

THE SECRET TO RAISING MONEY

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TO
RAISING
MONEY

To Buy Your First
Apartment Building

BY MICHAEL BLANK

Introduction

Congratulations on taking the initiative to download this ebook!

If you want to view this content in a video presentation, please see my free webinar at : www.themichaelblank.com/blueprint

My goal is to dispel the myth that you need to have tons of money yourself or great credit to get started with investing in commercial real estate.

People tell me they'll start their investing career when they have money. But who knows when that will happen? And so they wait.

Or they'll say they can't see themselves putting a building under contract if they don't already have the funds in the bank - who will take them seriously?

Or how can they raise all of the money in time to close? And how can they get money from investors when they don't have a building under contract?

It's a catch 22, and so they're stuck.

Let's take these objections entirely off the table right now!

>> You don't need tons of your own money or good credit to get started with apartment building investing.

>> I will show you a secret that will get you financial commitments from investors long before you have your first deal under contract.

Here's what we'll cover in this eBook:

- How to find your investors and what to say.
- How to gain instant credibility even if you have no prior experience.
- How to structure the investment and securities laws considerations.
- How to overcome the biggest obstacle: Yourself

This ebook is not intended to be an all encompassing system for raising money from your investors.

However, it will give you enough knowledge to visualize yourself raising all the money you need for your first apartment deal.

It is my hope that this eBook will give you the knowledge and confidence to get started with investing in apartment buildings TODAY.

Thanks and I hope to hear from you!

www.TheMichaelBlank.com!



Chapter 1

Why You Should Raise Money from Private Individuals to Fund your Deals

You may not necessarily agree that raising money from private individuals is the best way to go, so let's talk about this first.

There are many advantages to raising money from others versus using your own money:

- **You can get more deals done.** Even if you have your own money to invest, there is only so many deals you can get done. On the other hand, if you are able to raise money from others, the sky is the limit. Your ability to accumulate property is then only limited by your ability to find good deals. The ability to raise money is an incredibly valuable skill to have.
- **You have more eyes on the deal.** Richard Feynman, the famous physicist, once said that “the first principle is that you must not fool yourself and you are the easiest person to fool.” When you're using your own money, no one else is looking over your shoulder, and you're more likely to make mistakes. If you can convince others to invest in your deal, chances are, you actually have a good deal.

There are some disadvantages:

- **You now need to report to your “bosses”.** Chances are you'll have to report to your investors in one form or another. You may have to give updates and financial reports to your investors to keep them posted. This certainly is more work than if it were just you in the deal. On the other hand, analyzing the Profit & Loss (P&L) statements and sending out reports make you pay more attention to the deal. You should do the same if there are no investors, but few of us have this

kind of discipline, and as a result we don't pay as much attention to the investment like we should.

- **You may lose some control.** You may not be able to make all of the decisions without a vote from your investors. As we'll discuss in later chapters, there are ways to mitigate this risk with how you structure the deal.

All in all, though, the advantages of using other people's money far outweigh the disadvantages.

Chapter 2

The Secret to Raising Money To Buy Your First Apartment Building

OK, here it is, the secret to raising money revealed, the moment you've been waiting for...

The Secret to getting financial commitments from your investors long before you have your first deal under contract is to Create a Sample Deal Package.

The "Deal Package" is a document that contains everything about a potential deal including photos, information about the building and area, actual financials, your business plan, projected financials and returns.

The Deal Package is used with potential investors and even with other professionals you're trying to recruit to your team (like commercial real estate brokers, lenders, insurance agents, etc).

The difference with a Sample Deal Package is that everything about the building is accurate (photos, location, financials, etc), except that you don't have it under contract.

You may also lower the price so that you achieve the desired returns for the investors.

In other words, you approach your potential investors with a deal package that looks like the real thing.

Having this Deal Package does several things for you:

1. **It allows you to better visualize your deal.** This is critical as you expand your own comfort zone with doing your first commercial real estate deal, or doing bigger ones than before. Seeing the photos, visiting the property, writing and talking about it make this deal real for you. The more real it

seems to you, the more comfortable you become and the more confidently you can talk about it.

2. **It gives you a reason to talk with your potential investors now.** You can now schedule meetings with potential investors and say, “I don't have a deal right now, but when I do, it'll look substantially like this” and then you show them the Deal Package.
3. **It will allow you to get financial commitments from your investors long before you actually have a deal under contract.** By the time you get a building under contract, you've already primed your investors, which will allow you to raise the money quickly.

Take a look at the Sample Deal Package in the [Appendix](#). Do this now, and then let's talk about how to create one.

How to Create Your Deal Package

This is how you create a Deal Package yourself.

Step # 1: Get the marketing package of a building for sale

The first step is to find a property that is being marketed for sale. This property should be about the same size and in the same area that you are looking for. It should have a good marketing package, i.e. it should have photos, financials, rent roll, unit mix, and maybe some information about the area and demographics.

There are a variety of web sites that list apartment buildings for sale (just do an online search!). For the purposes of creating the Sample Deal Package, I suggest you use Loopnet because it's free and easily searchable.

Go to www.loopnet.com, create an account (it's free), log in, and search for properties that match your criteria. Sometimes you can just download the marketing and financial package. Many times you need to contact the broker and complete a non-disclosure agreement to get access to the financials.

Look for a property that has a marketing package with at least photos, financials, rent roll, and unit mix. It's a bonus if it has extra goodies like demographic information or rental and sold comps.

Step # 2: Create Financial Projections

The marketing package you downloaded should contain the actual and projected financials for the property. Create your own 5- and 10-year projections in Excel and use it to calculate the potential returns for investors. I choose 5 and 10 year time frames because your investors should be committed to the deal for at least 5 years. You will need to structure the deal in such a way to achieve the desired returns for your investors and also to compensate yourself. Again, I cover all of this in detail in the

course, but you can put together a pretty good Sample Deal Package without this.

If the marketing package you downloaded contains financial projections you can just re-use those, either by copying them into a spreadsheet or by doing a screen capture and then copying and pasting them.

Most of the time, the financials in the marketing package are gross exaggerations of the truth. So it's important to create your version of the truth for any real Deal Package you create (I cover this in detail in my course "How to Buy Your First Apartment Building with Private Money").

However, for our sample Deal Package, the accuracy of the financials is less important. What is important is that you have something to talk with your potential investors about. You don't need to do hours of due diligence to get your projections right - that is not the goal of this step. Your goal with the Sample Deal Package is that it is representative of the kind of deal you want to do and that it emphasizes the terms of the investment.

Step # 3: Create the Sample Deal Package

Use the sample Deal Package of our 12-unit apartment deal from earlier as an example. Here's the outline of each of the sections.

Executive Summary: This short section (half to full page) contains a summary of the investor terms (preferred rate of return, equity, projected returns, minimum investment, the term of the investment), a description of the property, and an overview of the business plan (renovate and raise rents, exit strategy, etc).

Property Information: This section contains a description of the property, some words about the area, and the unit mix. I also add the business plan for this property. For example, if we're going to renovate the units and make other cosmetic improvements to raise rents, that would go in this section.

Financials: This section contains the rent rolls and actual financials.

Projected Financials and Returns: This section contains the 5- and 10-year financial projections and the estimated returns for your investors.

About the Management Team: Here you have a short bio of yourself as well as for some of your other team members, for example your property manager, attorney and CPA. If you have any other important partners, list them here. This section gives you credibility as someone who will be able to put a deal together and close.

Chapter 3

How to Find Your Potential Investors

For several years before getting involved with apartment buildings, I was renovating houses, fixing them up and reselling them. To finance these “rehab”, I raised the money from friends and family. The minimum investment was \$25,000 and paid I them 12% to 15% simple interest, guaranteed by the house. The title companies took care of the promissory note and recording the deed.

As I was eyeing commercial real estate, I polled my existing investors to see which ones were interested in buy-and-hold commercial real estate. But I was disappointed to find that only a few of my existing investors were interested. From that perspective my pre-existing relationship didn't produce direct results. However, I found that people I knew were able to refer me to people who were interested.

The lesson here is not that you should start small first (with rehabbing houses, for example) before moving into commercial real estate. Rather, the lesson is that you should leverage your existing sphere of influence to achieve what you're looking for - in this case, to raise money for apartment buildings.

Talk to everyone you know

It's surprising who your family, friends, neighbors and co-workers know. Never discount anyone - tell everyone you know what you want to do and you will be surprised at what will happen. If someone refers you to someone they know, always follow up. Even if that person will not invest, she may invest later or she may be able to refer you to someone else.

The conversation might go like this after you dispense with the small talk:

You: "I'm working on something new, maybe you can help."

Susan: "Oh?"

You: "I'm looking to purchase an apartment building in the <...> area with a group of investors. The annual returns are expected to be around 13% and the minimum investment is \$50,000. You wouldn't happen to know anyone who might be interested, would you?"

Susan might say, "Well, I might be interested," or she might refer you to someone, or she might say that she doesn't know anyone.

If she is interested herself, schedule a meeting with her. If she knows someone, have her make an introduction and then follow up with that person. Make sure you keep Susan informed about the progress.

Your goal is to have as many in-person meetings with potential investors as possible.

Chapter 4

How to Conduct the Investor Meeting

By this point you will have completed your sample Deal Package and have several meetings scheduled with potential investors.

What should be the desired outcome of your meeting? Ideally, you should get some level of commitment from your investor.

In order to get a commitment from a person, you have to understand and address their greatest fear, which is that they will lose part or all of their principal investment.

In order to address this fear, you will need to identify the main risk factors and how you plan to mitigate them.

If an investor hears that this is an “unbelievably safe investment without any real risks” they will rightly grow suspicious. You will be much more credible if you are upfront about the risks and how you plan to address them.

Let's start by discussing the # 1 risk factor: You.

Risk # 1: YOU

You have two strikes against you as far as the investor is concerned. First, he doesn't know and trust you (yet) and second, you probably don't have a track record (yet).

You will spend most of the meeting making the investor comfortable with you. Only then can you address other objections and the deal itself.

Your goal in the meeting, then, is to build rapport with the investor and demonstrate to him that you will be successful even though you don't have a portfolio of successful deals.

I start by talking about my life. Where I was born, about my family, where I grew up, and went to school. Remember, your

goal is to build rapport, and sharing personal information like this will achieve just that. Chances are you'll discover things you have in common.

Then describe your professional experience. Focus on a track record of success in whatever you have accomplished professionally. People can then see that you tend to succeed in whatever you do. If you had a failure, you can turn that into a strength by talking about what you learned.

Talk about your interest in buying apartment buildings. Why are you interested? What have you done so far to build your team? Talk about your team. Talk about deals you've looked at so far but passed on because the numbers didn't work.

At this point, you've done most of the talking, but that's OK. You shared about your life and your passion about building long-term wealth for you and your investors with apartment buildings. If you've done your job, your investor will say that he knows you a lot better and has become more comfortable with the prospect of doing business with you.

It's now time to shift the conversation to how you might do business together.

You: *"I have a deal for us to look at. I don't actually have this building under contract, but when I do have a deal, it will look substantially like this. I wanted to get your feedback on the terms and projected returns, would that be OK?"*

Next, review the Executive Summary page with the investor, focusing specifically on the investor terms and addressing objections upfront.

You: *"The deal I'm looking for should produce an average annual return of 9% to 13% over the life of the investment, how interesting would that be to you?"*

Investor: *"That would be interesting to me. How long would the money be locked up?"*

You: *"I'm telling investors that they should be prepared to keep their money in for at least 7 years - this would allow us to build the value we're looking for. I realize this is a long time. In order to address that, after 4 years I would allow an investor to pull out by offering to sell their shares to other investors. The LLC operating agreement would spell out exactly how that would be done. How would you feel about that?"*

Investor: *"That would be fine. Would there be any cash flow distributions?"*

You: *"Yes. Typically, we will pay out distributions once per quarter, how would that work for you?"*

Investor: *"That sounds reasonable. What do you see as the greatest risks?"*

You: *"It would depend on the deal. I think the greatest risk is our ability to execute our business plan. We could fall short of our projected returns or it might take more time to achieve. For example, let's say our plan calls for the renovation of half of the units so that we can raise rents by 30%. We would make sure we have the money in the bank account to fund the renovations. But maybe the tenants won't move out as quickly as we think and it will take longer to raise the rents.*

Having said all that, my goal with the first few properties we buy will be to keep these kinds of risks to a minimum. In other words, I don't want a completely vacant building or a building with all kinds of problems. I'm going to look for a good deal for a relatively stable building.

Once I have a building under contract, I will outline the plan in more detail and identify the risks so that you can make a better decision.

Before we look at the Deal Package, what other questions or concerns do you have regarding the returns and terms we talked about so far?"

At this point, the investor should be relatively comfortable with you as a person as well as with the risks, returns, and terms of the investment.

Next, spend a little bit of time reviewing the Deal Package itself. Don't spend too much time because you probably don't have too much time left in the meeting anyway, and the numbers aren't for a real deal.

You: *"Let's take a few minutes and look at the Deal Package. Like I said before, this is not a deal I currently have under contract, but when I do, it will look a lot like this."*

Then briefly go through each section of the Deal Package, just enough to orient the investor and answer any questions. Don't focus on the numbers since these will change.

Finally, you want to close by describing the logistics of closing on a deal from the investor's perspective:

You: *"I appreciate your time today! Here's what will happen next from my side. I'll keep you posted and when I have a property under contract, I'll email you the Deal Package. If you're interested in investing, you just have to tell me the amount you're interested in and I will reserve that amount. Once I get commitments from all of the investors and the due diligence is satisfactory, I will instruct the attorney to begin the closing process."*

You will receive an LLC operating agreement and a private placement memorandum. You sign the operating agreement and a subscription agreement that documents the investment amount. A day or so before closing you wire the funds to the closing attorney.

My goal will be to send an email report to the investors once per month in the beginning, and once things have stabilized, I will send out quarterly reports with any distributions.

What questions or concerns do you have about this?"

The investor may have questions about the structure of the LLC and about the documents you referenced. In the next chapter, I'll outline different ways you can structure the investment.

Chapter 5

How to Structure the Investment

How you structure your investment depends on the size and complexity of the investment. I will present several options and you can decide what's best for you. Regardless of the option, you should always purchase the building in the name of an LLC - never in your own name.

Why not in your own name? To protect your personal and other assets. If the business fails or your LLC is sued, then the “damage” is limited to the LLC, not to your personal and other business assets.

Why an LLC? In short, because it's simple to set up, administer, and tax; it's flexible; and it provides the asset protection you're looking for. Consult with both your attorney and CPA to make sure you choose the entity that's right for you.

In most cases, you'll want to create an LLC, so let's take a closer look at how to do this and how to craft its Operating Agreement.

How to Create an LLC

If this is your first LLC I strongly suggest you have your attorney create the entity and draft its Operating Agreement.

However, it helps to know that creating an LLC is a relatively easy process that you can do online in many cases. The process differs slightly by state, but in general you search for an available name, complete an application, and pay a fee. Many times you can do this online and you have your LLC registered in minutes. To get the details in your state, do an online search for “how to register an LLC in <State Name>”. The final step is to get a

Federal Tax ID for the LLC, which you can do on the IRS web site www.irs.gov (or search for “Apply for an Employer Identification Number (EIN) Online”). In some jurisdictions you may require a business license, though this is rare for owning real estate - just make sure you check first.

Using the LLC certificate and Federal Tax ID number, you can open a bank account. You now have what you need to conduct business using your LLC.

Because it costs money to register the LLC and pay an attorney to draft documents, do this only AFTER you have a property under contract and you've completed all of your due diligence on the property (both outside the scope of this short ebook). Quick tip: when you make offers, list the buyer in the contract as “Entity to be Created”. Most buyers will understand that you will want to create a separate LLC for the building.

The LLC Operating Agreement

The Operating Agreement can be a simple one pager or dozens of pages long. A more complex Operating Agreement can define who can make what decisions, how these decisions are made, how people can be added or removed from the LLC and other details.

You can download and use sample Operating Agreements from the Internet. But at the end of day, you need to have a competent attorney create one for you or at least review the one you provide. Your attorney may charge you \$500 - \$1500 for an operating agreement, depending on the complexity. Even though you might be the LLC's sole member, the LLC is a separate entity from you, and the operating agreement defines how that entity is governed. A good operating agreement gives you

credibility with others and will provide the proper legal shield if necessary. Don't skimp on this step!

The operating agreement defines what decisions you and your investors can make, and how these decisions are made (majority vote or unanimous?). It may define the roles and responsibilities of each of the officers.

The agreement defines the ownership percentages of each of the members and how profits are to be distributed. It also defines other operational details, such as the end of the fiscal year and when and where the annual member meeting will be held.

Using your Operating Agreement, you can structure the LLC in several different ways. Here is a list of several options, from simple to more complex:

1. **You are the Sole Member of the LLC and have no Investors.** In this scenario, it's just you and you're using your own money.
2. **You are the Sole Member of your LLC and you are Borrowing Money from Investors.** This is like scenario # 1 except that you are borrowing cash from investors who get a promissory note secured against the building.
3. **Your LLC has multiple "Members".** In this scenario, you are not borrowing money from your investors. Instead, your investors are contributing cash for a percentage of the building. Each investor is a "member" of the LLC, and all members, including you, have equal voting rights. You are both a member and the manager. The operating agreement defines what things you can do as a manager without requiring a vote by the members.

Using the Operating Agreement, you can give your investors no decision-making authority at all (making them "silent" investors) or you can give them more authority - it depends on what your investors want to be comfortable with the deal. You can also use the Operating Agreement to define how additional capital can be

added at a later time, or how investors' shares can be bought out.

Security Law Considerations

What do securities laws have to do with buying apartment buildings with investor money?

When you accept funds from others to buy an apartment building, you are effectively selling shares, or securities, in the LLC that will own the building. As such, they fall under federal and state securities laws.

These laws differ by state and by how complex of a deal you're putting together. Typically you have to provide your investors with some kind of disclosure document, and you have to file some forms with your state and/or the federal SEC. For example, if you have five investors who all from the same state investing in a specific apartment building in that same state, you may have no filing or disclosure requirements.

On the other hand, if you're advertising to pool \$5M from investors across the country for assets that have yet to be identified, then your disclosure and filing requirements are much more rigorous.

Most likely, your situation will fall somewhere in the middle: you're not advertising to the public to find investors; rather, your investors come to you from word of mouth and prior relationships. You will probably have less than 35 investors and you're probably raising funds for a specific property you have under contract.

For a scenario like this, it's not difficult to comply but it will cost you extra money to do so because a securities attorney will have to advise you and prepare the 60-90 page **Private Placement**

Memorandum (PPM). This can cost you \$5,000 to \$20,000 (and even more) depending on the size and complexity of the transaction.

The PPM is a rather long document with disclosures that are required to comply with securities laws.

Why would you want to issue a PPM to your investors?

The primary purpose of the PPM is to disclose all potential risks of the investment to your investors and to ultimately protect you. If you **don't** issue a PPM and the deal goes bad, your investors could contact your state's Securities and Exchange Commission (SEC) and file a complaint. The SEC may investigate the complaint. The first thing they'll check is if you've registered the proper disclosures. If you did, that usually ends the investigation, because you've complied with securities laws. If you didn't, the SEC may prosecute and fine you. The non-compliance may also hurt you in court if the investor decides to sue you.

You have to weigh whether spending \$5,000+ on a securities attorney makes sense. If you do it, you can sleep soundly at night, not having to worry about a potential SEC investigation. On the other hand, we as entrepreneurs always take well-thought out, calculated risks, and not issuing a PPM could be one of those calculated risks.

If your investors are generally friends and family who will not likely become belligerent even if the deal turns bad, or if the building is smaller, you may want to forego the extra expense and the PPM.

I was once party to a substantial investment venture that resulted in a total loss for the investors. One person actually did complain to the SEC, and the general partner was investigated. The outcome was a fine of \$6,000 and an order for the partner not to take anyone's money for at least 5 years - in that particular state.

Ask your attorney and other investors for additional data points. Here's my rule of thumb: if the asset is worth more than

\$500,000, try really hard to work in the cost of a PPM. But you have to decide for yourself what level of risk you're comfortable with.

In addition to the PPM, investors get a **Subscription Agreement (SA)**. The purpose of the SA is for the investor to agree to the investment amount, acknowledge the receipt of the PPM, and make other disclosures required to comply with SEC regulations.

You now know the basics of how to structure the investment and some of the entity and legal documents that are involved.

Chapter 6

Overcoming the Most Common Objections

Objection # 1: I don't have ANY money to Pay for Due Diligence Costs

As you may have noticed, once you put a property under contract there will likely be some out of pocket expenses, such as paying a retainer to your attorney to draft legal documents. While not addressed in this ebook, you will also have some expenses during the due diligence process, such as hiring a property inspector or paying for the bank's appraisal.

While this is true, these expenses don't come due until you're deep into the due diligence process. Once you start spending money, you will have visited the property, evaluated its actual financials, and created projected financials that are attractive to you and your investors. Then, and only then, do you start spending money.

In other words, you can confidently put properties under contract without spending a dime.

Having said all that, it is your intention to close on a deal if it's good, so you will eventually need to have money for the due diligence and closing process.

But what if you don't have any of your own money?

Solution # 1: Use a credit card

I don't normally advocate credit card debt unless it's used prudently and only when necessary. If \$10,000 stands between you and doing a great deal, and you have access to a credit card, then maybe you should consider it. You will be repaid at

closing (out of the investors' funds and commercial real estate loan), so it would be a short-term loan.

Solution # 2: Borrow money from friends or family.

Ask your friends and family members if they would be willing to loan you some money for a short period of time. They may not even charge you any interest!

Solution # 3: Partner with one of your investors

If your investors believe in you and the deal, there should be at least one of them willing to front some money for you to complete closing. In return, you can offer them additional equity in the building (from 2% - 5% perhaps) for helping you out in this way.

Remember, any money you or your investors spend during due diligence will be reimbursed to you at closing. But if you don't close, you won't get reimbursed, and that is the risk of the game. However, if you're thorough and systematic in your due diligence and delay spending money until the later stages of due diligence, then the probability of you closing on the deal (and getting reimbursed) is very good.

Objection # 2: My Personal Financials Don't Support the Deal

One way to overcome this objection is similar to overcoming the first: by partnering with your investors.

Since your investors have money to invest, there is a good chance their credit and personal financials are in better shape than yours.

As you reach out to your potential investors, you are not only looking for cash, you may also be looking for *guarantors*. Banks want one or more guarantors that have the net worth to cover the loan if it goes bad.

Being a guarantor doesn't cost the investor any more money, but it certainly increases their risk. People are willing to take on some risk as long as it's managed (i.e. minimal) and there is potential upside to make up for the additional risk.

One thing you can offer your investors in return for being a guarantor on the loan is additional equity in the deal. This means they get some additional ownership of the deal for being the guarantor on the loan.

What you offer the investor is obviously negotiable. You will have to ask your investor if they'd consider being a guarantor or co-guarantor on the loan in return for additional equity. And if so, what equity would they consider? I've seen investors get between 2% and 5% in additional equity for guaranteeing the loan.

Remember, where there is a will there is a way.

If you're not willing to do what's necessary to overcome challenges in your life, then you will never overcome them. No one is going to do it for you. I've given you some ideas, but at the end of the day, you'll have to make it happen.

How badly do you want it?

How to Overcome The Biggest Obstacle: Yourself

I can arm you with all the knowledge in the world, but chances are, you still have trouble seeing yourself raising the kind of money you want. This is because our minds tell us that this isn't possible, that we're not good enough, we're too young or too old, we don't have enough experience, or we don't know anyone with any money.

Our mind can be our greatest enemy or our best ally - it just depends on how we program it.

In order for our mind to become an asset, we need to BELIEVE. If we can convince our mind to believe something, our mind thinks something is achievable even if reality doesn't support such an outcome.

But how do we learn to believe? First of all, believing is a lifetime sport - we can get better at it but it's hard to ever declare victory. Second, believing has a lot to do with VISUALIZING. Visualizing is a way to “convince” our mind into thinking something is real when it's not.

Many elite athletes have been known to use visualization techniques to improve their performance. Visualization is the process of creating a mental image or feeling of what you want to happen or how you want to feel.

A survey of 235 Canadian Olympic athletes revealed that 99% of them used visualization techniques. Professional athletes spend a good deal of time visualizing their victory by telling their minds exactly what they want their bodies to achieve.

Craig Townsend is Director of It's Mind over Matter in Sydney, Australia and has worked with National and State level swimmers for over a decade. His teaching focuses on various methods of improvement through mental training. Townsend says the biggest problem he has found facing most swimmers is a lack of real belief in their own ability and knowing they can win or swim the time they desire.

He emphasizes that the best way to create belief in yourself and your own ability is to visualize every day for five minutes, vividly imagining the perfect outcome. This helps to program your subconscious mind for success, like a computer.

We can apply the same visualization techniques to our lives in general and real estate investing specifically. Here are some tips on how to visualize.

How to Visualize

Tip # 1: Create a Dream Board.

Create an apartment investing “dream board” with photos of the kinds of apartment buildings you want to own and the positive consequences of that (more income, ability to leave your job, more time with the family, more vacations, etc).

Tip # 2: Visit large apartment buildings for sale.

If you can see yourself buying a 4-unit building, then tour several 25-50 unit buildings with the broker. The more you do this, the more you expand your comfort zone, and the more you can “see” yourself actually owning a 50-unit apartment building.

Tip # 3: Create the Deal Package for your desired apartment building deal.

This tip is outlined earlier in this eBook. It’s a key visualization tool that not only allows you to visualize you purchasing such a building but it also allows you to approach potential investors long before you actually have a deal under contract.

Tip # 4: Perform mental imagery five minutes each day.

Think about the goal you want to visualize. For example, “I want to raise five hundred thousand dollars in six months to purchase a 100 unit apartment building”.

Find a quiet place and eliminate all distractions. Close your eyes and relax. Now imagine yourself meeting with investor after investor. At each meeting, you get your minimum commitment of \$100,000 and a referral to a friend of theirs who also wants to invest. Picture the 100 unit building: it’s actually made up of 4 buildings. See the parking lot, walk the halls, talk to the property manager, and the tenants.

How are you feeling after you’ve achieved your goal of purchasing the buildings? You are feeling proud that you’ve accomplished something difficult and worth while. You have

generated income for your and your family. You are generating returns for your investors. You are taking care of the tenants. You feel a deep sense of accomplishment and serenity. Can you see it?

Tip # 5: Make Positive Affirmations

I frequently use positive affirmations because they make a real difference in my day, my outlook, and my ability to accomplish things I may not be comfortable with.

The key to affirmations is that they are written as if they are already achieved. They should also be measurable. Here are some examples:

- I have closed on my first 25-unit apartment building within 12 months from now.
- I received more investment dollars than I could use for the deal.
- I am making at least \$5,000 per month from my investments and am now a full-time investor.
- I am able to travel two months out of the year with my family.

I write these affirmations down and put them in places I see frequently, like on my computer, easily accessible with a shortcut; in the glove compartment of my car; or I post them on the wall of my office.

Key with these affirmations is to share them with your friends and family. There is surprising power when you put your dreams and goals out there into the universe.

Over the years I have constantly been working at expanding my own comfort zone. Several years ago I had a hard time seeing myself raising \$100,000 or owning anything more than a townhouse rental.

When I had my first 12-unit apartment building under contract, I felt completely overwhelmed. Surprisingly, after having done due

diligence on it for 14 days, not only was I comfortable with the prospect of buying the building, but I wished the building was bigger!

Now I can see myself purchasing a \$2M building but I still have a mental block at anything larger than \$5M. I continually use these visualization techniques to help me BELIEVE that I can do anything I put my mind to.

Summary

Here's what we covered in this eBook on raising money from private individuals:

- How to create a Sample Deal Package
- How to talk to everyone you know
- How to conduct your meetings with the potential investors
- How to structure the investment
- How to overcome the most common challenges

A lot of the details for raising money are missing from this short ebook. For example, how to analyze a potential deal and create financial projections and estimated returns for your investors. Or how to understand the Operating Agreement or Private Placement Memorandum. I cover these topics in detail in my course "How to Buy Your First Apartment Building with Private Money".

However, you should now know enough to allow you to **visualize how you can raise as much as you need from private individuals to get started with commercial real estate now, rather than "some day"**.

Your Next Step To Take

You may feel overwhelmed right now -- but don't be! I've found that whenever you feel overwhelmed, make a list of the next three things you should do. That's it. Just three.

Here's a suggestion of the next three things you should do:

1. **Create your Sample Deal Package.**
2. **Set a meeting with your first potential investor.** Make this a trusted friend or family member. Worst case they won't invest but be great practice for you and give you confidence. Best case they will want to invest or know someone who will!
3. **Continue to learn.** Identify the next book to read or seminar to attend.

And when you've done those three, make the next list of three things to do next. After a while, you will be absolutely amazed at what you can accomplish.

It's been a privilege to be able to share some of my experience and hope you have found it motivating. I would be thrilled if it compelled you to take action.

Let me hear from you at www.TheMichaelBlank.com/ask if you have a question. I look forward to staying connected!



Appendix

Sample Deal Package for 12-Unit Building in Washington DC



About the property

The property is located in NE Washington, D.C., just 3 blocks from the new multi-million dollar recreation center and the metro. The property's 12 units consist of 10 one-bedroom units and 2 two-bedroom units. 10 units are leased with month-to-month tenants, and the two units that are vacant have been renovated.

Each unit is individually metered (electric and gas), which sets it apart from many other properties in the area. Each unit has its own hot water heater and forced air furnace; each unit has AC window units. The property is assessed at \$519,000 and the annual taxes are \$4,413.

The property has not been thoroughly inspected, and we were only able to see the two renovated units. However, judging from the initial walk through, the exterior, common areas and the units themselves have been kept in good shape. We plan to completely renovate each unit upon turnover.

Happy Day Ventures LLC has this property under contract for \$475K, or \$39,000 per unit. The median per-unit value of recently sold comparable properties is \$67,000.

The Opportunity and Business Plan

The opportunity with this property is to raise rents to market level. Because of DC rent control, this will take about 3-5 years. The 2-bedroom units average \$590 per month (far under market) and the one-bedrooms units \$595. Market rents currently are \$750 and \$1000, respectively.

In order to increase rents, we will have to comply with DC rent control laws. We will need to rely on natural turn-over to make the greatest rent increases.

Once a tenant moves out we can increase the rent of a unit up to the highest-priced unit in the building, as long as the rent increase is not more than 30%.

If it's the highest-priced unit, upon turnover, we can increase rent by 10%. For existing tenants, the rents can be increased by 4.2% each year (this number varies each year). For our assumptions, we will assume that each tenant stays for an average of 3 years before moving out, and that 3 tenants move out per year.

The projections in this document are based on this “slow” strategy to increase.

We could try to accelerate the plan by leasing to subsidized housing (Section 8) tenants. Because units with Section 8 tenants are exempt from rent control, we would get the market rents we seek immediately. However we're not certain we want to pursue Section 8 tenants because of the increased management.

Improvements: Upon turn over we will make renovations to the unit. At the time of purchase we will keep \$75,000 in reserve to be used for improvements such as new carpets, paint, install new kitchen cabinets, counter tops, and appliances, and to possibly replace the hot water heater and/or furnace that are in each unit.

This amount should also address deferred maintenance items such as a new roof. In addition to the repairs, we are estimating \$6,600 in other maintenance and repairs that are paid out of cash flow each year.

These improvements collectively will further help us get higher rents.

Investment Summary and Potential Returns

We are seeking \$250,000 from private investors in return for 50% non-voting ownership of the property. 50% of profits are distributed to the investors, to be paid out quarterly.

Upon sale of the property, after the initial capital is returned to the investors, investors receive 50% of the profits (after sales expenses and mortgage payoff).

Similar properties have been selling at a cap rate of 8%. Based on the current net operating income and a cap rate of 8%, the building is worth \$580K, and we are buying it for \$475K.

After year 5, at which point all rents should be at market level, the net operating income will have increased from \$48,000 to \$75,000 and the property would be valued at \$945,000.

Based on our projections, investors will receive an average annual return of 20% from cash flow distributions and the final sale. We think that this is a conservative play because (a) we are buying the asset under value (b) there is substantial upside and (c) the property is located in Washington DC, one of the most desirable and appreciating markets in the country.

Acquisition Summary

For planning purposes we are assuming we need 30% down, though we may only need 25% down.

PURCHASE		
# Units	12	
Asking Price	\$500,000	
Purchase Price	\$475,000	
Price per unit	\$39,583	
Down Payment	\$142,500	30%
Loan Amount	\$332,500	
Interest Rate	6.90%	
Amortization	25	
Term	25	
Closing Costs	\$16,625	3.5%
Acquisition Fee	\$15,000	
Repair Escrows	\$75,000	
Total Initial Investment	\$249,125	

Closing costs include lender origination fees, appraisal, property inspection, legal fees, recording fees, and transfer taxes. The acquisition fee is payable to Happy Day Ventures at closing. Repair escrows are kept in the operating account until needed.

Seller Disclosed Financials

Rent Roll

Unit	# Bedrooms	Current Rent	
101	1	\$ 500	
102	1	\$ 498	
103	1	\$ 498	
104	1	Vacant	Was \$750
201	1	\$ 750	
202	2	\$ 524	
203	1	Vacant	Was \$498
204	1	\$ 524	
301	2	\$ 655	
302	1	\$ 750	
303	1	\$ 700	
304	1	\$ 498	
		\$ 5897	

Profit and Loss

Below are the financials reported by the seller (column 1) as well as “My Version” of the truth (column 2 and 3). “My Version” means that I consider the financials supplied by the seller with a healthy dose of skepticism and substituted those numbers with my own rules of thumb or the actual figures (such as real estate taxes, which are public).

Sales Price	\$475,000	\$475,000		
Total Cash Invested	\$230,625	\$230,625		
MONTHLY	Reported	My Version	Per Year	
Gross Scheduled Income	\$ 7,000	\$ 7,000	\$ 84,000	
- Vacancy	\$ -	\$ 350	\$ 4,200	5% Vacancy
Effective Rental Income	\$ 7,000	\$ 6,650	\$ 79,800	
Expenses				Rule of Thumb
Real Estate Taxes	\$ 275	\$ 367	\$ 4,400	.01 Sales Price
Insurance	\$ 198	\$ 198	\$ 2,375	0.005 of sales price
Water Sewer	\$ 600	\$ 600	\$ 7,200	0.005 of sales price or \$250/door
Utilities				\$60-100 per month x 12
Electric	\$ 100	\$ 100	\$ 1,200	\$30-\$50 per month for common areas
Gas	\$ -			If owner pays, \$100/unit/mnth
Trash	\$ 500	\$ 500	\$ 6,000	If owner pays, \$100/unit/mnth
Legal				< 10 units: \$500/yr > 10: 1/4% of rental income for evictions
	\$ -	\$ 42	\$ 500	
Marketing	\$ -	\$ 100	\$ 1,200	
Management Fees				< 20 units, 8% of Gross Rental Income
	\$ -	\$ 665	\$ 7,980	
Repairs and Maintenance	\$ -	\$ 550	\$ 6,600	10% of Gross Income
Total Expenses	\$ 1,673	\$ 3,121	\$ 37,455	
	\$ 20,075	\$ 37,455		
	23.90%	46.94%	46.94%	Expenses should be around 45%
Net Operating Income	\$ 5,327	\$ 3,879	\$ 46,545	

	\$ 63,925	\$ 46,545		
Mortgage	\$ 3,122	\$ 3,122	\$ 37,465	
Cash Flow After Debt Service	\$ 2,205	\$ 757	\$ 9,080	
Cap Rate	13.46%	9.80%		
Cash on Cash Return	11.47%	3.94%		
Property Value				
8 Cap	799,063	581,813		
9 Cap	710,278	517,167		
10 Cap	639,250	465,450		
11 Cap	581,136	423,136		

Financial Projections

Here is the 5 Year P&L Projection:

FINANCIAL ASSUMPTIONS	Year 1	Year 2	Year 3-10	Year 3-10	Year 3-10
Annual Rent Escalator	0.00%	4.00%	4.00%	4.00%	4.00%
Annual Expense Escalator	3.00%	3.00%	3.00%	3.00%	3.00%

INCOME	Year 1	Trend	Year 2	Trend	Year 3	Trend	Year 4	Trend	Year 5	Trend
Gross Potential Income	\$86,636	0.00%	\$95,226	4.00%	\$104,102	4.00%	\$113,307	4.00%	\$126,488	4.00%
- Loss to Lease	\$0	3.00%	\$0	3.00%	\$0	3.00%	\$0	3.00%	\$0	3.00%
- Vacancy	\$0	3.00%	\$0	3.00%	\$0	3.00%	\$0	3.00%	\$0	3.00%
- Concessions	\$0	3.00%	\$0	3.00%	\$0	3.00%	\$0	3.00%	\$0	3.00%
Effective Gross Income	\$86,636		\$95,226		\$104,102		\$113,307		\$126,488	
Other Income	\$0	0.00%	\$0	4.00%	\$0	4.00%	\$0	4.00%	\$0	4.00%
From Replacement Reserve	\$0		\$0		\$0		\$0		\$0	
Total Gross Income	\$86,636		\$95,226		\$104,102		\$113,307		\$126,488	

EXPENSES	Year 1	Trend	Year 2	Trend	Year 3	Trend	Year 4	Trend	Year 5	Trend
Real Estate Taxes	\$4,404	5.08%	\$4,536	5.24%	\$4,672	5.39%	\$4,812	5.55%	\$4,957	5.72%
Insurance	\$2,376	2.74%	\$2,447	2.82%	\$2,521	2.91%	\$2,596	3.00%	\$2,674	3.09%
Contract Services (trash, etc)	\$6,000	6.93%	\$6,180	7.13%	\$6,365	7.35%	\$6,556	7.57%	\$6,753	7.79%
Utilities (Elec, Water, Cable)	\$8,400	9.70%	\$8,652	9.99%	\$8,912	10.29%	\$9,179	10.59%	\$9,454	10.91%
Legal	\$504	0.58%	\$519	0.60%	\$535	0.62%	\$551	0.64%	\$567	0.65%
Marketing	\$1,200	1.39%	\$1,236	1.43%	\$1,273	1.47%	\$1,311	1.51%	\$1,351	1.56%
Management Fee (8%)	\$8,664	10.00%	\$9,523	10.99%	\$10,410	12.02%	\$11,331	13.08%	\$12,649	14.60%
Repairs and Maintenance	\$6,600	7.62%	\$6,798	7.85%	\$7,002	8.08%	\$7,212	8.32%	\$7,428	8.57%
General/Admin	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%
Payroll	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%
Capital Improvements	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%
Other	\$0	0.00%	\$3,000	3.46%	\$3,500	4.04%	\$4,000	4.62%	\$5,000	5.77%
Deposit to Replacement Reserve	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%
Total Expenses	\$38,148	44.03%	\$42,891	45.04%	\$45,190	43.41%	\$47,549	41.96%	\$50,833	40.19%

Net Operating Income (NOI)	\$48,489		\$52,335		\$58,912		\$65,758		\$75,655	
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Debt Service	Year 1	Year 2	Year 3	Year 4	Year 5
Principal	\$5,165	\$5,533	\$5,927	\$6,349	\$6,802
Interest	\$22,781	\$22,413	\$22,019	\$21,597	\$21,145
Total Debt Service	\$27,946	\$27,946	\$27,946	\$27,946	\$27,946

Cash Flow available for Distribution	\$20,542	\$24,388	\$30,965	\$37,812	\$47,708
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Distributions from Cash Flow					
Asset Mgt Fee to Manager	0%	\$0	\$0	\$0	\$0
Members Preferred Return	0%	\$0	\$0	\$0	\$0
Excess Cash Flow to Members	50%	\$10,271	\$12,194	\$15,483	\$18,906
Excess Cash Flow to Mgr	50%	\$10,271	\$12,194	\$15,483	\$18,906
Total Distributions to Members		\$10,271	\$12,194	\$15,483	\$18,906
Member Contribution		\$249,125	\$249,125	\$249,125	\$249,125
Member Cash on Cash Return		4.12%	4.89%	6.21%	7.59%

Property Value	9%	\$ 538,762	\$ 581,497	\$ 654,577	\$ 730,645	\$ 840,609
	8%	\$ 606,107	\$ 654,184	\$ 736,399	\$ 821,976	\$ 945,685

Equity Return at Resale

We assume we will be able to sell the building at the now going cap rate of 8% for a well-performing asset in this area of D.C. All investor capital is returned first before the remaining proceeds are split 50/50.

Net Operating Income		\$75,655	\$94,237
Cap Rate		8.00%	8.00%
Sales Price		\$945,685	\$1,177,958
Sales Cost (4.5%)		(\$42,556)	(\$53,008)
Outstanding Loan Balance		(\$303,308)	(\$261,545)
Total Equity		\$599,821	\$863,405
Return of Member Capital		\$249,125	\$249,125
Total Appreciation		\$350,696	\$614,280
Capital Transaction Fee to Mgr	1%	\$9,457	\$11,780
Appreciation Paid to Members	50%	\$170,620	\$301,250
Appreciation Paid to Manager	50%	\$170,620	\$301,250
Total Cash to Members at Resale (Appreciation + Initial Capital)		\$419,745	\$550,375

Management Team and Advisors

Michael Blank, President, Happy Day Ventures, LLC. Michael Blank has been a full-time entrepreneur and investor since 2004. He owns several pizza restaurants in Northern Virginia. He has rehabbed, sold and/or lease-optioned over 30 single-family residences using funds from private investors.

This would be Mr. Blank's first multi-unit housing deal. However, he has a successful track record in other lines of business, including restaurants, residential real estate, and software. He has surrounded himself with a team of advisors (attorneys, lenders, property managers, and real estate brokers) to ensure success on behalf of his investors.

Bob Smith [Fictitious Name], Property Management. Mr. Smith has been a professional real estate manager, agent, and investor for over 8 years.

Over the past seven years he has built and managed a portfolio of residential housing units that includes fee managed and owned properties. The company also has been involved in distressed debt workouts, as well as redevelopment and repositioning of urban properties, and condo conversions.

Bob Jones, Legal Counsel. Mr. Jones focuses on the legal issues facing owners of privately held companies. Often acting as an outside "general counsel," Jones provides practical solutions to legal issues by working with company management to understand and implement their business strategy.

Jones regularly assists growing companies on such issues as entity structuring; capital needs, including private securities offerings, venture capital and "angel" financing; buy-sell agreements; mergers and acquisitions; succession planning; and personal estate planning. Jones also assists businesses on a wide range of day-to-day issues including the preparation of joint venture agreements; sales, marketing and production agreements; non-disclosure and non-solicitation agreements;

employment and consulting agreements; and employee incentive plans.

Jones's practice also focuses on private securities offerings and regularly represents regional and national clients in structuring various types of private securities offerings, including offerings by operating companies seeking initial seed capital, offerings by private investment funds and offerings by real estate sponsors.

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The APARTMENT INVESTOR NETWORK group is for learning, networking and excelling in buying apartment buildings.

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www.facebook.com/groups/apartmentinvestor/

Visit and like my Facebook page too!

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Read my online articles on multifamily investing!

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- **Your Complete Guide to Analyzing a Property in Just 10 Minutes:** Don't waste hours analyzing multifamily deals. Learn how to work smarter, not harder with this step-by-step guide to a 10-minute property analysis.
- **How to Find Investors To Fund Your Real Estate Deals:** Learn how to find local investors interested in discussing your real estate deals.
- **A Step-by-Step Guide to Ace Your First Investor Meeting:** First impressions count for a lot. Here's a step-by-step script for your first meeting with a potential investor for your next apartment building deal. MB-Blog
- **How to Structure Syndicated Investor Deals: What Investors Are Looking For:** This post shares the inside scoop on what private investors are looking for from your next syndication deal
- **Syndicated Apartment Building Deal: a Case Study:** Using a case study, I try to show how you can achieve good returns for your investors and yourself when syndicating an apartment building deal.
- **5 Reasons to Fire Your Property Manager:** Tell-tale signs when it may be time to part ways with your property manager.

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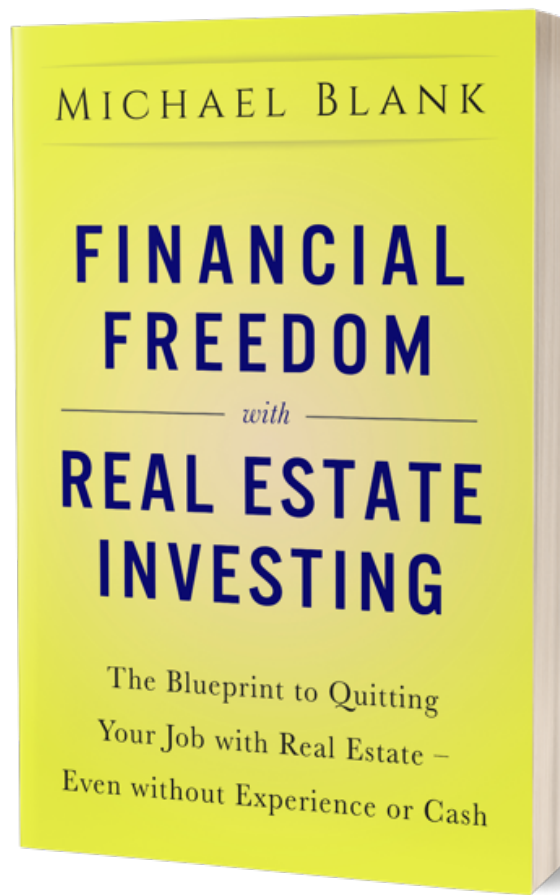
I have seen and used a lot of financial models, from books, seminars, and other investors. Over the last 6 years I've created my own and used it to analyze over 150 deals. It's editable so that you understand the formulas used and so that you can customize it as you wish.

It makes it easy to calculate returns for you and your investors and accommodates multiple ways to structure the deal.

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- A case study is used throughout the whole course to give you a hands-on application of the concepts you’re learning.
- The course is delivered in HD video, audio and an eBook so that you can learn from the comfort of your own home, at your own pace, and in whatever format you prefer. You can access everything online or download it to your computer or phone.

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FREE TRAINING WEBINAR

Be sure to watch my online presentation if you would like to know how my course can help you purchase your first apartment building (without experience or money of your own)

www.TheMichaelBlank.com/blueprint

About Michael Blank



My passion is being an entrepreneur and helping others become (better) entrepreneurs.

I helped start a software company that eventually went public. I flip houses, own commercial real estate and operate pizza restaurants. I enjoy starting and growing companies, I love making sense of chaos and taking calculated risks. I especially enjoy the "art of the deal": raising private money and putting deals together.

I enjoy in equal measure teaching. I have taught computer science courses, financial literacy classes to adults and children, and courses on how to buy apartment buildings. Because of my experiences as an entrepreneur in different businesses, I feel I can help others gain the knowledge and confidence to take the first steps as an entrepreneur, or to become a better entrepreneur.

If you care to read on, here is more about my story.

I'm an entrepreneur at heart, but it took me a while for me to figure that out.

I have a computer science degree and after several years of working for larger companies (including AOL) I took the leap and joined a software startup called webMethods. We started by developing software products that sold for \$100's per license and later sold sophisticated business integration software that sold for millions. We went from a group of three out of our CEO's

basement to 1,300 employees worldwide. webMethods had one of the most successful software IPO's in 2001.

Because we were growing so quickly, I spent very little time programming software and most of my time interviewing and managing people. I had a development team in California as well as in Virginia. I spent six months in Germany developing a product with a partner company.

After about four years, I felt like I wanted to start and run my own software company one day, but I only had experience with software development. I wanted to learn marketing and sales. I convinced my CEO to support my experiment, and so I spent the next two years in marketing, dreaming up and executing innovative lead generation programs.

He then let me try my hand at actually selling software. I read every sales book I could get my hands on and attended a high-tech sales boot camp. I then created a target list and started hitting the phones. By the time I left a year later, I had sold \$50,000 of software and had a \$400,000 pipeline. It was the hardest job I've ever done, but I learned a lot about selling that I still use to this day.

By this point, the culture of the company had changed radically from the good ol' start up days, and I felt my excitement waning. In 2005, after 8 awesome years, I parted ways with an experience I will never forget.

I took some time off to travel with my wife, and when I came back, I networked with venture capitalists and software entrepreneurs, searching for that next software product to bring to market.

Despite my best efforts, I just couldn't find anything that excited me.

As they say, when one door closes, another one opens.

I read the book "Rich Dad Poor Dad" and I was like, "Man, where has this been all my life?! Passive income is what I need, not money in the bank!"

So I abandoned my plans for the next software IPO and decided to pursue “passive income” through real estate and the restaurant business.

On the real estate side, I decided to flip houses. I read books and signed up with a local mentor. From my first direct mail campaign, I purchased two properties that I rehabbed and sold for a \$110,000 profit. I was amazed. After doing a few more deals, I took a couple years off because I was getting busy with the pizza restaurants. Once things settled down a bit, I rehabbed 30 properties from 2010 to 2012, financed by loans from private individuals.

At the same time I got started with the real estate, I also launched my restaurant venture. I signed up with zpizza, a high-end pizza franchise out of Newport Beach, CA. In 2006 I opened up our first location in Alexandria, VA. Within two years, we had 6 locations. We had bought two existing locations and improved the sales by 50%, but the recession hammered all locations, especially these two, and I was fortunate to sell them both for a hefty loss in 2009.

In 2007 I launched my apartment investment career by attending a boot camp. I subsequently began searching for deals in Texas, and after evaluating 60 deals, I nearly bought an 81-unit in College Station (home of Texas A&M University) but decided against it because I was getting too busy with the zpizza restaurants. I also learned that investors really prefer something more local, something they could drive to if they wanted to.

In 2011, I bought a 12-unit apartment building in an up-and-coming area of NE Washington, DC. Not only was this my first apartment building but it was also the first deal I syndicated with a handful of investors.

In 2012 I bought two zpizza restaurants with another group of investors, bringing us back up to six units.

Aside from my entrepreneurial ventures, I enjoy teaching and motivating others to move beyond their comfort zones to live the lives they were meant to live.

I developed and taught an adult education class that was loosely based on Rich Dad Poor Dad. We used the Cashflow 101 game as a learning tool, and people loved it.

I spear headed the roll out of the Good Sense financial counseling program at our local church and continue to help people become better with their personal finances.

I teach and coach others how to purchase their own apartment building with money raised from private individuals. Teaching others while doing my own deals allows me to constantly learn and improve myself also.

Remember to take the next step by viewing the free training :

www.TheMichaelBlank.com/blueprint

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