the country. I have worked with over 400 investors over the years in owning their own apartment or commercial property too.

That is just here in Iowa.

So, over the years there have been a lot of investors that have found how passive ownership in good real estate properties can make them richer. They work.

So why does passive ownership in good real estate properties work so well?

Today's Economic Reality

What effects the value of your investment today? Well, unfortunately in today's economy many things effect the value of your investment that have nothing whatsoever to do with your investment.

For example, as I am writing this book China is going through some financial turmoil. China's economy and financial markets are in big trouble and because China is having economic difficulties the US stock market and bond markets have lost about 10% of their value – OVER THE LAST FEW DAYS! Since the announcement of the turmoil in China it took just hours for investment values to decline.

What?

That is right, because China is having financial difficulty now you (if you

are investing in stocks or bonds) are also going to have financial difficulty and the drops in values for many investors happen in just a few hours!

Here is another one: Terrorist attacks.

A terrorist group commits some heinous act of terrorism in some other part of the world and what happens to the US financial markets? That's right, they go down in value fast.

The CEO of a fortune 500 company is caught either cooking the books, having an affair or having a heart attack. What happens? Down goes your investment.

War breaks out in the Middle East or the Ukraine. The financial markets tumble.

A Presidential election is coming up, a possible government shutdown in the offing, unemployment figures are terrible, a virus breaks out somewhere and gets a foothold or workers go on strike. Financial markets tumble.

Oh, then there is the weather. Hurricanes, tropical storms, draughts, flooding, extreme heat, extreme cold, etc. can all impact the financial markets and thus your investment.

I mean how many times have you watched TV, read the financial pages in your favorite publication or been listening to the radio and the reporter tells you the "Dow Jones Industrials were down 300 points today because of _____" and you fill in the blank with one of the reasons above or of course something else that has absolutely nothing to do with your investment.

The frustrating thing to me is that in almost every instance none of these circumstances has anything to do with my investment. My investment's value is impacted very quickly by many circumstances that happen that have no real direct impact on my investment nor is it anything under my control.

Week after week it can be a real rollercoaster ride too because the good news reasons as to why my investment in the financial markets has gone up can be even more of a head scratcher as the reasons why my investments value in these financial markets has decreased.

For example, I just received my mutual fund statements from a couple of funds that I have and the comments from the fund manager as to its positive performance over the last quarter was attributed to cheap oil prices. The funny thing is my fund does not own any stock in oil companies.

One week you could be feeling really good about your investments but give yourself about another few weeks and things could go to bad real, real fast. But this is today's economic reality that all investors must face. The reality that so many things that have nothing to do with your investment can impact the performance and the value of your investment.

The other reality investors must face is how quickly your investment values can change. Your investment value is up on Monday, down on Wednesday, down even more on Thursday and up a bit on Friday and it starts all over the next week and depending on the 'crisis of the week' your investment value in the conventional financial markets can swing wildly from week to week. You just hope that when the time does come for you to redeem your shares that you pick a week where the markets are trending up. It's pretty frustrating.

Why Real Estate Investments Are Better

When it comes to investment values either changing quickly or investment values changing for all sorts of reasons an investment in real estate is typically immune to such things and one of the main reasons why so many of my passive investment partners have chosen real estate. Predictability.

Now, of course you cannot really predict values in anything but with real

estate it does give you a nice investment that does not fluctuate in value so much for so many reasons.

The 160 unit apartment property that we own is not going to go up and down in value every week or every month. Tenants that rent from us will still be paying their rent no matter if a war breaks out, there is a terrorist attack, some foreign country has debt or financial problems or if there is a wildfire that takes out some oil refineries. They will still be paying rent and our property values will remain consistent and the properties will still be producing income.

This is what I mean by predictability. If the fed decides to raise or lower interest rates or if the Democrats or Republicans get their candidate elected as our President we will still be getting our rent money and our properties will still be working predictably for us no matter what goes on somewhere else.

Back to our 160 unit property. We purchased this particular property in 2010 for \$6,750,000. Every year we have owned it the value has increased. Not at rocket speeds mind you but has nicely plodded along and so has the income that the property has produced. As I write this book five years later the property recently appraised for \$8,250,000. A nice steady increase in value and income year after year that is not effected by so many of the goofy reasons that an investment in the conventional financial markets are plus it has given us a nice double digit return.

You can also get a sense as to why I have been recommending to investors that they make real estate investments like this a part of their diversification plan to for their investing. I don't necessarily advocate that an investor go "all in" on one apartment property or "all in" on investment real estate property in general as a passive investor but with today's economic reality that the financial markets are impacted by just about anything anymore I think it makes a lot of sense to at least have some of your investment monies parked in good investment real estate properties to give yourself more of a predictable investment.

So, why is it so predictable?

Because people need a place to live. To go deeper, people need a roof over their head. You see no matter what happens “out there” people will still need a place to call home and for many people renting an apartment is how they provide themselves a home. So, even though there could be all of these financial storms going on in the global political or economic world people will still need a place to live.

In addition we have become a renter’s society. The American dream of owning your own home is not even close to what it used to be. The single family home real estate crash of 2007 – 2011 showed everyone that owning your own home is not the automatic wealth builder or the one investment you can make that will weather all financial storms. Many people saw the value of their home plummet up to 50% and tens of millions of people lost their homes to foreclosure. Now, owning your own home not only carries some financial risk it is also very difficult to qualify to purchase a home and you need a sizable down payment and very good credit in order to qualify in the first place. Plus the days of living in one community most of your life is gone too. Again, years ago you would find a job out of high school or college and work for the same company until you retired. Not anymore. The average person will have no less than 5 job changes over their lifetime. This means that people today want to be more mobile and have more flexibility vs. years past and renting an apartment provides them that flexibility.

This is why I recommend investors own apartment properties and why the majority of our investment partner’s holdings are in apartment communities. Yes, we also own some good commercial investment properties too leased by Fortune 500 companies and I will talk a bit more about those later on in this book but for now you have a good idea as to why investors are becoming more and more interested in passive investments in real estate. In short they get good returns and a semblance of predictability without the frustrations of riding the financial roller coaster week in and week out.

Today’s economic reality is truly frustrating because so many things can

affect the value of your investment in conventional financial markets. It simply makes sense to diversify but you don't have to diversify into some wild or risky investment like a copper mine, gold bullion or silver futures. You can make a more predictable higher yield decision and get the benefits of the simple fact that people need a place to live and will always need a place to live and you can say goodbye to the financial roller coaster rides.

Key Chapter Point: We are in a different economy today where conventional investments are effected by various national/world political and economic events that have nothing to do directly with your investment's performance but are nonetheless impacted by them. Diversification into real estate partnerships provides investors a way of not risking investment losses due to the next unrelated crisis that comes up.

Chapter 3:

Say Hello to the Active Owner Investment Benefits of Great Real Estate and Say Goodbye to the Hassle of Property Management

To say that I have “been there done that” would be the understatement of the century.

What do I mean?

When I first got my start as an investment real estate owner and landlord I did everything myself.

All tenant calls for management, maintenance or other issues would come to me. Back in the days when there were answering machines with messages left on those small micro cassette tapes my machine would be full of messages most days with the light on the machine continually blinking reminding me how many messages from tenants or prospective tenants I had not yet got around to dealing with.

Plus I was also the person that took care of any evictions too. From plugged up toilets to abandon apartments I was the cleanup crew. From delivering eviction notices to tearing out old damaged carpet and replacing it was done by me. All of the maintenance calls that would always happen either at night, on the weekends or when I was on my way out the door on a vacation were handled by me. No heat, no air conditioning, toilet plugged up, no hot water, spiders in my apartment, noisy neighbors, etc., etc. You get the picture.

Plus, I also had to make sure I was doing a good job of renting our vacant apartments to new tenants too. Going over their applications, meeting them at the apartment and showing the apartment to them. Funny thing was over 50% of the time the prospective tenant would be a no show and I would waste hours and hours of time on no shows even though I would

ask them to call me if they could not make it.

Then there was going to court to evict tenants, dealing with judges, sheriff deputies and making sure you had all of your paperwork and eviction procedures in order so you would not have to do it all over again. Many times, especially early on, I would waste weeks of time because the judge did not find my paperwork in order.

Keeping up with the utility company, the city housing inspectors and local housing codes and staying on top of the repair, maintenance and improvements of the properties too was something that had to be done as well.

I could fill more pages in this book of my so called responsibilities as an apartment / commercial property owner and landlord but by now you get the picture.

Not surprisingly I hated it. Not real estate mind you but the day to day management that had to be done as part of a successful real estate property. It was exhausting but necessary.

As I mentioned before this is one of the two main reasons why most investors do not own any investment real estate. Even though the rates of return, income, tax benefits and appreciation good properties can give you is very good many investors decide that it is just not worth all of this hassle.

Frankly, I agree!

Fast forward to today and I do not take care of the day to day management of the \$50,000,000+ (and growing) in real estate properties that my partnerships own. I have management personnel hired to take care of what I call the 'daily cares of life' items that are necessary in running a good income producing property. My main responsibility today is to manage and oversee our on the ground management team and I spend most of my time on the management of the properties in terms of rents, rental increases, expense monitoring, expense reduction, marketing and overall business strategy working to continually increase the income

and value of the properties while my management team takes care of all of the day to day items from renting the apartments to any evictions, repairs, maintenance calls and all sorts of tenants issues.

One advantage of doing all of the day to day management myself years back though is now I know everything that our management team deals with and I know exactly what to expect out of our management team with our properties performance. Like one of our investment partners told me the other day, “You know how much it should cost to remove snow and take care of a furnace repair.” One of the keys to how we have been so successful with our properties and had very few property losers over the years is because I have so much experience dealing with day to day management operations I am able to manage that process so much more effectively from top to bottom. At the time it was not fun or glamorous but the benefits later have definitely paid off. In sum, I have been more right than wrong over the years.

This is the payoff too for investors in good real estate partnerships and has been one of the main reasons so many investors have connected with us over the years. Investors remain passive and do not have to deal with any management items whatsoever. Plus the passive investor in a real estate partnership does not have to deal with any of the administrative or what I like to call asset management items like rent raises, property tax protests, insurance coverages, utility companies, waste hauling contracts, lawn and snow contracts, lawsuits, etc. Investors in good real estate partnerships are 100% passive.

Simply put, they get a monthly/quarterly report of what has been transpiring with the property they own and their distribution check. That is about the extent of their involvement for an investor in a good real estate partnership.

When it comes to their income taxes their tax return is even completed in the form of a K-1. If you are not familiar with a form K-1 it reports the investors profit or loss from a property that the investors passively owns. This form is then incorporated with the investor’s primary 1040 tax return when the investor files their income taxes.

The key to all of this though is that investors can get the same benefits of a good investment property, say a 100 unit apartment community, as if they were doing all of the work themselves. All the same benefits as if they were showing up at the property each and every day and running the property from dawn to dusk (or in some cases as I remember even earlier or later). I call it being an active owner of your investment real estate property without actually being an active owner because at the end of the day these investors get everything an active owner does which mainly boils down to the financial benefits of being an owner of a good investment property.

All of the benefits and none of the hassles. Getting the results of an investment real estate expert without taking the time, effort or energy to be that expert in the first place.

REITS vs. Real Estate Partnerships

When we start talking about passive ownership in investment real estate like this many people default into thinking we are simply talking about real estate investment trusts or REITS but we are not though it is easy to get the two confused.

Simply put a REIT is really a stock investment in a real estate company. A REIT is a company in which you buy stock at a certain price per share, usually based on the performance of that REIT. Like a passive real estate partnership a REIT owns real estate. In many cases REITS can own hundreds of millions of dollars in investment real estate at any given time. The price of the stock that you buy in a REIT, whether it goes up or down in share price, is based on how well that REIT performs. With a REIT you are buying shares in a company that then buys the real estate and then passes any benefits of this real estate to the shareholders through fluctuations on their stock price.

A real estate partnership is much different in that you are actually and actively buying the property yourself. In a real estate partnership you have direct ownership in the property itself, not a company that owns the property. Many real estate partnerships take the form of a limited

liability company or an LLC. In a real estate partnership you are typically one of the members of this LLC and through this membership are a direct owner of that property from day one getting all of the benefits of a direct owner of an investment property vs. simply having stock in a company that happens to own real estate.

Think of it this way: REIT – ownership in a company that happens to own investment real estate. Real estate partnership – actually having direct ownership in the property itself.

So, which is the better way to own real estate? A REIT or a Real Estate Partnership? The answer is pretty easy I think. For those investors wanting to be very conservative by getting a decent return on their money while being able to have that money invested liquid at any given time then a REIT is the way to go. Again, you are buying stock and can treat this investment like any other kind of investment in a company's stock while having the luxury of selling that stock and redeeming your shares at most any time.

In a nutshell a REIT is lower risk but usually has a lower overall return and lower wealth building capability for the investor. While you can definitely improve your financial situation by owning a REIT it is typically not the investment to make to help you get richer faster.

In contrast a good real estate partnership does a good job in getting you richer faster. A good real estate partnership is for the investor that wants a little more growth in their investment and is admittedly willing to take on a little more risk. There is more risk in being a passive owner in an investment property through a real estate partnership because you simply own the property and are subject to the ups and downs that a property may have in its performance over time. Later in the book I will detail all of the investment benefits you would get as an investor in a real estate partnership but for now think of a real estate partnership as having more risk than a REIT but more financial rewards as well that actually go beyond just rate of return. Again, much more on this a bit later.

What I can tell you is that I have invested in both and not surprisingly

(especially by the title of this book) I have preferred the real estate partnership alternative over the years as a better wealth, income and net worth builder. For most investors I recommend a good real estate partnership.

However, if you are an investor that is just getting started and have less than \$10,000 in capital I suggest staying away from real estate investment partnerships until you comfortable having at least \$25,000 - \$50,000 to invest. Preferably \$100,000 or more. Also, if you are an investor that has say \$25,000 to invest but this is all of the money you have in savings I do not recommend a real estate partnership until you build up your cash reserves a little more. Lastly, if you are over the age of 80, unless you have a net worth over \$1,000,000 and want to diversify your investments, I do not recommend a real estate partnership.

Otherwise if you are a somewhat knowledgeable investor then passive real estate partnerships should really be on your radar screen and to top it off you do not have to have experience in investing in real estate in order to be a successful investor in passive real estate partnerships. Later on in the book I will give you some information that can be your personal litmus test for judging the merits of a real estate partnership that you may consider sometime in the future.

Prefer to Have It Done For Them

The majority of our partners today have little or no experience with investment real estate and most prefer it that way. 95%+ of our partners have never seen the properties they own much less stepped foot in any of the properties. Of course they have solid, legitimate paper trails of their investment in a property and of the properties performance too and they have access to me via phone or email if they have specific questions or concerns.

For investors looking to get richer faster there is no reason today that they cannot own their very own 150 unit apartment property, a Walgreens, a shopping center, a storage garage facility, an office building or even farmland and get all of the active wealth building benefits of

these kinds of properties with the benefit of directly owning these properties WITHOUT being actively involved in the day to day operations of these properties.

As we discussed before, in today's investment climate and economy why wouldn't you?

KEY CHAPTER POINT: You can get all of the wealth building benefits of owning your very own apartment community or shopping center without any real estate experience or property management responsibilities.

Chapter 4

Positive Leverage and Low Risk Financing

One of the main questions I get from investors when they are looking at getting involved in one of our real estate partnerships is something along the line of, “How do you purchase the properties? Do you buy them for all cash? Do you borrow money? If you do borrow money how much do you borrow? Do I have to sign loan papers?”

I guess that was five questions but you get the picture.

What we will do in this chapter is answer these questions and give you an idea just how the process works and why lenders play a vital role in the success of a real estate partnership.

Positive Leverage

All good passive real estate partnerships use positive leverage. All you really have to remember about positive leverage is that by borrowing money you actually will increase the properties rate of return.

Here is an example:

All Cash Purchase

ABC APARTMENTS: Yearly net Income is \$500,000 per year. Price for the property is \$5,000,000.

If purchase all cash and no loans your income return would be 10%.
 $\$500,000 \text{ yearly income} / \$5,000,000 \text{ price} = 10\%$

This is pretty easy math. Now, let’s see what happens if we use the same scenario but borrow 60% of the \$5,000,000 price or \$3,000,000.

Purchase With Financing Using A 60% Loan

ABC APARTMENTS: Yearly net Income is \$500,000 per year. Price for the property is \$5,000,000

Amount borrowed: \$3,000,000 + Amount invested by partners: \$2,000,000. = \$5,000,000.

Borrowed Loan Terms: \$3,000,000 at 4.5%, 25 year amortized loan.
Monthly Payments are \$16,674.97 or annually \$200,000 in loan payments.

ABC APARTMENTS YEARLY NET INCOME: \$500,000
LESS
LOAN PAYMENTS: \$200,000

Annual Income: \$300,000

Annual income of \$300,000 / Amount invested by partners \$2,000,000 = 15% Return!

In sum by borrowing money to purchase ABC APARTMENTS we have increased our rate of return from 10% to a whopping 15%!

This is positive leverage.

As I said before all good passive real estate investment partnerships use positive leverage.

The Fine Leverage Line

So, before I get too far and go on a borrowing spree it deserves mentioning that all good passive real estate investment partnerships borrow money for the majority of their purchases *but they do not borrow too much money.*

In most cases it is true that the more money that a real estate partnership borrows (remember positive leverage) the better your return will be.

Conversely though the more money borrowed obviously the higher the monthly loan payments will be and so these higher payments also can increase the risk to investors. When the property is doing fine high loan payments are no big deal because the property performance can pay those payments and in addition pay out distributions to the investors. It is when a property may suffer from declining performance for a period of time, from say occupancy or rent collection issues, that high loan payments start to become an issue. This is what can get real estate partnerships into trouble.

Bottom line is too much money borrowed in slow times can have the property enter into a period of negative cash flow where the property is actually losing money because the loan payments are so high.

So what is the rule of thumb?

In my opinion a real estate partnership should not borrow more than 60% of the appraised value or purchase price of a property. What this “60% or less” rule does is gives partnerships enough cushion to weather any slow periods in a properties performance and goes a long way in preventing negative cash flows from a property. This is the case even in a sustained slow period. Anything more than 60% borrowed may give the partnership a better return in some years but it also puts the partnership at unnecessary risk during other years with those high loan payments.

Remember, the lenders will want to be paid every month no matter how well or poorly your partnership may be doing.

The other thing my “60% rule” does is it allows all of the partners to avoid any personal liability for these loans or what many lenders call a *personal guaranty*.

Typically when a partnership borrows more than 60% of the purchase price or appraised value of an investment property the lender will require each of the partners to sign a *personal guaranty*.

A *personal guaranty* is a document that most lenders require borrowers

to sign when they obtain a mortgage for the purchase of an investment property. In short, a personal guaranty is a document that basically says that in the event there is a default on the loan the bank or credit union will repossess the property through foreclosure. That much information is not such a surprise. But what many people do not know is that once the property goes back to the bank and then the bank sells the property through its Real Estate Owned (REO) process if the sales price the bank obtains from the sale is lower than the amount owed the bank by the partnership the lender can then come back to the investor to pay that difference, personally.

Example. You signed a personal guaranty on a \$500,000 loan using a 24 unit building as collateral. After two years of terrible operations and results the property goes into foreclosure and is repossessed by the bank with you now owing \$475,000. After the bank takes the property through foreclosure and gets title to the property they sell the property for \$300,000 which is \$175,000 less than what you owe. Under a personal guaranty agreement you now have to write the bank a check for the difference of \$175,000!

The crazy thing about this is many banks and credit unions will require you to sign what is called an Unlimited Guaranty. What this means is even though you may only own a percentage of the property you could be liable for the entire loan amount!

Plus, when you sign a personal guaranty federal bank regulations require that you as an investor submit to the bank a copy of your income tax returns and personal financial statement each and every year just so the lenders have these in their files.

What a hassle!

Plus many banks will require investors to sign a personal guaranty no matter how much the loan amount is. Even if your partnership makes a 50% down payment or more many lenders will still require a personal guaranty. Obviously, you will want to avoid these types of lenders.

Again, many investors are not aware of any of this which is why I recommend to investors to not get involved in a real estate partnership, especially passively, that requires a loan over 60% of the purchase price or requires you to sign a personal guaranty.

Also, for those investors using IRA or 401(k) monies signing a personal guaranty is seen by the IRS as akin to a withdrawal from these accounts even though you did not withdraw anything. Why? Because you are essentially using your IRA or 401(k) as collateral when you sign a personal guaranty because if for some reason the property goes into foreclosure the lender can then come back to you personally for the remaining amount and those retirement funds are not out of realm of the lender grabbing onto. So, if you are investing IRA or 401(k) money you never sign a personal guaranty when investing in real estate partnership.

So you can see that using leverage is smart to bump up returns on an income producing property but there is a fine line between profit and possible disaster. In most cases our passive real estate partnership will borrow no more than 50 – 60% of the purchase price of a property. Some call my approach too conservative but I call it prudent planning. We plan on making a nice return and profit under this scenario but I also want to guard against property downturns as well.

Look for passive real estate partnerships that use positive leverage but use it wisely.

KEY CHAPTER POINT: Most good real estate partnerships borrow money from lenders for their purchases to increase the size of the acquisitions and return the property produces for investors. Investors should never be personally liable for any loans by agreeing to a personal guaranty. Investors should look for real estate partnership that borrow a maximum of 60% of the purchase price or appraised value of an acquisition.

Chapter 5

How The Management of The Partnership Typically Works and Your Role As A Partner

The good news about most real estate investment partnerships is that the management of the partnership and your role as a partner are pretty easy to understand without any kind of finance degree or investment real estate training or experience needed on your part.

What I will do in the chapter is provide you the basic framework of the majority of real estate partnerships and what you can expect. Of course there may be different nuances here and there depending on local customs and the legal structures usually used locally but what I cover will I think will be a typical framework of what you would find in a good real estate partnership.

The Structure and Vehicle

The overall ownership structure of the partnership is usually a limited liability company (LLC) and this is the vehicle by which you will be investing in the real estate property when you are a passive partner. When a property is found an LLC is usually created in the state that the property is located. This LLC that you are a member of will be the company that purchases and subsequently owns the property. Also, in some cases the LLC may already be an existing company as well.

This LLC can have an unlimited amount of members. When you become a member of the LLC you are issued shares in the LLC that is usually based on the amount of money that you wish to invest and usually your shares are valued at \$1.00 per share. For example if you wanted to invest \$100,000 you would have 100,000 shares in the LLC.

Your total ownership in the LLC comes down to your total investment proportionate to the total overall investment into the partnership. For

example, if the total amount of money that was going into the LLC is \$1,500,000 between all partners and you invested \$100,000 your total ownership in the LLC would be 6.67% ($\$100,000/\$1,500,000$). So under this example you would be a 6.67% member of this particular LLC. The more you invest proportionate to the total investment the more ownership you will have in the LLC.

What this means is moving forward you will get 6.67% of all of the benefits of the LLC which translates into 6.67% of the wealth building benefits that the property you will be purchasing will produce.

The LLC will also be governed by a set of rules and regulations in a document that all members of the LLC receive and approve called the Operating Agreement. The Operating Agreement should outline every nuance of the LLC so investors know exactly what to expect from the LLC and its operations. Think of the Operating Agreement as the by-laws/rules of the company.

The LLC will also usually be member managed. What this means is one or more of the members of the LLC will also be the managers of the LLC and take care of the day to day management of the company. As a passive investor you will not be one of the managers as you will not be dealing with the day to day operations of the company. Most multi-member LLC's have one or two managers though at times there may be more. The manager will be the person that will be your contact and will be reporting to you, the passive investor, as to what is going on with any of the properties you own and any activity within the company as well. The manager will usually be your point of contact when it comes to any items related to the partnership or the property being purchased. In sum the main job of the manager(s) is usually to manage the asset (property) and manage the company and report to you and communicate on a regular basis on how things are going.

You should know at least on a quarterly basis how the property is operating and how the company is doing. Some LLC's like to have monthly reports though I have found that quarterly reports suffice but as a passive investor you should expect financial and narrative reports on the

property(s) owned by the LLC as well as the status of the LLC and the property itself on a quarterly basis.

Also keep in mind that the financial reports for real estate partnership usually are not wrapped up and completed until anywhere from two – four weeks after the end of the month or quarter mainly because the bookkeeping for properties many times spills over into the first couple of weeks of the following month. In other words don't expect to receive your 2nd quarter real estate partnership report on July 1st. It will more than likely be August 1st.

Your Role

A properly run LLC that an investor would be a member of that owns investment real estate should operate pretty predictably. As a member you should see the LLC operating pretty much as outlined in the Operating Agreement. You should be getting your financial reports on the property and any narrative reporting on the property happenings from the managers on a timely basis along with any distribution checks sent to you at the same time. What I like to do with the investment partnerships that I manage is send the financial statements with a narrative of what is going on either in report form or video link that can be accessed by the investor, accompanied by their distribution check.

Your role is to track the investment and the happenings of the real estate partnership just like any other investment. Not only track how it is doing financially but also track what is going on with the property and what is happening in and around your property. How is occupancy doing? How is the property doing keeping up with its capital improvements? Are there any capital improvements coming up that may affect distributions? Has anyone expressed an interest in buying the property? Etc.

Other than keeping a close eye on the financial and property operations as you receive this information from your LLC manager you will also from time to time be called on to vote on items that will come up for the partnership.

For example, let's say that the manager wants to acquire a small apartment property that is for sale and is adjacent to the property you already own. The partnership has plenty of money in the bank to purchase this property and there are good reasons to do so. An event like this would typically require a majority vote of the partners first in order for the partnership to proceed in that purchase.

Conversely, let's say that a big real estate company approached your partnership to sell the property you own. The sales price is over \$1,000,000 more than what you paid for it. This situation would also usually require a member majority vote in order to proceed with the sale or not.

Events like the ones that I just mentioned are much more important to the partnership than the daily operational decisions and so the kinds of decisions that could have a major financial impact on the partnership usually require the partnership to not only be notified but to also vote on the matter.

When a partnership votes on a matter remember that majority rules. Not majority of members (not 7 out of 10 for example) but majority of ownership interest (over 50% of the ownership) rules the voting.

Lastly, there will be times where you will have the opportunity to buy out one of your fellow members that may need to exit the partnership sooner than expected for various reasons.

For example a partner may need to liquidate their investment because of a pending divorce. This partner will contact the manager of the company to start the process of 1) Obtaining a value of this partners' shares in the LLC and 2) Once that value is obtained and approved by this partner then manager will contact all partners to see if there is an interest from any of the partners to purchase.

If the investment property is one worthy of owning more of keep this in mind as you may have the opportunity to buy out one of your fellow partners who may not only need to sell their interest but may want to sell

at a discount depending on how quickly the partners may want or need to sell. By buying out a fellow partner, especially at a discount, you may have the opportunity to make even more money in income, return and appreciation.

KEY CHAPTER POINT: A passive investment partner will typically first become a member of an LLC that is formed that will purchase the investment property. The LLC is usually managed by one or more of its members. The manager(s) not only oversees the management operations of the property being purchased but also manages the day to day operations of the partnership itself. Your role as a passive investment partner in the LLC is to be kept advised of the property operations on at least a quarterly basis, review the financial reports and collect the distribution checks. The Operating Agreement of the LLC outlines all of the responsibilities of the managers and members of the LLC.

Chapter 6

Board of Directors Partnership Investment Criteria and Boring Investment Bets

If you have read this far you are probably serious about investing in a real estate partnership.

What follows in this chapter is my recommended criteria you use before you invest in not only the partnership but also the property.

Over the years I have been involved in creating and overseeing well over 50 real estate investment partnerships. Some lasted only a few months while others have lasted close to 20 years. I probably have more experience than most in not only knowing the key functions of a successful money making passive real estate partnership but also the red flags. Same with the properties too. There are properties that are perfect for real estate partnership ownership and there are others that I would not touch with a 10 foot pole.

Before I go into my recommended criteria for both partnerships and the properties that they would own I want to take you to a board of directors meeting.

Board of Directors Criteria

During the time that I was one of the owners of a bank I was also on the bank's Credit Committee as well as the bank Board of Directors. As a member of both you would be in a conference room with others with the responsibility of making and acting on key financial decisions for the bank. A lot of important decisions were made each and every week that revolved around two things: 1) Should the bank loan money on a particular real estate property and 2) Should the bank do business with

this particular person/partnership?

When it came to the property the bank's Credit Committee and the Board of Directors would discuss the pros and cons of financing the purchase of a particular property. All members would have an opinion on the merits of the property and all opinions would be heard. Even though the property had to pass some pretty stringent litmus tests before it would even be considered by the Board of Directors it was never any kind of guaranty that we would decide to finance the property. Not only that but all of the negative things about a property would be discussed as well. There was never a perfect property with absolutely no issues. Every property has issues. It is really a matter of weighing the pros and cons of each property discussed and if the pros far outweighed the cons it would be a property the bank would make a loan on. Key point – FAR outweighed!

This is pretty much the same process an investor will need to go through when considering a property that a real estate partnership is entertaining purchasing. The good news though is you don't have to call together a board of directors to do it, just simply take a look at a property being considered in the same manner as a board of directors would. If the positives of a property far outweigh any negatives then it is one to consider. Again, FAR outweigh.

If a property you are considering investing in through a real estate partnership is about 50/50 on the positive/negative scale then it would be one to avoid.

So, how do you know the positives and negatives of a property? What kind of good and bad items could or would be considered?

I will give you my top 5 questions I always ask about every property and as your own personal board of director you should too.

1. Is the property in the kind of location that 8 out 10 people would want to live (in the case of an apartment property) or where people would want to do business in terms of a commercial investment property?

If it is the kind of area that has a lot of violence, gang activity, or decreasing values surrounding properties you walk away. For a commercial property are businesses closing down/relocating in the area? Is there a lot of space for lease or a lot of space that has been on the market for lease for over a year? If so, I walk.

2. How has the properties occupancy history been over the last three years?

An apartment property with 90% occupancy or above over the last three years tells you that people like to live here. A property with less than 80% occupancy over the last three years tells you there is an issue that probably is not good. Between 80% and 90% does not necessarily tell me it's a property to avoid but means I need to find out why the occupancy has not been better. If I get an answer that I am satisfied with I keep looking. If I get an answer that does not convince me then I avoid the investment.

One caveat here. Sometimes there are good properties that suffer occupancy problems because of poor management. If the poor management can realistically be improved then it would be a property I would consider. If the management does not look like it would be changing then I do avoid the investment into the property.

3. Can the rents be realistically increased each and every year over the next five years?

A property that has potential for realistic rent increases in the coming years gets my full attention. A property that is questionable in terms of being able to realistically raise rents would be a property that I probably would not consider. This goes for both residential and commercial investment properties.

Sometimes this is the toughest piece of information to accurately gauge because many property owners or their brokers selling their properties will tell you that a property's rents can be raised in order to make the

property more attractive or to justify the asking price. By simply asking what other area properties that would compete for tenants are renting for in the same area will allow you to get a better idea.

4. Can the property operating expenses be realistically reduced within the first 12 months of ownership?

This is not necessarily a point that would disqualify a property if the property's operating expenses could not realistically be reduced within the first 12 months of ownership but if the answer is yes the property would grade out much higher for me vs. one where you could not. Most investors would think that the golden goose lies in the ability to raise the rents. Even though that would be a good thing it is not the most important. The most important is being able to reduce expenses.

For example we have purchased properties where we have reduced the property taxes by as much as \$50,000 in one year. Being able to add an additional \$50,000 to the bottom line in income is obviously a very good thing. However at the same time we also increased the value of the property by over \$500,000! This is done in one year and with no money spent on the property in terms of any improvements, etc. in order to get this reduction. Very attractive.

Now, think about how good a property can be if you can also raise rents simultaneously? That is the sign of a real winner if you can do both.

Again, not being able to reduce a property's operating expenses or reduce them by much is not necessarily a bad thing but having a property where expenses can be realistically reduced over a 12 month period does make it much more valuable and attractive in my eyes.

5. What is the re-sale outlook and the plan for exiting or selling the property?

Perhaps the most important question. Based on the property and the location what is the outlook for resale? It is almost as if you want to mentally project down the road 5 – 10 years and ask yourself based on

what you know about the property is there a reasonable expectation for this property to be sold for a profit 5 – 10 years down the road? Or, another way of thinking about it is if the property was for sale five years into the future would you still invest in it then? If the answer to this question is “no” or “I am not sure”, even after you have considered all of the information regarding the property, then it should be one that you take a pass on.

Most partnerships should have some kind of exit strategy too but this is always a moving target. Rarely does a partnership sell a property on the exact month and year it projects because no one knows for sure what kind of economic climate would exist at that time but having a plan in place to know about is better than not having a plan at all.

You notice that I didn't mention anything for you to consider like what is the age of the property? Does it have a flat roof or pitched roof? Is it a brick property? What is the type of construction? What are the ages of the heating and cooling systems? What kind of capital improvements are necessary at least right away? Etc.

These are kind of items that the person responsible for making this opportunity available should know and it should be in the information that you would receive and of course be part and parcel in your consideration of the property. If you start thinking about these items critically make sure the property passes the 5 criteria in this chapter FIRST. Then you can consider these items.

Invest Local or Not?

One of the things you will need to decide is to invest in the local market that you may have some familiarity with or not. There is no right or wrong answer but I will give you a few things to think about to help you make this decision.

Assuming the property being considered is a good property to consider from a financial and location standpoint then will the market it is located in meet your needs? What I mean is what is going on in the market that

you are considering both past, present and future? What can you reasonably expect from the market the real estate property is located in? Are properties increasing in value? Are employers looking to become a larger part of the community or are they leaving the community? What else is going on in the market that has people excited and people disappointed? What drives the economy?

For example, take Iowa. For the most part property in Iowa is fairly predictable. Property income and property values typically improve at a steady and conservative clip. There are typically no wild swings in property values or income either positive or negative. Investing in a real estate partnership in Iowa is slow and steady and actually pretty boring but in most cases pretty profitable too. So, before you invest in any of my real estate partnerships in Iowa you have to have an appreciation and comfort level with this kind of slow and steady marketplace and property.

Now, if you are looking for large gains in property value fairly quickly and are in a position that you want or need at least a 15% or higher return each and every year plus would prefer the partnership investment to be a 40 story office tower or a multi-unit high rise condominium development then Iowa would not be the place to consider for a partnership investment.

So, the “place” to be looking or considering your next real estate partnership investment will have more to do with your personal investment philosophy and what you prefer whether that means you consider something in your own backyard or on the other side of the country. Just make sure the “place” of the investment meets your overall investment criteria in terms of what you are trying to accomplish with this particular real estate partnership investment.

The nice things about these criteria is that it makes the process easy for a passive investor when considering a property to invest in. You don't have to be a real estate expert or take special classes, etc. in order to make an informed decision on whether or not a particular property opportunity would be a good one for you if you go through these questions.

Are these criteria foolproof? Of course not. But by seeking answers to these questions you will be in a much better position to make a lot more money and avoid any mistakes when it comes to an investment in a real estate partnership and you can qualify them much faster.

By the way, these answers should be able to be obtained from the person or persons that have made the property opportunity available to you. If for some reason you are not getting these answers by way of them not having this information or telling you that they don't know that is a sign to avoid the property and possibly the partnership investment opportunity as well.

Legal and Accounting Team

I do recommend that you enlist a competent real estate attorney and a competent accountant to advise you on at least your first investment. Remember their job is to advise you not to make the decision for you. Running the partnership documents by both of these team members could save you some hassle and trouble later on plus possibly save you money. The money spent on a good attorney and accountant is an investment and should be looked at that way. One last thing about this, when I say "competent" I mean someone that has real experience with real estate partnership investing. You don't want your first partnership to be on the job training for someone.

KEY CHAPTER POINT: There are main criteria points to ask yourself before investing in a property that a real estate partnership is considering. Before deciding to invest make sure you get answers to these criteria questions and you feel comfortable with these answers before investing in the property.

Chapter 7

Your Investment Tool Box – Four Investments Working Overtime

When it comes to a toolbox, you get a picture in your mind of just that, a tool box full of tools. Now, depending on your picture, this may be an organized tool box full of tools, or one that just has a hodgepodge of tools thrown in there. Nevertheless, in your mind you probably see small tools like drill bits, screw drivers, wrenches, etc. and then you probably see some larger tools and some important tools like a hammer.

Then comes the tools you just have to have. There are many tools in the tool box that may get used every once in a while or maybe not even once a year. There are also tools that get used all of the time and are pretty important. In my toolbox that I keep in the garage I can tell you that a tool that gets used rarely would be my plumbers wrench for any work I would do on pipes but the tool in the toolbox that would get used most of the time would be the hammer.

When it comes to your investments, I want you to think of the analogy of a toolbox. With your investments you use lots of ‘tools’ with everything from checking and savings accounts, CD’s, Mutual Funds, Money Markets, Stocks, Savings Bonds, etc. Many have a lot of investment building TOOLS in their wealth building tool box and more than likely you do too. But again some tools (investments) are more important than others. For example a checking account is not going to be an investment that will increase your net worth substantially is it? No. It is a tool that you probably will use a lot but will not have THAT much of an effect on your income or net worth. But, there ARE tools in the tool box that will.

What I am going to talk about in this chapter is THAT TOOL! The tool that I have come to discover and recommend that you have in your toolbox not only to increase your income, wealth and net worth but also for diversification and income tax savings as icing on the cake.

The other way to think of this is that most real wealth has been grown from non-traditional and unconventional sources. In other words people are not getting or growing their wealth by using savings accounts, bank CD's or money market funds paying 1.2% interest.

Qualified real estate investment partnerships should be one of those tools in your wealth building toolbox. Owning your very own well located, well maintained apartment building or other commercial investment property that increase in value and throw off cash flow, appreciation and income tax savings all at the same time I think is fantastic investment leverage in a world that has very few investments with this many benefits being achieved at the same time. Plus, as we have already discussed, you are a passive owner with a relatively low amount of risk. It should really be a tool in your toolbox.

How and Why Smart Investors Need This Tool

Short answer first and then I will expand. It is because qualified real estate partnerships are one of the few investments that work overtime for you! 24/7 these properties are working for you and as I will explain I think a good passive real estate partnership is really four investments wrapped into one!

First, let's talk about investments working overtime for you. When you invest in a stock you are really hoping for one thing to happen – that it goes up in value right? It is strictly a capital gain type of investment isn't it? You buy the stock for \$10.00 a share and hope it gets to \$20.00 a share (or more of course) as soon as possible. You buy for \$10.00, sell for \$20.00 and pocket your profit. One kind of investment.

In the investment world that is great. I have no criticism on this kind of investing.

But I want you to now think about this. What if I told you that one good real estate investment partnership is actually four investments working for you at the same time? That is right. Four!

Let's use an apartment property as an example since most investors are familiar with an apartment property.

When you buy an apartment property you will more than likely receive cash flow at least quarterly from that apartment property. Once the rent comes in and the expenses are paid, the remaining cash flow goes into your pocket. Now, at the very same time you are getting this cash flow and pocketing it you are more than likely making a loan payment to a lender that loaned the partnership the money to buy the building. What happens every month the partnership makes that loan payment? That loan balance goes down doesn't it? The principal balance of that loan goes down each and every month. Who is making these loan payments? If you said that YOU (or the partnership) was making the payment you are wrong my friend. The person that is REALLY making the partnerships loan payment is the tenant(s) isn't it? They are really the ones making the payment for you.

So far in our partnership we are getting cash flow and the tenants are making the loan payment for us. In addition to these two nice benefits the partnerships owns a property that should also be appreciating! Well located, well maintained apartment properties will go up in value over time. This is benefit number three that is happening simultaneously with the income being produced and our loan balance being paid down by the tenants each and every month.

At the risk of being repetitively backtracking lets quickly recap. The partnership is collecting income from the cash flow from the property and is having its loan balance go down each and every month with the tenants 'kind' enough to pay those loan payments for you in the form of rent but and in addition you also have a property that is going up in value at the same time!

Now what all of this financial activity does is creates equity in hopefully large amounts. Equity is the key to a partnerships capital growth and this passes through to the partner's net worth. So your 'bank account' in this property gets larger and larger every single month!

Then, lastly, there is income tax savings. I know I went in detail earlier about real estate partnership's and that they did not have the kind of tax savings as they used to prior to the Tax Reform Act, however, there is still substantial tax savings available for passive investors. When you are part

of a partnership that owns an apartment property Uncle Sam allows you to write off your partnerships expenses. Uncle Sam still allows your partnership to write off daily wear and tear to the property in the form of depreciation as well as interest on the partnership's loan that the tenants pay for you. In addition your partnership can deduct expenses like property taxes, insurance, maintenance, etc.

A Snapshot Summary of How the Real Estate Partnership Tool Works

First, I am going to make some basic assumptions. The first is that the partnership owns a good property that produces income and will appreciate. Even an average apartment or commercial investment property will do this.

So, with this as our backdrop let's say the first year your partnership owned an apartment property you personally had an income of \$10,000 that year in cash flow that you put in your pocket from the property operations. This is good but now you may have to pay tax on that income.

Or will you?

Remember, when you file your income tax return Uncle Sam allows you tax savings as an owner of this property and because you can write the property expenses off more than likely you will have very little if any taxes to pay on this income, this includes appreciation and on the equity build up too!

Most often a property will produce more in expenses than income when a partnership is able to write off its operational expenses as well as interest paid on any loans and the depreciation on the property.

What this means is even though you had an income of \$10,000 that you put in your pocket at the end of the year more than likely you will not be taxed on it. Or, at the very least will pay a very small amount of tax on this income. Let me stress that this is legal. Nothing like having an

income of \$10,000 from the property, have the property increase in value, have the property continue to build equity for you and not be taxed on it.

In many cases you may even show a loss on your taxes when in fact you had a great year in income, appreciation and equity build up.

This is all good but I do want to mention one last item that few investment partners take into account but can be most important.

When the time does come for the partnership to sell the property Uncle Sam also allows the partnership to sell the property and defer paying any taxes on the sale for as long as the partnership wants!

Apartments (and commercial investment property) are one of the few investments that when sold allow you to roll over ALL of your capital gains taxes from the sale of the property into another investment property and legally defer all of those taxes!

How would you like to sell your 5,000 shares of Google, Facebook or Twitter and defer those taxes? You would like to I am sure, but guess what? You can't. Only in the world of investment real estate ownership and partnerships are you allowed to do such things.

Frankly, what kind of investment is there that can do so many things for you? It is really like a good real estate partnership is a bunch of little investments all wrapped up into one isn't it? This is the base of our power to increase our net worth fast. Have as many of these 'investments in an investment' working for us at once. When you have these many investments wrapped up into one it means faster than average wealth building.

Income, appreciation, equity build up, annual tax savings, and even tax deferral when selling the property plus I will remind you that you can take advantage of this passively too.

Now you see why I really think that a good investment real estate partnership needs to be at least one of the tools in a smart investor's tool box.

KEY CHAPTER POINT: An investment real estate partnership should be a serious consideration for an investor looking for an investment that works overtime and provides many investment benefits simultaneously. Good investment real estate partnerships do wonders for an investor's income, net worth and overall wealth.

Chapter 8

Taking Advantage of What Exists – Supply and Demand

There are things that will always be needed.

The smart investor, in my mind anyway, focuses at least some part of their investments on items that will always be needed.

Sure, things like Facebook, Google, Apple, etc. have done very well for many investors. Especially those investors that may have gotten in on these companies' stock earlier than others.

But, do people really need these things? I know many readers probably would say yes to this but let's get down to its core, do people REALLY need Google or Facebook?

The answer is of course no they don't.

Many of us have been told that as humans our three basic needs have to be met first before we can move on to other things in our lives. Those items are food, clothing and shelter.

Without these three items of course there would be no investing in Apple or waiting for the next version of the iPhone to come out!

In this chapter I want to focus on the shelter part of this and how it relates to real estate partnerships.

The First Place Most People Live

The majority of people that are in the position to invest in a real estate partnership also have experience with one of my favorite investments for partnerships – apartments. Most people have experience at some point

in time in their lives of living in an apartment property. Why? Because for most people this was the first logical choice of the place to live either growing up or once you were able to be on your own outside of the home. Most people have lived in an apartment at some point in their lives.

For me, I had a single mother and as a result I spent many years growing up in an apartment building as a child. For a period of time while I was growing up, mainly through junior high and high school, my mother and I moved in with my Grandparents and Uncle in a single family home owned by my Uncle so for a while I was out of apartment living. However, while I went to college and right out of college I lived in an apartment. After graduating college and getting married my wife Gina I lived in an apartment for a number of years until we decided to buy our own home.

Again, most people have had experience living in an apartment. Though maybe not exactly like my experience for most people they have either a light or heavy dose of apartment living sprinkled into their lives because apartments are needed. Apartments take care of a basic need of shelter. Everyone needs a roof over their head.

In Today's World and Economy Demand Grows

What follows is a quick description of what most all investors are aware of but I want to take a few paragraphs to remind you.

It is a fact that the most affordable place people can live is an apartment. Apartments also provide flexibility too for people in terms of being able to move in generally short time frames. Most apartment leases are six to twelve months so this provides a lot of flexibility for people to be able to move with little hassle when they like. Apartments also do not require a lot of upfront money or perfect credit in order to live there. There are no down payments required for someone to live in an apartment. Sure, many apartments require a rental deposit but this is usually one month's rent and many apartment communities do require someone that has at least average credit to live in their communities but even so, many apartments do not require large deposits or are that strict on credit scores

either.

Put it this way, as long as you have some income coming in from somewhere more than likely you can rent an apartment and have shelter. Also, even if one does not have any income coming in there are subsidized apartment properties as well for those with no or low income.

However, none of this is the case for those wanting to own their own homes or condos.

Since there are apartments that can be rented owning a home is optional. Second, in order to own your own home people have to go through a strict qualification process in order to be able to borrow money to purchase the home. For most this requires impeccable credit, income and at least 10 – 20% down payment in order to just qualify to purchase the property. (*Note: I am aware that there are some programs that require less of a down payment such as VA or FHA loans for some but I am talking about the majority of people).

Impeccable credit, a nice chunk of money saved for a down payment and a good source of income from a current job or career gets you in the door of owning your own home in America. It is because most people do not have impeccable credit or a nice chunk of money saved or a good enough income source from a job that the majority of people in America will rent and continue to rent. Many people have at least one of these things that keeps them from buying their own home but most do not have all three.

The Bill of Goods Sold To The American Public On Home Ownership

We discovered in late 2007 and through 2013 during the US real estate crash that owning your own home or condo is not what many people thought it was supposed to be. What I mean is for decades prior to this many claimed that owning your own home was the “American Dream”. Many people were taught that the “American Dream” is realized by finally owning your own home. If you finally got to a point where you owned your own home, well, you made it! You are living the American Dream! This is something you strived for.

Additionally, people were sold on the belief that by owning your own home you could always depend on your home to hold its value and increase in value over time. For some reason if all of your investments crashed but you owned your own home you would be alright since a home is a bedrock of financial stability as an investment. Homeownership was sold as the ultimate investment that could not go wrong.

But during 2007 - 2013 the average home value across the US dropped over 38%! In some cases the values of homes dropped well over 60%. In an effort by a whole host of characters to make everyone a home owner there was massive overbuilding, easy lending terms made to people that had no ability or business getting a home loan and an unrealistic idea of property values increasing at a record pace. The result? In the end a historical amount of foreclosures. There were so many foreclosures that some banks used robot signing machines to sign foreclosure documents just to keep up with the constant inflow of foreclosures.

Again, there was a whole cast of characters involved in this debacle but the one thing we discovered through this is it turns out that owning your own home is really not the American Dream. It turns out that owning your own home is just like any other investment – risky! The American Dream is really the American risk and millions of people are choosing not to own their own home because of this risk.

So, what is my point in all this? Am I a critic of home ownership? No. Not at all. But what I do want to point out is all of these items that I have mentioned spells continued demand for apartment properties. That basic need of having a roof over our head combined with the fact that it is very difficult to qualify and be in a financial position to own your own home means apartment living is here to stay for a long time. There are also millions of people that could own their own home but choose to live in an apartment community because of the risk associated with home ownership.

You see, this is all very good news for real estate partnerships that choose

to invest in apartments. Investing in a property type that is in demand and looks to continue to be in demand is smart investing. Of all of the partnerships that I have been involved in over the years by far the partnerships that have performed the best are the ones that have purchased apartment properties. Part of that success has been because of the properties that I have selected that our various partnerships have purchased but one underpinning of all of their success is continued demand from people to want to rent vs. own. The renter society vs. ownership society continues to help the apartment investments these partnerships own.

I am not spending time on behalf of our investment partnerships working on new spec office building developments, industrial subdivisions or a high rise condominium development. The demand for these kinds of investments can come and go. Sure, if you get lucky and hit the market at the right time you could make a huge return, but, if your timing is off it could spell disaster.

So, when considering a real estate investment partnership consider them carefully but also consider the property that the partnership is investing in. You reduce your investment risk substantially by investing in a property type that is almost always in demand. No matter what happens socially, politically or economically people will always need a place to live. This is not to say that apartments are 100% risk free, however, any real estate partnership that does own a good apartment community increases the odds that it will be a profitable investment partnership simply because the investment is made in a property that will always be in demand.

KEY CHAPTER POINT: When investing in a real estate partnership a simple way to increase your return and lower your risk is to invest in a property types that are always in demand. Well located and well maintained apartment communities are an example of a property type that is always in demand.

Chapter 9

Your IRA and 401(k) Partnership Investment Strategies

One of the most positive things about getting rich in real estate partnerships is that these partnerships allow you to invest your IRA / 401(k).

How would you like to earn hundreds of thousands of dollars on your partnership investment tax deferred? What if you could take \$50,000 from your IRA and invest it in a great apartment property? Let's say this property then returned to you \$160,000 in profits within a few years all tax deferred?

What I am going to cover in this chapter is how to do exactly that. Invest your IRA, Roth IRA, 401K and/or Keogh account into large tax deferred profits for your retirement.

Most people will go the usual route of investing their retirement accounts into some kind of a mutual fund and just let it ride the course, maybe contributing to the account month after month up to the limits imposed by the IRS. I think you would agree this is what most people do with their IRA accounts. Problem with this method is, it takes a long time, even tax deferred, to get large account balances built up doesn't it? For example, if I start out with an account balance of say \$10,000 and add say \$250 per month to that account it will take me approximately two to three years to get to an account balance of \$20,000 AND that is if the market is good and positive each and every year, but it could be longer. Contrast that with good real estate partnership investing and you can have that same \$10,000 turn into \$20,000, with no monthly investing, in anywhere from a few months to a few years. How about that? Plus, these gains are all tax deferred inside the IRA/401(k) account!

Let's use some bigger numbers that will really get you excited. Let's say I have \$200,000 in my account and I add \$4,000 per year. If all goes well I could have that account balance at around \$300,000 in about 5 to 7 years and that is with a nice gain on the account balance every month. Again,

contrast that with putting that same \$200,000 into a profitable real estate partnership and having it return an additional \$150,000 in about 36 months!

Recently, one of the real estate partnerships that I run purchased a 100 unit apartment property for \$4,100,000. Within 18 months of ownership the property appraised for \$5,275,000! The partnership initially invested \$2,000,000 to buy this property. So, in 18 months the partnership put in \$2,000,000 and had a return of over \$1,000,000. That is an approximate 50% return! We are currently entertaining selling this property now and if we do those investors with IRA or 401(k) moneys investing in this property will have about a 50% return all tax deferred!

Can you see how using your IRA money can be a nice advantage?

The good news is, you don't have to use your entire IRA account and put it all into real estate. You can use whatever amount you are comfortable with and leave the rest in a more conservative investment if you like too.

Can you see how and why many of my partners and apartment investment clients do this?

The good news too is even though investing your IRA into a good real estate investment partnership sounds difficult it is extremely easy to do!

Let me give you the simple to follow steps of doing this. Keep in mind that I will be using IRA to also mean 401K, Roth IRA and Keogh since this applies to those investment vehicles as well.

1. Transfer an IRA account to a provider, or sometimes referred to as a custodian, of Self-Directed IRA services. All you need do is get in touch with a company that provides self-directed IRA services and they will do most of the heavy lifting for you. (I have a list of such companies in the back of this chapter with some recommendations for you). What happens here is that you fill out paperwork that essentially transfers your IRA from the company, bank, mutual fund, etc. you are with now to a new company – one that lets you self-direct (meaning you get to invest in investments that you want not what the bank or mutual fund wants) your IRA monies. This paperwork goes to your new self-directed company that goes

through the process of transferring the money from your current account into a new IRA account that gives you the power to invest in whatever you want and into what the law will allow.

For example. Let's say you have \$200,000 in an IRA account with Fidelity Investments. You want to invest at least a part of this balance into a passive real estate investment partnership. You simply contact a company that provides self-directed investment of your IRA. Once you contact this company, they will send you the appropriate paperwork to fill out to transfer your IRA from Fidelity to your new self-directed home. Once this paperwork is filled out and sent back to this company, they contact Fidelity who will transfer your IRA money over to them. Remember, your IRA is still an IRA – this is not a distribution ONLY a transfer from one company to another. Once the transfer takes place then you are free to invest your IRA into a profitable passive investment real estate partnership. Time this takes? Usually 2 to 4 weeks.

2. Once your IRA is with the new company put it in that companies money market fund until you find a great project to invest in. You want to transfer your money now and have it available for a great real estate partnership opportunity not wait until you have identified a great partnership opportunity and then transfer the money. You want to be able to react fast when a good project comes up. Keeping it in a money market fund at your new self-directed company will give you flexibility and in the meantime you will not lose principal by investing in stocks or other mutual funds. Even though most of these self-directed IRA companies provide access for you to the same investments like bonds, mutual funds, stocks, etc. we want our money to be liquid and not lose principal.
3. Find a real estate partnership to put at least some of your IRA monies into. Now you are on the lookout for a profitable real estate partnership to get involved in. Again, make sure you follow the information in this book in locating a profitable passive partnership. This is your retirement money we are talking about here.
4. Once you have found the real estate partnership you want to invest in contact your self-directed company to assist you with this.

Again, this is really simple and just a paperwork exercise. The self-directed IRA company will forward you the appropriate paperwork (or have you complete it online) so that they can process the investment into the partnership for you. Again, it is very easy.

5. Once you have invested in the partnership, wait for those tax deferred profits to come back into your retirement account.

That's it! Could it be any easier??

Now really, I am not snow balling you. This is easy to do and many of my partners and clients do this every day with amounts ranging from \$5,000 - \$5,000,000!

With that said however, there ARE some things you need to know and need to avoid. Make sure you take your time and read these items because if you make a mistake with your account, you could be liable for taxes on the balance and I know that you do not want to do that. So, here are the things to remember, some of which we have covered previously in this book:

1. If the partnership you are investing your IRA into requires financing, which most do, make sure you do not sign a personal guaranty for the loan with the lender. A personal guaranty is a document that the lender has you sign that says, in the event the bank would ever have to foreclose and sell the property and not get enough in sales proceeds to cover the outstanding loan, they could go after you for whatever they are still owed. Do not sign this document. The IRS will consider this a withdrawal from your IRA since it is essentially being used as collateral for the personal guaranty. Remember, even if you are investing in the partnership as a member of an LLC or using your own LLC the banks will many times STILL want you to sign a personal guaranty. Don't!
2. Do Not Invest in a Risky Partnership. I know this is common sense but sometimes you will run into a partnership with a high risk real estate investment but the potential profits can be huge. Especially if those profits could be tax deferred. Avoid high risk partnerships as much as possible.

3. Avoid partnerships where you may be subject to frequent capital calls. Make sure that the partnership you are investing in is well funded so capital calls will more than likely not be necessary. A capital call is when the partnership does not have enough capital to meet upcoming obligations such as a large surprise repair and maintenance item or due to either slow or poor operations or a possible upcoming investment. When this happens, which it sometimes does, the partners will need to contribute additional funds in addition to their original investment to cover these upcoming partnership costs. With an IRA invested any additional capital for a capital call would need to come from your IRA. Most of the time capital calls are not a problem, as long as it is rare and does not require a lot of money. Tip: make sure the partnership has plenty of funds in reserve to cover any unforeseen expenses BEFORE closing off the property. Most of the properties I own with partners have a large deposit of reserve funds that we have collected before we purchase the property in order to avoid capital calls.
4. Make sure any cash flows or profits from the partnership goes back into your IRA account. Don't make the mistake of getting those cash flow or profit checks and cashing the checks yourself. No sir. Remember, this is IRA money and all profits need to go back into the IRA account. As a matter of fact all of the partnership cash flow or profit checks need to be made out to your IRA, NOT to you.
5. Make sure your self-directed IRA Company gets quarterly reports detailing the value of your IRA in the partnership. For example, let's say you invest \$200,000 into a real estate partnership in December. The following March you need to get an idea as to how much your \$200,000 has grown and report this amount to your self-directed IRA company. Same in June, September and December.
6. Keep track of all monthly or quarterly property operations and ask for property reports.

IRA, Keogh, 401(k) and Roth IRA investing into apartments is relatively easy to do and most employer plans allow you to self-direct your

retirement funds too. My company assists our investors with self-directed IRA investing into real estate partnerships all of the time. I do have an IRA KIT that I have made available for readers of this book that I am more than happy to send you if you request it. Simply email me at theparanoidbanker@gmail.com and request the IRA KIT. We will send your kit to you via email. No cost or obligation of course.

Profitable real estate investment partnerships can mean hundreds of thousands in profits tax deferred!

What else could get better?

Self-Directed IRA Companies to Contact with My Preferences First:

Equity Trust Company

1 Equity Way

Elyria, OH 44035

Phone: 877-693-8206

Fax: 440-366-3750

www.trustetc.com

Millennium Trust Company

2001 Spring Road

Suite 700

Oak Brook, IL 60523

Phone: 800-258-7878

www.mtrustcompany.com

KEY CHAPTER POINT: You can invest your IRA, Roth IRA, 401(k) and even your Keogh plan into a real estate partnership and all income and profits from that partnership are then tax deferred. You will need to have a self-directed account set up with a qualified IRA investment custodian. Many company retirement plans are also candidates for investing in a solid real estate partnership opportunity.

Chapter 10

Contrarian Investing For Diversification Sake!

The one thing that many of us have been led to believe is that in order to be a smart investor you should invest your money in one or more of these investments:

1. Mutual Funds
2. Stocks
3. Bonds
4. Money Market
5. Bank CD's.

The majority of investors use at least one or more of these investments as the foundation of their investing. Most of these investors too have money coming automatically out of their paychecks and funneled into at least one of these investments and many company retirement plans use one or more of these investments as their foundation for investment success.

Before I go any further in this chapter I want you to know that it won't be a chapter where I tell you how big of a mistake you are making by having your money in one or a combination of these investments. That is not what this chapter is all about. Heck, I have money in one or more of these investments myself. So, that is not what will happen here.

What will happen is that I want you to expand your investment horizons and consider adding a profitable real estate investment partnership to that list above. I am going to give you what I consider some pretty compelling reasons for you to do this too.

Exposure To Investment Real Estate

Other than living in an apartment, condo, single family rental or owning

your own home many investors have no experience with investment real estate partnerships. I covered this extensively in Chapter 7. There are two main reasons why investors do not get involved in a real estate investment or partnership and they are:

1. Property Management
2. Not enough information.

Let me ask you, when was the last time you saw information, in any media, on real estate partnerships? When is the last time you turned on the TV, went online or were listening to your favorite radio station and there was detailed talk on passive real estate partnership investing? It's not like you watch CNBC and get ongoing and current information on passive investment real estate partnerships. Even some of my favorite publications like Investor's Business Daily and the Wall Street Journal have little information on passive real estate partnership investing.

So, for most investors that somehow come to find information on real estate partnerships it is the result of either accidentally stumbling into it somewhere or proactively searching for answers specifically on the subject.

So, the obvious statement is that most investors are not only unaware of passive real estate partnership investing as a viable addition to conventional investing but even if they consider digging into this area more it is hard work to find information that is not only timely but information from sources that are authoritative.

With this as our backdrop I want give you something to think about:

For Unconventional Investment Results Most Investors Will Need to Invest Unconventionally.

This is the way the investment world works. Conventional investments get you conventional results and there is nothing wrong with conventional results, however, it is the investor that chooses to invest unconventionally

(i.e. real estate partnerships) that many times gets those unconventional investment results that so many investors are looking for.

Admittedly though, unconventional investing does carry more risk. You would not get much of an argument from me that investing in a passive real estate partnership is more risky than putting your money in a bank or credit union CD. The difference of course is then based on return and the risk you are willing to take to get the kind of wealth and income generating returns that can really make a difference.

But really, just how much more risky is a good passive real estate investment partnership vs. say a bank CD or a mutual fund? I would argue that generally speaking the risk comparison is very small. My experience over the years, and this includes being a part owner of a bank, is that there is not that much more risk associated with a good real estate partnership than with any of the conventional investments that I mentioned previously in this chapter.

In general:

A) Mutual fund vs. investment in a copper mine – big difference in risk.

B) Mutual fund vs. investment in a good real estate partnership – very small difference in risk.

I can even make the argument that all of the conventional investments are not in our human hierarchy of needs and are affected by many outside political and socioeconomic events as well but people still need an affordable place to live making real estate trump the other investments.

All of this is more the reason why I have urging investors over the years to diversify their conventional investing by investing in one of the lower risk unconventional investments like real estate partnerships.

I could really make the case that real estate partnerships deserve a healthy percentage of your investable assets; especially good partnerships. I am not a proponent however in dumping all of your

investments, especially the ones that are working fine, for that “home run” or “magic pill” kind of investment so I will stop short of any such recommendation.

But, I believe that if you do not have an investment in a good real estate partnership you are missing one of the better wealth and income generators you could have in your investment portfolio and you are diversifying your investments even more. I think that is a win, win.

The next point that comes up here is if you somewhat agree with my information then what is a good percentage of your investable assets that should be in profitable investment real estate partnerships?

Answer: Depends on your comfort level. The more you start becoming more and more comfortable with real estate partnerships the more you should own.

For example, if you look at me I have about 80%+ of my investible assets in some kind of real estate investment. Some would argue that this is way too much and I am setting myself up for a painful financial correction. But really, it comes down to my comfort level. I have been in the real estate investment business for so long and have so much experience that I have no problems with this percentage. Obviously for someone just starting out they would not want to be at this level at all.

You get the picture.

So when it comes to your investment into a passive real estate partnership invest what you feel comfortable at first. Dip your toe in the water so to speak. Allocate an investment amount that won't keep you awake at night worrying if you made the right decision. Of course some real estate investment partnerships will require minimum investments that may sometimes be more than your comfort level and this is ok. Even though you may not feel comfortable investing in a certain partnership because the minimum investment is out of your comfort zone you are still working on getting comfortable and getting experience in passive real estate partnership investing because you are going through the process of

requesting, analyzing, reviewing, asking questions and becoming more and more informed. Think of it as practice. The more real estate partnership information you review the more informed and comfortable you will be making that next investment.

Of course you can't go to the other extreme of being someone that spends all of their time requesting real estate partnership information and never investing either because you are waiting for that magic bullet, but, don't be in a hurry if you are not as comfortable as you would like.

There are no other investments that produce the kind of investment results like a good real estate partnership can. There just isn't. Having an investment like this in your investment tool box is not only smart from an income and diversification standpoint but also from a risk standpoint too, plus, you are not spending any of your precious time on property management. You can concentrate on other things while your investment in the partnership not only gives you good income and returns but also a healthy amount of tax savings too. All at a comfort level that you can feel good about.

If not now...when?

KEY CHAPTER POINT: Most investors have not considered investing in a profitable real estate partnership because it is considered an unconventional investment. Most investors lack information on profitable passive real estate partnership possibilities and others feel that investing would involve property management headaches. There are terrific real estate partnership investments that should be considered by the majority of investors not only because of the wealth, income and diversification benefits but also because many partnerships are much lower risk than investors realize.

Chapter 11

Accreditation Points and Who Should Invest In Real Estate Partnerships

This could have possibly been the first chapter instead of the 11th because it does bring up a pretty important question. Should you invest in a real estate partnership in the first place? Are you qualified to invest in a real estate partnership? Should you even consider it? Let's start this chapter with a general overview of things.

Even though I generally feel one should be able to invest in whatever the heck one wants too there are some things that we do need consider. There are also some securities rules that we must keep in mind as well when investing in a real estate partnership.

First, some real estate partnerships will require that you be an ACCREDITED INVESTOR and will ask you to sign specific partnership paperwork attesting that you are accredited. In general an accredited investor is someone that has a net worth over \$1,000,000 not including their principal residence or someone that has made over \$200,000 in income per year for the last three years. The accredited investor definition or guidelines are handed down by the Securities and Exchange Commission or SEC. Obviously if you do meet the accredited investor criteria then you are free to invest. If not, some real estate partnerships may not allow you to invest.

Do you have to be an accredited investor to invest in a real estate partnership? The answer is no you do not have to be. If you are currently not an accredited investor that does not mean you are out of the picture for real estate partnership investing. You can still invest but it will depend on the type of investment partnership and if that partnership will be accepting non-accredited investors. We have partnerships that have accredited and non-accredited investors so it will depend on that specific partnership and the partnership management's decision to accept accredited and/or non-accredited investors. In any case it will help to know if you fall in the accredited or non-accredited category. These are important things to know.

In general, my feeling is that if you have some money, either regular money or IRA/401(k) that you have earmarked for investment somewhere that you should consider a good real estate partnership but with the following six things in mind:

1. The investment dollars you would plan to invest in a real estate partnership should not be your last and only money you have for investment. For example if you have \$50,000 in your IRA and this is all you have other than say \$1,000 in your checking account then I do not recommend you invest your \$50,000 in a real estate partnership. I would wait until you have at least \$75,000 - \$100,000 of investible cash in either regular money or IRA/401(k) or a combination of both. In other words do not put your last available investment dollar into a real estate partnership.
2. While risking repeating myself from #1 if you have less than \$50,000 to invest you should wait before investing in a real estate partnership.
3. Do not use a real estate partnership as the “magic pill” or as a “bet” that you will hit it big. There will be some folks out there that will be promoting some real estate partnerships and telling you about the gigantic returns and how a particular passive real estate partnership could be the financial game changer for you if you invest in the partnership. Treat a passive real estate investment partnerships as an investment that will help you get richer faster NOT as a bet. Avoid the casino or lottery mentality when it comes to real estate partnerships.
4. Be an investor that can handle quarterly ups and downs of cash flow and income from real estate partnerships. If you are a person that is expecting the same amount of cash flow quarter after quarter and would get upset or worry if the income is not the same each and every quarter then a real estate partnership is not for you. Typically a real estate partnership will have different income amounts each and every quarter based on the performance of the property. Sometimes those income amounts are much more than you would expect, other times those income amounts could be much less than you would expect.

For example, when it comes to our investors I try like heck to make sure that they understand that a real estate property will typically not have the same income distribution quarter after quarter and to not annualize those quarterly returns. For example I just had one of our properties have a tremendous quarter. If you annualize just the income return for that quarter it has over a 33% annual return. The problem is at the end of the year this property will not have a 33% annual return. At the end of the year it will more than likely be around 11-12%. On the other hand if we had a slow quarter in terms of income and it came out to be a 2% annualized return that would not be accurate either.

The point is you have to be an investor that understands and accepts that there will be fluctuations in quarterly income with some surprising highs and some surprising lows too. If this gives you heartburn then a real estate partnership investment is probably not for you.

5. Invest with a real estate partnership that has someone managing the partnership that has experience. The more experience the manager of the partnership has the better. But here is something that may surprise you. If the manager of the real estate partnership has lost money in the past I would not necessarily have a problem with that. I would have a problem with someone that was managing a real estate partnership that claimed to have never lost any money. That to me is a red flag. If a person that manages an investment real estate partnership has been around long enough or had enough experience he or she has had to have had some bad properties too. The good news about a manager of a real estate partnership that has lost money in the past is the experience has probably taught them a lot in terms of avoiding those things that could lead to a property or management of a property that could losing money. A manager that claims to have never lost money in a real estate partnership is either lying to you or does not have enough experience in my book to be running a partnership that I would invest my money in.

6. Be comfortable with the paperwork. All real estate investment partnerships will have offering paperwork for you to review, approve and sign off on. This is different from the marketing materials that have information about the property, photos, videos, financial projections, etc.

If a partnership being offered does not have any offering paperwork such as an Operating Agreement or Private Placement Memorandum for you to review and approve do not invest! Most partnerships will have the legal offering information outside of the marketing materials.

These documents basically tell you not only all of the risks and rewards that are associated with investing in this particular partnership but also the rules and regulations of the partnership as well in terms of how each partner and the manager should conduct themselves. Even though this paperwork can be long and boring reading at times make sure you do read the information so you are fully informed on how the partnership will operate on a daily basis. Make sure you are comfortable with what you are reading and if you need clarification on anything contact the manager of the partnership for clarification. If you don't get clarification from the manager or you do not like the answers given to you by the manager of the partnership don't invest.

Many people ask me should they have an attorney read these documents. I recommend for your first real estate partnership that you have a competent real estate attorney review the documents and summarize the items he or she feels are important for you to be aware of. After your first few partnership experiences you will have a better comfort level and may choose to review the documents yourself but if there is ever a question in your mind have an attorney that knows real estate law review the information.

In chapter 6 and in chapter 8 I went into detail about the types of properties and qualifying properties to invest in.

I will reiterate what I said in the beginning of this chapter that I think anyone should be able to invest in anything they like at any time they like, however, use the six main points in this chapter to mentally qualify yourself as an investor that would be ready to get involved in a passive real estate investment partnership.

KEY CHAPTER POINT: Let the information in this chapter be your litmus test for your next investment into a passive real estate investment

partnership. Whether you are an accredited investor or not use the information as a guideline to getting involved in your next partnership.

Chapter 12

Where To Find a Good Partnership

to Invest In

So where do you find a good passive real estate partnership to invest in?

It is a challenge because as we have said previously real estate partnership investing is pretty close to a covert operation. Unlike the multi-billion dollar investment firms that have full page ads in financial publications or have all sorts of TV and online commercials that direct you to get started investing with just a phone call we know that real estate partnerships are much different because with real estate partnerships you have to work to find them.

Where you live too will make a difference. If you live in a large city you will be able to locate local real estate investment partnerships much easier than someone living in small town Iowa. San Diego, California is probably easier than Clarion, Iowa.

No matter where you live I want to give you some tips on finding real estate partnerships. At the end of this chapter you will not find any secrets to this, however, I know the following recommendations will help investors out a lot.

Once you have decided where you may want to invest geographically the first place to check is real estate attorneys. Assuming that you do not have your own real estate attorney I would contact a firm and ask to speak to the attorney that handles most of the real estate partnership work for the firm. A contact with a letter or phone is fine. When you contact him or her tell them that you understand that they do a fair amount of real estate partnership legal work and you are interested not only in investing in a good real estate partnership, but probably having an attorney to contact and assist with any future real estate partnership you may have an interest in. While talking on the phone ask them if there is anyone they would recommend you contact that they may have worked with that could be a source for real estate partnership investing.

Next I would contact a real estate broker/agent in the market but not just any agent. Do some research online and find out which real estate brokers do a lot of work with commercial properties, specifically apartment properties. In every market there are a few brokers that do a lot of business with apartment properties and apartment owners. Chances are these folks have experience with those investors that are purchasing an apartment property on behalf of a partnership. They may also be individually involved in a few partnerships as well. A good real estate broker will be a good source for you. Let the agent know that you are looking to invest in some good apartment properties in the future and possibly through a partnership and have they worked with any partnerships recently? Find out who was managing those partnerships.

Same with appraisers. I would contact the top commercial appraisers in the market. Like real estate agents make sure the appraiser you contact does the majority of their work on investment property appraisals. This would also be a good time to ask about the market in general and are there any trends that the appraiser has noticed? How are apartment or investment properties selling? As with the real estate agent tell the appraiser you are looking to invest in some apartments in the market in the near future and they were recommended to you to talk too. In the course of the conversation ask the partnership questions and if they have done any appraisals for any partnership purchases and if they know who the manager of those partnerships would be.

Real Estate Investment Clubs and Landlord Associations. Many communities have real estate investment clubs and landlord associations. These are great places to find out not only investment real estate information but again partnership information. Many managers of real estate partnerships belong to these groups. In some cases you can contact these groups and get a list of their members or talk to the President of these groups and find out who the “go to” investors are that run and oversee real estate partnerships.

Property Managers. This is an excellent source since many partnerships hire third party property management firms to manage the properties that they purchase. Contact these firms and tell them that you are interested in purchasing an apartment property and if they can give you

an idea on how the management process works, what do they do, what they charge, etc. During the conversation ask if they do any work on the behalf of any real estate partnerships and could they recommend a manager of any of those partnerships you could contact with some questions.

Apartment or Commercial Property Owners. A few minutes of research on your city or county property assessor web site will get you the owners contact information of apartment and commercial properties. The larger the property the more likely it is a partnership that owns that property. Once you have the contact information of the owner drop them a letter and let them know you are an investor that is actively seeking to be involved in a good real estate partnership in the area and to keep your contact information in the event that they either invest in another property in the area or in the event that one of their partners may want to be bought out. You will be surprised how well this works.

Lenders. This one is easy. Identify the three biggest lenders in your market or area. Call the lender on the phone and ask to speak to the person that handles large apartment or commercial property loans. When they get on the phone with you simply tell them that you are looking at purchasing up to 200 units in the market at some time in the future and wondered what is going on in the market in terms of commercial loan rates and terms. After the lender gives you some of this information then ask them if they have closed any loans locally to any real estate partnerships. More than likely they will reply to the affirmative and when they do ask them if they recall who some of the managers of these partnerships are because you would like to possibly chat with them about a possible joint venture. If the lender has some experience they will give you some contacts. If they don't know what you are talking about simply move on to the next lender.

Then there is ME. Darin Garman! Without sounding like I am tooting my own horn this is the easiest way to go. If you want to be involved in good passive real estate partnership I can be your source just like I have been the source for hundreds and hundreds of other investors over the years. One reason investors like working with me is not only do I provide them a

great way to own real estate profitably and passively but also because with my 25+ years of experience I make it easy. Investors do not have to go through all of the steps above to find a good real estate partnership to invest in. They simply call or send me an email to get the ball rolling. That simple.

My Direct Phone: **319-350-5378**. Office Phone is **855-685-4440**. Email: **theparanoidbanker@gmail.com** and our web site is: **www.heartlandinvestmentpartners.com**

I would be happy to share our current partnership investor property catalog with you when you contact us.

KEY CHAPTER POINT: There are many avenues to finding profitable real estate partnerships. By pursuing more avenues your chances of finding a profitable partnership to invest in will dramatically increase. Don't be discouraged if it takes a while to find a profitable real estate partnership. Sometimes good partnership to invest in take time.

Chapter 13

Cashing In! Exiting a Partnership.

Oddly enough, one of the first things to think of when investing in a partnership is how and when are you going to exit that partnership. It is the same as the way I look at potential investment properties we are going to purchase. I think about resale and when would be a good time to sell the property before we even buy it.

You too should have similar thoughts before you invest in a partnership. When are you going to exit and cash in? Thinking about this is important before you invest any money.

Obviously there will need to be some flexibility here because no one has a crystal ball and knows when the exact time would be to sell but you should at least have a plan but have some flexibility with that plan. So should the partnership that you invest in.

Make sure the manager of the partnership has a good answer to the “When does the partnership plan on selling the property?” question. Again, the answer does not have to be specific like “May 4, 2023”, however, you do not want the answer to be “I don’t know”.

Typically, I will tell our investors a timeline that I have in mind for the investment and then when we would look at selling. For example, the last property purchased by one of our partnerships was going to be a 7 – 10 year ownership and we would look at selling the property sometime between year 7 and year 10 when the economic value of the property would be at its highest during this time.

Two Ways of Exiting a Partnership

There are really only two ways of exiting a partnership. The first way we have already discussed a little and that is when the property you invested in eventually sells. This is pretty simple. When the property sells the proceeds from the sale are used to pay the costs of sale, pay off any loans and what is left over gets distributed to the partners.

The second way of exiting a partnership is to be bought out early by either the partnership company (LLC) itself for one of the partners in the

partnership. When I use the term “early” I am referring to being bought out before the partnership sells the property. There are many reasons you may choose to sell or exit early. Some of them voluntary like deciding that your individual ownership interest in the partnership has appreciated enough for you and you want to cash out, deciding to take advantage of another business or investment opportunity, etc. Then there are what I call the involuntary reasons such as divorce, pending financial issues, a death in the family, etc.

So, sometimes life happens and you need to sell and get cashed out of the partnership before you really wanted to because of some life event or you may simply decide that it’s time to sell.

As I said earlier the “buyer” of your partnership holdings then will either be the partnership itself or a fellow investor that is in the partnership.

Not Instant Liquidity

You noticed that I said that in order to cash out your partnership interest something needs to happen. The partnership decides to sell the property, the partnership decides to buy out your partnership interest or one of your fellow partners decides to buy you out. These are the events that need to take place in order for you to cash out of the partnership. In most real estate partnerships, however, you cannot pick up the phone on a Monday to call the manager of the partnership and cash out (redeem) your interest in the partnership with a check in your hands by the following Friday. In other words someone needs to buy you out before you get your money. What this means is cashing out of a partnership is not instantaneous or liquid.

If you owned stock in ABC Company and woke up tomorrow and decided you wanted to sell the stock you get a hold of your stock broker and tell them to sell and have the cash sent to you and you would have that cash in a matter of days. If you wanted the moneys in your mutual fund tomorrow all you need to do is contact your mutual fund and tell them to sell your holdings and you will have a check or money wired to your account in a matter of days.

Not so with a real estate partnership. You have to wait until someone buys you out. This can take one, two maybe even three months depending on how well the property is doing.

My experience is that when a property is doing extremely well and one of our partners wants to be bought out it takes less than a month for all of it to happen. However, if the property has been struggling for a couple of years it may take a little longer to sell your partnership interest in the property.

Cashing Out Early Guidelines

Let's assume that for whatever reason you want to sell your partnership investment early and cash out.

First, when it comes to cashing out of your real estate partnership early it is best to pick a time when the property is performing well. The general rule of thumb is the better the property has been doing the easier, faster and more profitable your buy out will be. Obviously, sometimes you cannot do anything about the timing of cashing out your partnership early especially if a life event happens that requires that you do so. But if you can, try to cash out at a time when the property is performing well. It will help not only in how long it will take to sell but the amount of money you will get from your cash out.

Second, contact the manager of the partnership and get an idea what your investment in the partnership is worth. If the manager does not have a recent appraisal on the property you have two choices. 1) You can ask for an appraisal to be done to get today's value of the property. This is the most accurate way to value your investment but the bad news is you will be responsible for paying for the appraisal. 2) Have the manager of the LLC give you an idea what the property is worth. The manager should have a good idea as to the value of the property. The good news is this should not cost you anything.

The choice you make on whether having the property appraised or getting

the manager's opinion of value will of course be based on what the manager thinks the value is. At no cost the manager should tell you and if you feel that the value is acceptable then there is probably no need to get an appraisal. However, if you feel that the manager's opinion of value is low then you may want to consider getting your own appraisal.

Third, ask the manager if he or she feels that there would be demand in cashing you out from partners or from the company. The manager of the partnership should be in constant communication with the partners and should be able to give you an opinion on the "marketability" of your investment to other partners at the time. He or she will also give you an idea on whether or not the partnership (LLC) will want to buy you out too.

Next, decide on your asking price based on the information from the partnership manager. Like any other real estate transaction as the seller you need to set your asking price and take your property to the market. No difference here. Decide on your asking price and tell the manager what that price is. By this time the manager will either want to work with you to cash you out on behalf of the partnership or if that is not going to be possible will now start communicating with all partners and telling them that you have an interest in selling your partnership investment and that if any of your other partners are interested that they can put in an offer to buy you out.

After you set your price and communicate with the partnership's manager and your desire to sell you now wait for offers. Once you get an offer from the partnership or one of the partners then you negotiate just like you would selling any other real estate property.

Usually, if you have your partnership investment priced close to its value you should be able to sell it to the partnership or to a fellow partner within 60 – 90 days. Sometimes a bit more or less depending on how well the property has been doing. If it takes longer than 90 days then you may want to consider lowering your price.

What if the partnership or any individual partner does not have an interest in cashing you out? Good question. If this does happen then

usually the manager's task is to work on bringing in an outside investor that is currently not a member of the partnership to buy you out. A good manager of a real estate partnership will always have a list of investors that are waiting to get involved in the next partnership that comes up. Ask the manager to contact these potential investors. Most partnership agreements state that at any time a partner wants to be bought out early that the company and the partners have the first right to buy that partner out. Once these avenues have been exhausted and there is no interest then the manager should assist in bringing in an investor from outside of the partnership to buy you out.

Good News

In all of my dealings with over 30 real estate partnerships over the years I have never had an investor get "stuck" and not been able to sell their partnership investment early. So, surprisingly it is easier to sell and liquidate your partnership investment in a reasonable period of time than one would think. I have seen investors make a lot of money on their partnership investment when exiting the partnership early and I have also seen some investors lose money too. A lot of this of course depended on the motivation of the partner and how badly they needed their partnership investment cashed out and how fast they needed the cash.

KEY CHAPTER POINT: I recommend that you stay with the partnership investment until the end of the investment, or when the property sells and the partnership is dissolved. This is usually the best way to get the best return you can from a passive real estate partnership investment. However, if you desire to get out early keep in mind that this option is viable and could even be profitable. Check your partnership agreements carefully before you invest in the partnership and understand all of the details of selling your partnership investment in the event you were to decide to sell your partnership investment early.

Chapter 14

Passive Real Estate Investing Resources

If you have read this far then I think that it is safe to say that you are ready for the following resources. Even though I consider some of these resources “real” shortcuts I would recommend that you continue to do your own research and cultivate your own resources over time.

Questions for Darin Garman, The Paranoid Banker.

If you want to get a hold of me and ask me specific questions I am actually the kind of person that does not sit in some high rise 50 story office tower with armies of staff. If you contact me you actually talk to me. The best way is by email.

Email me your questions at: theparanoidbanker@gmail.com.

It may take me a few days to respond but I will respond if I get your email. So, feel free to contact the author of this book with your questions. Chances are I have “been there done that” when it comes to passive real estate partnership investing.

Heartland Investment Partners Web Site

My Company, Heartland Investment Partners, has its own web site for information on passive real estate investing and I also mention specific passive investment projects that we are currently working on. There is a lot of good information here on this site and you can sign up to stay in touch with me and any possible upcoming partnership investments.

The web site address is www.heartlandinvestmentpartners.com.

Securities and Exchange Commission

The SEC has information on investing in securities, being an accredited investor and many other informational topics on being fully informed before investing in any kind of real estate partnership. You can get

information from the SEC at www.sec.gov

Do It Yourself

If you would ever have an interest in running your very own real estate partnership it's a good idea to get up to speed on the basics of real estate investing. Everything from easy to use property analysis software to in depth analysis of apartments, commercial properties and other investments.

There is very good content for no cost and more for purchase at very reasonable prices at: **www.myplatinumclub.com**.

Finding Good Commercial Real Estate Professionals.

Good real estate brokers are a must to serious passive real estate investors. In order to short cut the process in finding a good real estate broker that can help you find good real estate partnerships not only for you personally but for possibly your very own partnership go to **www.ccim.com**.

Good IRA / 401(k) Investing Information.

There is a plethora of information on properly investing your IRA or 401(k) in not only passive real estate investment partnerships but a whole host of other investments as well. A great source is **www.trustetc.com**. While you are there you can even start the process in opening your very own Self Directed IRA account.

The End?

I am hoping by reaching the end of this book it will be the beginning for

you to seriously check into passive real estate partnership investing. There are a lot of good reasons to consider an investment in a good passive real estate partnership.

This book of course did not cover every nuance of passive real estate partnership investing but let it serve as the catalyst to get going and be an informed investor as you dig deeper into one of the more profitable investment arenas that few people know about.

Good Luck!

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About Darin Garman

Darin Garman is a former bank owner, board of director member and known as “The Paranoid Banker” because of his investing philosophy. Darin also has over 25 years in handling over half a billion dollars in investment real estate transactions, manages multiple real estate partnerships that include hundreds of investors from all over the US and outside the US.

Darin Garman is currently manager of Heartland Investment Partners (HIP). Darin started Heartland Investment Partners because of continually being approached by investors asking for ways to invest, conservatively, in great investment real estate properties while being passive and not wanting to deal with any day to day property management or even deal with management companies for that matter. Heartland Investment Partners’ years of knowledge and

experience provides a way for conservative investors seeking higher yields and diversification in their investment portfolios to invest right along with the Paranoid Banker in high quality real estate investment focused in Heartland of America.

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This book is not a source of legal, regulatory, compliance, or accounting information and it should not be regarded as such. Due to the varying natures of real estate partnerships and securities, some practices proposed in this book may be deemed to be against regulations in certain circumstances and locations. Since investment and securities laws differ widely from state to state and from company to company, the reader must accept full responsibility for determining the legality and/or ethical character of any and all business transactions and/or practices adopted and enacted in his/her particular field and geographic location, whether or not those transactions and/or practices are suggested either directly or indirectly in this book. As with any business advice, reader is strongly encouraged to seek professional counsel before taking any action. Any or all references or persons or businesses, whether living or dead, existing or defunct, is purely coincidental.

Unconventional Investing Equals Unconventional Financial Benefits

In today's NEW ECONOMY investors that settle for only conventional investing unfortunately are also settling for conventional returns and financial benefits which puts them further and further behind in reaching their financial goals.

In *Getting Rich in Real Estate Partnerships* former bank owner and Board of Director member Darin R. Garman shows investors how they can strategically use low risk real estate investments as one of the tools in their wealth building tool box that can assist them in reaching their financial goals sooner than expected and be able to do this passively.

Through his experience as a former bank owner and real estate investment manager working with hundreds of investors from across the U.S. over the last 22 years, Darin demonstrates how many investors can actively own cash flowing and appreciating investment real estate properties without being involved in the day to day management or being a landlord, thereby tapping into one of the best wealth and income investments available today.

Profitable and Passive Real Estate Ownership

The good news for investors is that one does not have to have any knowledge or experience as an investment real estate owner in order to profit from one of the best investment vehicles available today and Darin shows you how you can incorporate real estate partnerships into your investment portfolio. Whether an investor uses their regular money or IRA/401(k) dollars it is not too late to get the kind of returns and income you want and deserve.

In today's NEW ECONOMY an investment that is immune to most political and global events as well as an investment that will always be in demand by the general public is giving real estate partnership investors better and more predictable returns.