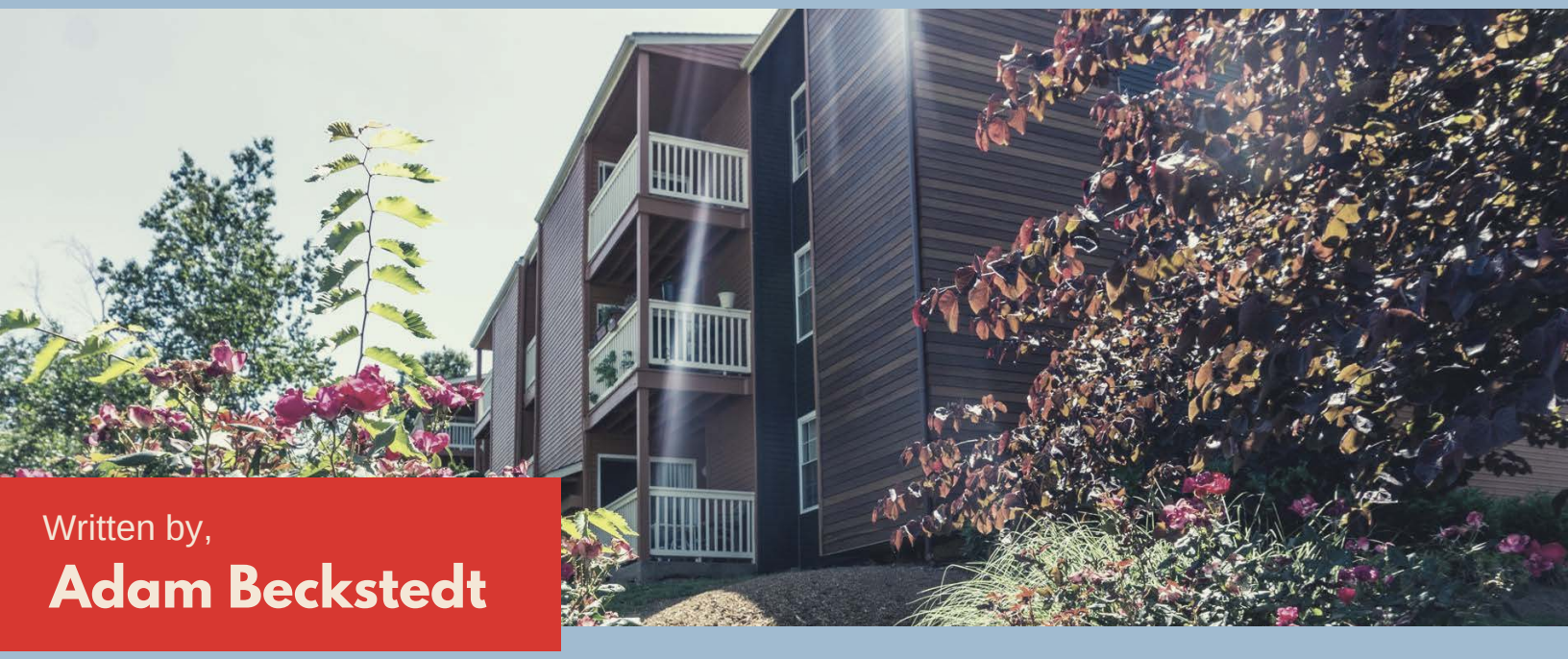
PASSIVE INVESTING

Through Real Estate



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90% of all millionaires made today have done so through owning REAL ESTATE.

Really take a minute to think about this statistic. If someone told you that 9 out of 10 people that won the lottery bought their ticket on Tuesdays between 1-2pm, when would you buy a lottery ticket? Tuesday comes around and you read online that the Powerball hit $777 Million. You think to yourself about your neighbor Tim that always buys his tickets Thursday after tennis practice. This voice pops in your head. “Why doesn't Tim buy his tickets on Tuesdays when 90% of the winners do?”

It’s simple. No one has told Tim that 9 out of 10 of all winners had bought them Tuesdays between 1-2pm. So, every week Tim is left in the dark not knowing the best option.

In this brief download I hope to inspire you how you can be one of those millionaires. First, I'd like you to envision how becoming a millionaire would change your life, or maybe you’re already a millionaire but you want to become a Decamillionaire (one with a net worth of $10,000,000+). Could you take more vacations? Could you buy that vacation home you always wanted in the hills of Costa Rica? Could you finally start that charity you have dreamed about for years to help at-risk youth? Could you leave enough "legacy" money to last generations? Whatever it is, don't lose sight of your goals as they will help you determine if you’re making the right investments.

It is my goal to help you understand in more detail how to make your money work for you. If you're anything like me, you hate lazy money. "What is lazy money?" you're probably asking right now. To me, it's money that just sits and is not used to its full ability. Each dollar you have is like an employee you can send out and work for you. Do you have $100k in the bank just sitting there. Guess what, you have 100k employees just sitting around. If you have never thought about your money like this then I hope this has given you a fresh perspective.

What if you don't have 100k employees sitting in the bank, you might be thinking that this ebook isn't for you. Please **READ CAREFULLY** what I explain next. There are many ways that people invest, and a lot of them do not have those employees sitting in their bank or under their 15 year old musty mattress' either.

On the other side of things you could be sitting on a large sum of money and you just need a fresh perspective on how to get those employees working and productive. Besides having money in the bank what are some other ways people can invest?, Others have used their IRA, 401k, home equity, a property that is already paid off, or a business line of credit, just to name a few. Many people are sitting on "lazy" money and don't even realize it. I will explain how that lazy money can work for you in real estate with very minimal effort on your end.

Sound good? Great, well let's get started.

It's simple. No one has told Tim that 9 out of 10 of all winners had bought them Tuesdays between 1-2pm

There are a few ways to achieve passive income with real estate and I am going to explain one of them right here for you. What I am going to break down for you is how you can own a portion of an expensive property like an apartment complex without being responsible for any of the work to operate it on a day to day basis. If you think I am crazy, please let me explain first. You can achieve this through a real estate syndication. A syndication is a fancy word that means a group of individuals or organizations combined or making a joint effort to undertake some specific duty or carry out specific transactions or negotiations. In Layman's terms what this means is that this is a team effort and you are the team owner sitting high up in the box watching the players do what they do best.

So how exactly does a syndication in real estate work? It is made up of a partnership broken into 2 main categories. The first one being the general partners, and the second group are the passive investors in which is the limited partners. Now some may use different terminology for these two groups but don't let the names confuse you. I will break down each of the two for you.

The general partners are made up of one or more people or companies that do the heavy lifting for the property. They find the property, analyze the numbers, negotiate, line up funding, close on the property, manage the property's performance, complete needed repairs, determine the best time to sell, negotiate, sell the property and all while distributing profits to the investors. Sounds like a lot of work doesn't it? Well this isn't the side of the deal you want to be in if you want to have your money work for you. Being a good general partner takes a long time to learn and refine. As I mentioned earlier this may be made up of just one person but on bigger deals, large complexes, this is typically made up of a few people. Each person may specialize in a certain area and are better at one or more of the different tasks listed above. Some of the different roles you can see in the general partner side are the operator, fundraiser, property manager, and the key principal.

The second side to this equation is the passive investors or limited partners. These are the people that do not have the time or desire to be one of the general partners. They have acquired those 100k+ workers to do the work for them and now they want them to work hard and achieve the best returns they can. Are your workers pushing a broom in a company on the brink of bankruptcy or are they getting promotion after promotion at Apple creating the world's biggest company? Better yet, what type of workers do you think those 9 out of 10 millionaires have? I think we both know that answer. So the role of the limited partner is to bring the money into the deal. Sometimes this is for the entire deal, but most of the time it is the money that the bank requires as a deposit. After the limited partners have looked the deal over and determined that they like the deal, they put their money into it and sit back to reap their workers' effort in the deal. The best part is that you reap those benefits whether you are at your job you love, taking your family to Rome for 2 weeks, or sipping an ice cold Mai Tai on the beaches of Italy.

100k employees working day and night just for you.

So now that I have broken down what a syndication is and the parties involved, let me stress that not all deals and not all general partners are the same. I highly suggest that you put on your glasses if you need them, grab a nice beverage of your choice, and go some place quiet that you can concentrate in order to really evaluate the deal and the partners involved. Questions that you will want to ask yourself and do some digging to find out about are: do you trust the general partners, have they set up a win/win deal for both sides, does the deal projections meet what you are looking for in a deal, how have they stress tested the deal? These are very important factors to consider and should not be taken lightly. However, once you have decided that it all checks out and you have wired your money to closing, there is nothing left for you to do. Well, other than review the performance as you see fit through the general partners emails, calls, or webinars.

Each deal is unique and has its pros and cons. It opens up many opportunities for you to join, but it also means that you might need to analyze each deal a little more to ensure it suites what you're looking for. Let me give you some ranges here. There are stabilized properties, properties that have light value add, and properties that need some serious value add. What does value add mean?. Value add is a term in the industry meaning that there are opportunities to improve the property's income and/or reduce expenses, both creating a higher bottom line and return to the investors. So here are some of the main metrics that you will want to know about a property up front to determine if it's the right one for you.

KEY METRICS & TERMS

Cash on Cash Returns (CoC) - This is the amount of projected returns each year that you will receive. So let's say you want to invest $100k. A 10% CoC will yield $10k paid out to you yearly and a 7% CoC will return you $7k in that same year.

Average Annual Return (AAR) - At the beginning you should be given a projected hold time for the project. Sometimes the plan is to hold it for 20+ years but more often you will see a hold time of 10 years or less and this follows along with the real estate cycle. With a 7-10 year historical cycle period those hold times project that the property can be sold for a certain dollar amount. So using your cash flow above, along with the projected sale price and date, an AAR is determined. Sometimes the majority of this amount can come from the sale rather than the CoC, making sure the sale price is realistic is vital.

Internal Rate of Return (IRR) - This is much more complex and harder to explain without fearing some of you will fall asleep so I will shorten the explanation for you. IRR has the ability to level the playing field of returns across the many different investment opportunities. Explaining IRR is a much longer discussion for another time or if you are having trouble sleeping here is the link to a deeper explanation.
https://www.investopedia.com/terms/i/irr.asp

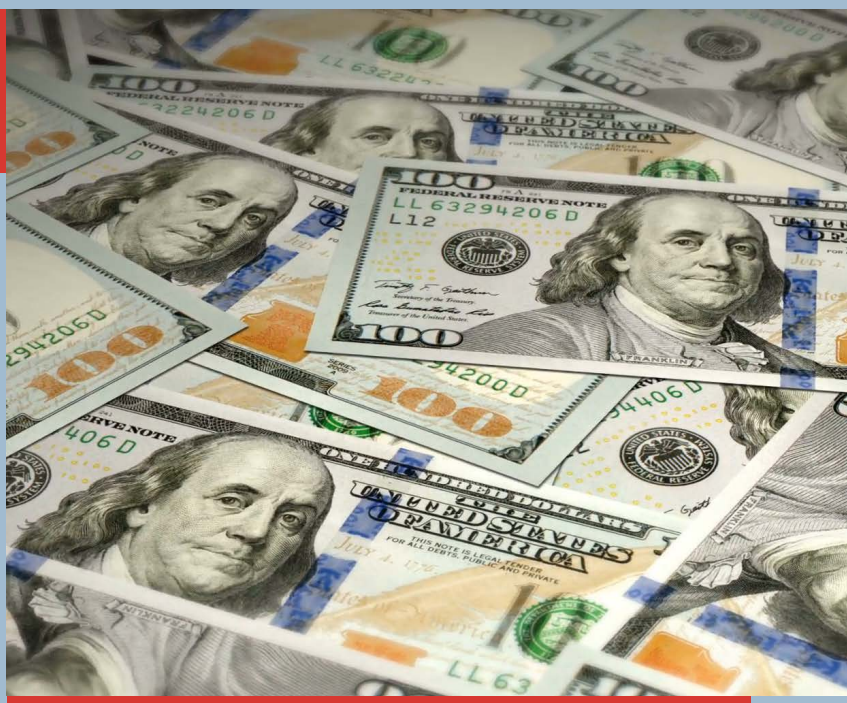
Hold Time - This is the period of time that is planned to own the property before selling it. This can range from a few months to 20+ years and will affect both the IRR and AAR. This is important information to know and a huge leg up compared to buying stocks. Knowing the time in which the property will be held is typically figured around either where we are at in the market cycle or how much value add is projected. Some opportunities are set up to apply the value add plan and sell right away. Other opportunities may apply the value add plan and then keep operating the property, distributing profits each year until the market is at a higher point and the property can be sold for even more.

Now these are just a few of these key metrics. You will also want to know the details of the loan. What is the loan to value (LTV), APR, is it interest only for a time period? You will also want to know if it is a recourse or non-recourse loan. On larger properties there will be options to get non-recourse loans meaning that neither the general or limited partners need to guarantee the loan with a personal guarantee.

This is a 1,064 ft overview so just remember, there are many things you will want to review on the deal. Along with the metrics, you will receive a private placement memorandum or PPM for short. This is a huge disclosure document because after all, this is an investment. This is given to all of the investors so that it is shown that they understand the risks of the investment. Be forewarned that this is a huge document. In fact I was just reviewing one the other day that was 150 pages. I do recommend you review this document and also the operating agreement. It is also a good idea to have your lawyer and accountant review them as well. You could think that you are looking at the best deal of your life but if the operating agreement is no good then I would highly recommend you negotiate a change or pass on the deal.

Now let's talk about some pros and cons of investing with a syndication as a passive investor.

PROs



Opportunity - to get your money to work with minimal involvement

Diversification - Real estate allows you to diversify not only compared to stocks but within real estate itself. Investing in multiple properties allow diversification while staying invested in real estate.

Predictable market cycles. I mentioned about the historical cycle period of 7-10 years. This gives you a leg up compared to the highly volatile stock market. (For more details on this cycle and understanding what phase it is in see my YouTube video here ((Link))

Limited liability - Being a limited partner gives you limited liability. You are liable only up to the loss of what you invested. In the extreme case that the bank would foreclose on the property, they could not come back to you for the loan amount. Knowing the cycles helps because if the property value dips below your loan amount and you still make money each month, you can hold it for a longer time until the price comes back up.

Tax deductions!! - A lot of people invest in real estate for the tax deductions alone. Many that invest passively in real estate make a good return for their money, however, they end up with a "paper loss" at the end of the year due to the enticing tax deductions in real estate. This allows these individuals to make tax free money with their own money.

This allows these individuals to make TAX FREE money with their own money.

CONs

Liquidity - Investing in apartment buildings is not a liquid investment. This means that if you are visiting Miami on a vacation and want to buy a Yacht you see while walking around, you cannot sell your equity in the property to buy it right away. As mentioned this is a team investment and cannot be easily turned into funds for something else. Some operating agreements or general partners may offer to do their best to get you your funds back sooner if requested, but there are no guarantees.

Limited control - Because you are a limited partner you do not have the control in the investment that you would if you bought the property yourself. But remember you also do not have control over your investments in the stock market. There are some operating agreements that grant some voting privileges to limited partners. Be sure to review that agreement if that's important to you.

Finding a syndication to join. Because syndication involves pooling money together to buy a property, the SEC or securities and exchange commission has certain rules that general partners must comply with. Part of that includes advertising restrictions. Due to this, it is possibly something you never knew you could invest in. Understand that because of the restrictions, it may be difficult for you to find someone offering a deal for you to review. Let's assume you have found someone that you have established a relationship with and feel that they are in line with what you're looking for. They are reviewing many deals, sometimes 100-200 deals before they find a good one to present to you. That means it may be months before they have something to show you. That's why it's important to either find a few people you trust that can offer you deals, or find someone with a great network of operators that can show you one every other month or more.

Now that I have briefly touched on how you can put your money to work for you let me throw in a quick and easy comparison to investing in the stock market. I will completely ignore the volatility differences of the two.

$200,000 INVESTMENT COMPARISON

STOCKS

Let's say you have $200k cash and invest it in the stock market. Maybe you are a rock star that has hit a 10% return for 5 years straight. With the advantage of keeping your returns in the market you would end up with $320k. To keep these comparions equal we will assume you are taking the money out at this point. I will assume that this will be a long term hold and you get taxed with a capital gains rate of 20%. Uncle Sam will ask for 20% of your gains equaling $24k of that return and you end up with $296k after taxes. Which is nothing to scoff at.

REAL ESTATE

Now let's assume you put that $200k into a real estate syndication. We'll use the same 5 year hold that requires just about as much work from you as stocks do being the passive investor. The same 10% return will garner you $20k each of the 5 years totaling $100k but, paid to you each year and not reinvested into the deal. So what does that look like come tax time? This is where it turns into a gray area. Remember, I mentioned that some investors get a "paper loss" on their earnings. This means that even though you will get $20k each year, you may not have to pay taxes on that money. That could mean that you still have your total amount of $300k at the end of 5 years.

Now comes some more fun adding on some of the other benefits of real estate. Was the loan paid down earning you more equity in the deal? Did the value raise like the projections showed? Your original $200k invested could now be worth more than double when taking these into account! Hopefully you can see the potential that these deals hold. Deals that are just waiting for you to put your workers into action.

AFTER TAX EARNINGS

$96k

$200k+

So there you have it. What was once a complex idea is hopefully now a clear and thought provoking opportunity for you to open the door and start exploring with confidence. Obviously, I couldn't explain everything that you will encounter in just a few pages. This process took me years of networking and working with mentors to get to the point I am now. Don't expect to be an expert right out of the gate. If you are still having a hard time wrapping your head around a certain topic addressed above or just want to talk more about syndications or real estate investing, feel free to reach out to me. Also, if you're interested in having these kind of deals sent to you, reach out and request to be on my investors list.

Real estate investing is my passion and I love connecting with others about it. That is why I help host local meetups, mentor others, attend multiple conferences each year, and have started my own YouTube channel “Adam Beckstedt Invests”. I love helping others and hopefully I've added value to you with this article.

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