

# “How to Execute Creative Real Estate Investing”

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Real estate sometimes requires a little bit of creativity. When you've tried everything from rentals to flips, doing the same thing as everyone else might not just be cutting it for you. We've put together a few suggestions to get your creative real estate investment juices flowing.

## Partnering and Sandwich Leasing:

Partnering and Sandwich Leasing are at the pinnacle of Strait Path investing. You don't have to use money or credit to do them, and therefore you can do them an unlimited number of times, generating limitless wealth and opportunities to create value for others.

Partnering means you simply split up the elements required to buy a home so two or more people are participating in the investment.

The Three Elements of Investing (necessary to buy a home) are:

1. Ability to Qualify for the mortgage
2. Money for the down-payment and ongoing expenses of the property
3. Management – the time and resources to effectively manage the property and maximize profitability.

Anytime you can stick these resources together, you can make an investment deal happen! Your success is determined by your ability to find and stick these resources together, over and over again.

You can often start by sticking your own resources together. For every transaction you do all by yourself, you must have all three of these elements – you use your credit, supply the money, and oversee or perform the management of it.

Each of us is limited in how many transactions we can do alone. For example, you only have enough resources to buy so many homes, or you can only have so many homes on your credit.



Others you know are limited in the management element – they can qualify to buy real estate and have money to finance it, but are scared to death of investing (or are too busy to look into it) and so have their money in low-yield accounts like CD's.

Partnering is a tremendous win-win in this example because you allow them to turbo-charge their idle money, while you enjoy a high return for a property that you probably haven't spent a penny on.

This particular partnering scenario is the most ideal – where you are the management partner, and the other party is the money/credit partner. That way you have an INFINITE return on money you didn't spend, and therefore you can partner with any number of people and do UNLIMITED real estate this way. If it gets to be too much to manage, you can hire our companies or others to do the work for you, such as your own bookkeepers, etc. This is in fact exactly what Kris Krohn has done and in part what helped him become successful so quickly.

You can also divvy up the “elements of investing” any way you choose, such as you and another person doing the management, or maybe two people putting up the money, etc. In this case you simply divvy up the ownership accordingly.

In any given partnership, only the management partner needs to be an REIC investor because only they require REIC training to manage the property. Also, as an REIC investor, you can really be the management partner for anyone since you can consult with us or hire us to do all the management.

In any given partnership, the respective ownership each partner has is completely negotiable between the parties. Following is some guidance on the risk level of each of the elements:

1. Credit – normally using one's credit is very risky and so one would need a very high ownership percentage to justify the risk; however there are two unique factors for REIC investing:
  - a. The property is much more profitable than conventional real estate investing (mainly due to the deep discount, good financing, and good management of the property), so the rate of return is much higher; and...
  - b. The mortgage that the “credit partner” would be on the line for is for a home with at least 35% equity: 15% from the purchase discount, and 20% from the down-payment. For example, it could be a mortgage for \$130,000 on a home worth \$200,000. In this case, there is a negligible risk that the house could actually lose that much value.

Typically the credit partner's credit will just be seasoned by the mortgage, and when the house sells, they will get a certain % of the profits. If the money and management partners stop maintaining the payments or the property, the credit partner inherits the house and gets to sell it and clear tens of thousands of profit.

## **SO WHAT'S THE RISK?**

2. Money – Again, there is very little risk that the person putting down money would actually lose their investment, so the money partner just needs to receive a return that will be better than what they'd get elsewhere and therefore make them comfortable with investing their money.

Another way to handle the money element is that rather than having a “money partner”, you could just borrow money from that person privately, and then pay them monthly interest (like the cash-flow on the property). Some of the advantages of borrowing money this way are:

1. You (the management partner) get to keep more money overall
2. The lending individual is getting paid monthly, AND they know exactly how much they're getting paid, which makes them more comfortable if they trust you, without having to understand everything about how you're investing the money.
3. Management – There is no real risk for the management partner. (Even time lost can be attributed to experience gained in a worse-case scenario, which an REIC investor would not experience anyway).

However, the management partner is the one making the deal happen for the other partners and therefore gets whatever's leftover after negotiating with the other partners.

One example of how ownership percentages could be carved up (based on the foregoing risk discussion) is:

1. Credit – 20%
2. Money – 30%
3. Management – 50%

If the annual rate of return for the property (calculated after it's sold in the future) is 50%, the money partner will experience a 15% rate of return on their money. If the money and credit partner are the same person (which is common AND ideal), that person would realize a 25% rate of return on their money.

#### **Sample ownership percentages:**

Another example where you borrow the money from somebody instead of having a money partner might be:

1. Credit – 20%
2. Money – paid 12% annually.
3. Management – 80% (minus the amount paid to money partner)

In this case, the money partner just gets 1% a month on the amount lent (12% annual yield; much higher than a CD), regardless of how profitable the property is.

### **Who should you partner with?**

- You can partner with anybody, but it needs to be somebody you can trust and that you have a good relationship / friendship with.
- When you fully realize and contemplate how profitable each of the partners will be to an REIC investment, it makes sense to share the blessings with those you love most, such as family and close friends. But you can partner with anyone.

### **How do you find partners?**

There are 2 factors which increase your likelihood of establishing partnerships:

1. Experience
2. Enthusiasm

#### **Experience**

You will automatically attract partners the more successful you are in Real Estate. For example, if you have 6 investment properties and are cash-flowing \$2,000 each month and you're casually commenting on that at family reunions, work parties, or other social events, people will start to say (over a series of discussions) "WOW! I'd love to get that kind of return but I don't want to have to go through the learning curve you did – my work/hobbies/family/(fill in the blank) are too important to me – I'd rather leverage your experience. Let's partner – I'll let you use my money and credit, and you go do the work."

#### **Enthusiasm!**

- The other way to attract partners is by sheer enthusiasm for the opportunity. In order to be enthusiastic, you must have some level of success yourself, OR you just need to understand the program well enough and talk to enough people who have implemented it successfully to where you are ON FIRE about it! This can allow you to attract partners much earlier than you would naturally through experience.
- Enthusiasm and Experience attract partners to you, but you can also look for partners and ask around. Just keep asking, and eventually you'll get partners. Keep doing that enough times and soon your day job will become optional.

### **How do you establish a partnership?**

- All investment properties should be owned by an LLC, especially one owned by partners. In that case, you would set up an LLC and then establish the duties and percent ownership of each of the partners in the LLC. A good attorney can assist you in doing this and make sure all parties' interests are protected.

- In some cases, you may need additional agreements. For example, if the money and credit partner are separate, the money partner will have to put money into the credit partner's personal bank account so they can show the down-payment in their account. This requires a great deal of trust between the parties so a better written agreement (drafted with help from an attorney) is definitely recommended.

### **Sandwich Leasing**

- Like partnering, sandwich leasing is also a way to generate unlimited wealth, as you don't necessarily need money or credit to do it. Also like partnering (and everything else we do at REIC) you're providing a valuable service for others, creating a true win-win for both you and them.
- To be good at Sandwich Leasing, it's imperative for you to understand the "Enlightened Financing" material inside-and-out!
- Sandwich Leasing is used to help a distressed landlord/seller out of a bad situation. In some cases it can be used to prevent a foreclosure and preserve their credit.
- The reason it's called "sandwich leasing" is because you are negotiating a Lease Option with a seller/landlord where YOU become the tenant, but then you get another Lease Option tenant to lease out the property.
- The only way this can work is if the seller is in such a situation that they will agree to terms such as the following:
  - They will agree on a fixed price that you will buy the house for in the future, or more ideally, you might agree to pay off their mortgage when the house sells, with or without a discretionary "bonus" to the seller of a few thousand bucks.
  - You typically negotiate a 5 – 7 year timeframe in which to buy the property.
  - The eventual buyout price you agree on MUST have at least 15 – 20% equity in today's market, and the house must otherwise fit the criteria we require in investment properties.
  - You typically agree to cover their payment, so the amount you pay them needs to be the same as or less than what your payment would be if you bought this house as an investment property, 15% off, 20% down.



- Basically you are getting the house for a similar “deal” as an investment property, except you don’t really put any money into it; except that you may give the seller/landlord a very small down-payment depending on what you are able to negotiate with them.
- You also arrange to be put on title for the home.
- Then, you simply market the house as a Lease Option just as you would a normal investment property, and viola! You now have an investment property making you just as much money as any other investment property, except you didn’t have to put anything down (or very little), so your return is extremely high or infinite!

### **How do you find sandwich leases?**

- The key is to look for somebody who is distressed, such as behind on their mortgage, or current but concerned about being able to keep up on the payments, or just sick of being a landlord. We don’t create this predicament, but we save them from becoming far worse.
- For example, you could look up county records of who’s behind on payments.
- Or you could go through rental/sales ads, and look for desperate landlords/sellers.
- Or you could put up bright, neon signs at high-traffic locations saying “I BUY HOUSES!”
- Best of all, when people know you are a successful real estate investor, they will come to you with their problems, and you will provide solutions for them that benefit both of you.

### **What do you say?**

- If calling a distressed landlord, you can use some of the following verbiage:
- “Hi, my name is \_\_\_ and I’m calling about your place for rent (or sale). Can you tell me about it? (Beds/baths/square footage/address/neighborhood condition/house condition/anything else you would want to know about an investment property.)
- How long have you been renting the house out for? How many more years are you looking at renting before selling your home? Do you have any other plans for the property besides renting and eventually selling?
- Let me tell you a little about myself. Like I said my name is \_\_\_\_ . I help run property management company in operation for over 6 years <namely Strait Path strategies>. We are very different from other property management companies you may have heard about. We are so confident in our ability to manage and care for your property that we will actually do it for free. In fact, we’ll pay your mortgage from day one even before getting it rented. Is that something that would interest you?”
- “What we do with our clients, is to enter into a long-term management contract to care for your property for \_\_\_\_\_ (5 - 8) years and then actually help you sell the property at price that

is fair to you. This way we help you accomplish both of your goals of renting and selling your property. How does that sound to you?

- The benefits of using us as your professional management company is that we will manage the tenants, any repairs of the property and you'll never be burdened with unnecessary complaints or phone calls. You simply have your home rented from a professional company with a 5 year track record of timely payments rather than always wondering if your tenant is going to pay.
- I'd like to make an appointment to evaluate the condition of the home and to make sure the rent is fairly priced. If you qualify with our company we can get you started right away. When is a good time for me to stop by?"