

**WHITEPAPER: CREATION OF WEALTH THROUGH REAL ESTATE OWNERSHIP AND MORTGAGE LENDING.**

***STEP 1: The Formula for Wealth Creation***

By: Ben Lyons

June 2014



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This whitepaper is the first in a series of whitepapers opening up the discussion on how anyone can create wealth by properly investing in real estate and mortgage lending. The information provided is based upon 30 years of experience including a wide variety of successes and failures. It is not failsafe and is not intended to serve as investment advice. You should seek out professional advisors to help you determine your own strategy. However, we hope to provide you with enough information and materials to educate you, guide you and provide you with the foundation for success. The rest will be up to you!

Let's start with a little known secret? Did you know that 90% of millionaires accumulated their wealth through real estate? Almost every millionaire owes some portion of their wealth to real estate investments. These investments can be personal, professional, residential, commercial, large or small investments but very few millionaires have never invested in some type of real estate. Real estate investing is not for the faint of heart. It requires skill, strategy, patience and perhaps even a little luck. But, have no doubt that, when you have a sound, long-term strategy, particularly one that is built on past performance and experience, you can indeed create significant wealth through real estate.

There is no strict definition of how much one needs to have in order to be "wealthy," but in general, it refers to one with significantly more assets than liabilities.<sup>1</sup> Essentially, wealth is the accumulation of resources. People are said to be wealthy when they are able to accumulate many valuable resources or goods. Wealth is expressed in a variety of ways. For individuals, net worth is the most common expression of wealth.<sup>2</sup>

For the purposes of this discussion, we will define financial wealth as having enough "passive income" to provide a specific, desired lifestyle. This lifestyle can be present or an expected lifestyle in the future, such as retirement. To some, this could mean \$5,000 a month and to others it may require \$250,000 a month. The point is that each person must define what they believe to be the amount of passive income they require to live the life they would like to live and at what point they want to have this income and/or be 'living this life'. The answer to these questions will determine the strategy, the number of assets you will require and the aggressive or conservative backbone of your strategic plan along with the ability to monitor your progress along the way.

Therefore, the purpose of this whitepaper is to educate the amateur on the steps you can take to create wealth and maintain long term wealth, through real estate and a mortgage portfolio.

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The foundation of this strategy is comprised of the following underlying principles:

- ❖ Buying undervalued or distressed real estate using private lenders funds, banks and leverage,
- ❖ Accumulating assets and deploying a break even or positive cash flow model to develop the desired portfolio values,
- ❖ Managing the amortization of the properties down and the value of the properties up to a net asset value that can produce the desired wealth and/or income,
- ❖ Converting Net Asset Value (NAV) into mortgages or net cash flow,
- ❖ Maintaining accumulated wealth to preserving desired long-term passive income.

We have identified six specific steps that must be followed to create wealth through real estate ownership and mortgage lending. This whitepaper will review the first step in that process.

Additional whitepapers will be released discussing steps two through six along with other educational material that will prove helpful to the new investor.

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### *STEP 1: The Formula for Wealth Creation*

In order to achieve the passive income described above, you must first determine how much income you require. For example, how much monthly income do you believe you will require to live the life you desire? Keep in mind, that depending upon your timing, inflation, the economy and other factors, your income will likely need to be significantly higher than what may make you live comfortably today.

Consider, for example the following chart on home values and income over the last 28 years.

TABLE 1.1<sup>3</sup>

Year	Median Home Value	% Increase	Median Household Income	% Increase
2012	\$258,300	13%	\$51,371	16%
2004	\$229,600	70%	\$44,389	38%
1994	\$135,000	72%	\$32,264	44%
1984	\$78,300		\$22,415	
28 Year Increase in Value		330%		231%
Average <i>Annual</i> Increase Over 28 Years		4.2%		3%

This table illustrates two important points. First, income does not always increase at a consistent or corresponding level to expenses. In this example housing expenses significantly increased over the last 30 years, while income only moderately increased. Second, and more importantly, housing shows a 4.2% average annual increase over the last 30 years, compared to only 3% income increase. These are important trends to consider when defining your passive income amount and understanding the historical value in real estate.

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So, to produce long term income through real estate, you should accumulate enough assets that can produce the net income amount you desire each month without the required liquidation of the underlying assets. The best way to do this is to establish a real estate portfolio and then diversify into mortgage lending, rental real estate and the stock market. Remember, no single method is failsafe, but diversifying can help you ride the storms in any given market or industry.

The first action an investor should take is to understand the formula for success. To illustrate how the formula works, we will use the example of \$300,000 a year as the desired passive income in a 20 year model.

1. Determine the passive income desired. For the purposes of this example, we will use \$300,000 per year annual gross income.
2. Now take your passive income desired and divide by:

\$300,000	\$300,000
÷ 6%	÷ 10%
<b>\$5,000,000</b>	<b>\$3,000,000</b>
<b>Rental Properties</b>	<b>Mortgages</b>

3. In the examples above, you would require \$5M in paid-off rental properties or \$3M in mortgages to generate your passive income. These figures represent the Net Asset Value (NAV) of the real estate required to achieve the desired cash flow. The NAV is calculated by determining the current market values of real estate properties held by an investor.
4. Now, we need to calculate the amount of real estate you would need to own **today**, based on an average appreciation of 3%, over a 20 year period, to determine the future NAV. Please refer to the attached spreadsheet and input the corresponding data to determine the amount of real estate you need to own.

Once you have completed your spreadsheet, you are now ready for Step 2.

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*Sections of this document contain forward-looking statements that reflect management's best judgment based on several factors that involve significant risks and uncertainties. Actual results could differ materially from those anticipated in these forward looking statements as a result of a number of factors, including but not limited to risks such as future changes in property values and delinquency rates, the actual average LTV of the fund portfolio based on loans to be made in the future, and general economic conditions. Forward-looking information provided pursuant to the safe harbor established by recent securities legislation should be evaluated in the context of these factors.*

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*Utilizing alternative investments involves substantial risk and presents the opportunity for significant losses including in some cases, losses which exceed the principal amount invested. Alternative investments have experienced periods of extreme volatility and in general, are not suitable for all investors. Investors should consider the investment objectives, risks, charges and expenses of the Fund carefully before investing. This and other information are contained in the Fund's Private Placement Memorandum dated January 14, 2014, which may be obtained by contacting LYNK Capital, LLC.*

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<sup>1</sup> <http://financial-dictionary.thefreedictionary.com/Wealth>

<sup>2</sup> <http://www.investopedia.com/terms/w/wealth.asp>

<sup>3</sup> <https://www.census.gov/>