"A concise but comprehensive introduction to finding private capital for real estate investments . . . A valuable tool for the aspiring real estate tycoon." *–Kirkus Reviews*

MATT FAIRCLOTH

New Introduction by Pace Morby

REVISED EDITION

RAI$ING PRIVATE CAPITAL

Build Your Real Estate Investing Empire with Other People's Money

BiggerPockets® PUBLISHING

RAISING PRIVATE CAPITAL

REVISED EDITION

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WITH OTHER PEOPLE'S MONEY

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Matt Faircloth

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PREFACE TO THE NEW EDITION

by **Pace Morby**,
Author of *Wealth without Cash*
and Host of A&E's *Triple Digit Flip*

Skin in the game—that's what people want to see. A personal investment or a vested interest in mutual success. I just closed two deals because I understand this fundamental truth. One is a creative deal in Phoenix for $0 down with $300 per month in cash flow. The other is a $16.9 million multifamily in Illinois where $2 million in capital was needed to renovate the property to raise rental rates.

Both sellers needed to see "skin in the game." In this case, that came from my ability to raise capital. I'm known for creative deals, but the sellers in these deals weren't impressed with my unique creative finance strategies. They were impressed that I could raise money. "If I could raise $2 million, I would keep this property for myself," the multifamily owner told me. He had let the building go a little bit, his living expenses had increased, and he hadn't replenished his financial war chest. So when I showed up with my metaphorical wallet—the single solution to so much stress and headache for this guy—we closed in less than thirty days.

One of the reasons I can raise money consistently is because I've read this book, cover to cover, dozens of times. Matt Faircloth's ideas took me from $2–3

FOREWORD

by **Joe Fairless,**
Host of the *Best Real Estate Investing Advice Ever* Show

Remember the scary thing you did that one time? And after you did it, it wasn't so scary anymore.

It was something that took a lot of courage, but darn it, you did it, and thank goodness you did! Maybe it was buying your first property. Maybe it was swimming from the shallow to the deep end. Or maybe it was finally asking out that good lookin' guy or gal you'd always had your eye on.

We are not human beings. We are human becomings. And I believe life is about how we continue to evolve through our experiences, using these experiences to continue to become a better version of ourselves so we can maximize our time on earth.

Take a moment to think about that scary experience you ultimately faced but worked up your nerve to push through and overcome. After you went through with it, I know for a fact at least these two things happened:

1. It opened up a new world of possibilities for you.
2. You didn't die. (Phew!)

Whether or not the experience ultimately worked out how you intended is another story, right? Sometimes we take a leap into something and it doesn't initially work out. But that's OK as long as we learn and grow from that ex-

INTRODUCTION

Raising Private Capital was originally released in August of 2018, and I can tell you that while writing this book was one of the most difficult things I've ever done, it's also been one of the most rewarding. I've lost count of the number of people who have told me that the lessons of this book helped them close their first deal, scale their business, or even raise millions. I had no idea how many lives *Raising Private Capital* would touch; I just knew that I wanted to share some things I had learned in my years of working in this business. I'm eternally grateful for this book, both for the differences it's made for others and also for me and my company, The DeRosa Group. This book, in some ways, put us on the map and has exposed our company to many more people who are looking for another way to build their wealth and reach their financial goals. For that, I am also eternally grateful.

So whether this is your first time picking up this book or you're revisiting the revised and improved edition, thank you. It is my hope that it gives you ideas, inspiration, and the firm belief that with the right tools and guidance, you can reach your goals. The secret to building a successful real estate business is that there is no secret. All you need to do is follow the guidance of those who are just a few steps down the road from you. It's that simple. Let's get started.

I commend you for looking to expand your real estate business and raise your game by bringing in private capital. I know of no better way to exponentially expand a real estate business than to bring in eager and willing investors to win alongside you as you grow.

This book is intended to be a road map for real estate investors who are looking to take their business to the next level by injecting more private capital into their business. I will explain the step-by-step process to acquiring, securing, and protecting private money. This book will teach investors how to look into their current network for potential private money partners. It will also teach them how to provide a win-win proposition to money partners, all while building the real estate investor's own business. I will discuss the specific roles in a deal: the person providing the deal and the person providing the cash and how they both benefit. I will go into deep discussion on how to work with your money partners and what types of deals will best benefit them based on their goals and the source of their capital. Most important, I will discuss how to protect you and your investor as you structure deals and how to unwind things when you are done.

This book will be full of stories from my personal experience because I've lived it. I've borrowed and lent money, completed fix-and-flips, bought apartment buildings, executed the Buy, Renovate, Rent, Refinance, Repeat (BRRRR) method. You name it, I've done it. I've made plenty of money using private capital. And you can too. There is nothing secret or unique about how I did it. I was not born with a silver spoon in my mouth, and I don't think it takes a certain background or a country club membership to be successful at raising private capital. It takes just the right tools applied in the correct manner.

I won't pull any punches in this book. This book will be light and funny when it needs to be, serious when appropriate, and full of stories and lessons I've learned along the way. I've had some big wins in this business, and this business has kicked my teeth in a few times. I will tell you about both ends of the spectrum, the wins and the losses. Through all my experiences, I have learned a certain equation that works in finding, enrolling, and implementing money partners into a real estate business. I will share that equation with you here.

The main reason I wrote this book is that I believe that real estate investors can provide a truly alternative investment to those who are looking for a way to build their wealth. I respect the stock market, but I believe that it can no longer be relied on as the sole vehicle to achieving wealth by retirement in this country. People need other investment options, and real estate investors armed with the right tools can offer true alternatives to the stock market while providing security and opportunity for growth long term.

Above all else, my hope is to inspire and educate you. I hope the material in this book will teach you to successfully and responsibly raise private money so that you can build your real estate investing business and achieve your financial goals. I want to help you get what you really want out of real estate investing so that you leave a legacy for your family and lead the life that success in this business makes available.

So let's get started.

CHAPTER 1
INTRODUCTION TO PRIVATE CAPITAL

Let's start at the very beginning ... What is private capital? People have different understandings of it, and there are various definitions and nuances of this term out there in the real estate investing world. For this book, we will define it as follows:

> *Private capital is a source of money that comes from an individual, not a bank or other financial institution. It is positioned in two ways, as a loan (debt) or ownership (equity).*

It's important to define this up front so that we are on the same page. There are a few things that private capital is *not* and won't be treated as such in this book. The first on the "not" list is a loan from a bank or other financial institution. It perhaps goes without saying that a bank loan isn't private capital, but the same goes for other sources of loans from financial institutions, like credit cards and business lines of credit. These can be good sources of money if they are handled properly, but they don't qualify as private capital.

The next is hard money lenders or other financial institutions that are in the "business of lending money." These are companies that do offer loans and equity on real estate deals. The difference is, they are most likely not lending their own money. They have their own investors and have to pay a return to them while also making a profit for themselves. For that reason, interest rates and fees can be higher than they would be if you were dealing directly with the investor. These lenders are also probably not flexible on their rates and terms, which is something you want to consider when dealing with true private capital.

You may get a hard money lender to agree to provide money as equity by giving it a percentage of the upside of the project, at which point it would be viewed as private capital, but I would be very careful in these circumstances. These institutions are used to lending their money at high interest rates with lots of fees and will want a large percentage of your project to achieve the same rate of return on their money.

The last source that I would disqualify as private capital is similar to a hard money lender, but the money is coming from an individual who is a professional money lender. This person is lending his or her money, but the rate and terms are more similar to those of hard money, and they're typically not negotiable. If you've been around the real estate investing world long enough, you've met these professional lenders. I worked with one lender who had a chain of record stores all around New Jersey and Pennsylvania. He saw the market changing with the advent of the iPod, sold all his stores, and was then lending his money to real estate projects. While I give him credit for being a good businessman, his rates weren't that different from hard money rates and included points and fees on top, just as a hard money lender would do. Don't get these folks confused with private capital.

Unique Factors of Private Capital

There are a few differentiating factors from the sources mentioned previously to the ones we will discuss in this book. In my eyes, private capital has three characteristics that make it unique.

DIFFERENTIATOR NO. 1 | Negotiability

Have you ever asked a bank whether you can defer the interest payments until the end of the loan? How about asking hard money lenders whether they would consider waiving a significant amount of their fees? You may be able to make this happen if you are a repeat customer of theirs, but odds are you are going to receive a big *no* on that request. If they do work with you, I predict that their flexibility will be minor and that they will still do their best to overprotect themselves from the downside of risk.

A private capital partner will most likely work with you and be open to back-and-forth negotiations. The reason for this is that it's *their* money. If you are borrowing from a bank or other source, the people you are dealing with are not putting their own cash into the deal, so their hands are tied. They are limited by either banking laws or lending standards that they must adhere to, and that's because they are playing poker with someone else's chips, and that someone has already told them what terms they are allowed to lend at.

This is not so for a private capital partner. It's their money, so they can work with you to come up with loan terms that work for you both. If you want to pay the interest at the end of the loan or negotiate a lower rate, ask for it. If you don't want to pay points or a fee if you need to extend the loan, ask for it. Because it's their money, they can say yes or negotiate until you come up with something that works for you both.

DIFFERENTIATOR NO. 2 | Win-Win

Banks' and other lenders' primary goal is to turn a profit for their organization. I know that most want to see you also succeed, but meeting their lending and profit goals for their organization is far and away their number one priority. That said, you can't work with them to show how alternative terms are just as favorable. Their hands are tied, so even if you have a solution that makes them more money, such as offering a small chunk of the profit on a fix-and-flip as part of their return, they can't do it.

A private capital provider is all about win-win. In this book, I will teach you how the more you win as a real estate investor, the more they win as your source of capital. They become tied to your success, creating a true strategic partnership.

DIFFERENTIATOR NO. 3 | The Source of the Money

As I said before, banks and other financial institutions are playing with someone else's money. That money belongs to either Wall Street or the Federal Reserve or, in the case of hard money lenders, their investors. They are getting the money at a cheaper rate, marking it up, and selling it to you. They make their money on the markup and the fees in originating that loan or equity in your deal.

Private capital providers are giving you their money, which came from either their retirement account or their own pocket. The more capital you give back to them with a return, the more they win and feel inclined to invest again and again with you on future deals, and the more their long-term wealth grows. As a side note, they could be getting the money from a real estate loan, like a home equity line of credit (HELOC), which is somewhat similar to a bank's position, but we will get there later in this book.

In my eyes, there are two very specific parties in a private capital transaction. They both have their roles, responsibilities, and risks they take on in the deal. I have terms I use for these two roles that will be used throughout this book: the Deal Provider and the Cash Provider.

Introduction to the Deal Provider

The Deal Provider is the one who goes out and finds opportunities such as fix-and-flips, rental rehabs, and other real estate investments that require an investment using private capital. The Deal Provider is also the one who is willing to put in the sweat equity to make the deal happen. This may include building a brand and reputation in the marketplace, finding and negotiating the purchase, dealing with banks, hiring and managing contractors and supervising vendor relationships, and dealing with real estate agents on the purchase (and sale) of flips. Deal Providers are the center of all the action of the deal and handle 99.999 percent of the "doing" that needs to happen. Deal Providers may also put in their own cash, or they can earn their share of the deal strictly through sweat equity. We will get into what it takes to be a great Deal Provider to your investors later in this book.

Introduction to the Cash Provider

The Cash Provider is the investor or lender of the private capital for the project. Most of the time, Cash Providers are passive investors making a return on their money. They have little or no active involvement in the deal aside from properly vetting it and the Deal Provider before making the investment.

A word of caution to my budding Deal Providers reading this book: Be careful of the willing Cash Provider who wants to have an active role in the project. I send my investors regular updates on our progress and allow them to walk my jobsites. I also make it clear who the operator of the project is and who is making the day-to-day decisions. Make sure that your Cash Providers