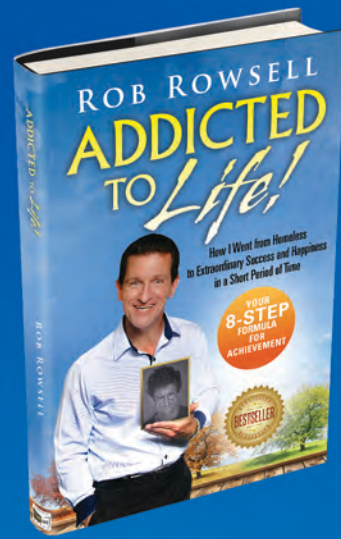


ADDICTED TO *Life!*



REAL ESTATE GUIDE



Rob Rowell
Founder of the *Addicted To Life!* Philosophy™



Hi, I'm Rob Rowsell. I teach aspiring real estate investors how to turn their life's work into a wealth machine, so they can love their businesses and their lives. **Get ready** for 8 chapters packed with life changing advice. It's the ultimate real estate investment guide for new investors!

"Addicted to Life" Real Estate Study Guide

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Chapter 1

Creating Goals

In this chapter, we will cover:

1. Real Estate vs. Other Investments
2. Setting Goals
 - a. Short-term
 - b. Long-term
3. Time Management
4. Cash flow
5. Appreciation
6. Tax Benefits
 - a. 1031 Exchange
 - b. Primary Residence Tax Shelter
 - c. Depreciation
 - d. Refinance for Cash
 - e. Save for Retirement
7. Return On Investment (ROI)

Let's get things started!

Throughout these sessions, I will teach you how to become a successful real estate investor. It is perfectly acceptable if you are not experienced in the field; I will teach you. You will learn how to acquire properties that fit your goals. You will learn how to determine the value of a property; and how to utilize financing approaches that allow you to acquire real estate with little or no out of pocket money.

Life is Full of Choices

The decision is yours. Do you really want to be a successful real estate investor, or is the idea a passing fantasy? If you have already decided that you will be successful, congratulations! Deciding to be successful is liberating and empowering; it means that you will take control of your destiny and you are committed to improving your life.

The decision to be successful is the easy part. The difficult part is the commitment that follows the decision. If you are going to become a successful real estate investor, it is going to require you to follow through with a commitment to educate yourself. Education is the key that opens the door to success. It enables you to make sound decisions based on minimal risk that results in maximum cash flow. This business is all about profit numbers. The numbers don't lie. If you know how to calculate profit returns correctly, then you decide how much money you want to make.

So the question is, **how much money do you want to make?**

It's all about the numbers.

$$2+2=x$$

You can do it!

Real Estate Investments vs. Other Investments

Cash On Cash ROI: specific to the annual return (percentage) on your "out-of-pocket" cash investment.

There are many different ways of investing. You will soon understand why real estate is an excellent option. The best investments are those with the highest return on investment (ROI). When you invest in real estate, **you** determine how much profit you want to realize. For example, if you deposit your money in a savings account, the bank tells you how much of a return you can expect (at the time of this writing,

a minimal, less than 2%). When you invest in real estate, you determine your expected profit percentage! If you don't like the expected return, you have the option to simply walk away.

What return percentage do you desire?



Many people invest their money in the stock market. Typically, the riskier the investment, the higher the yield, but it is too often possible that you lose your money. With real estate, you acquire a “hard asset” that after a period of time will be paid in full and can produce lasting monthly income. Historically, the risk associated with real estate investing is not as great as other forms of investments. The key to lowering your risk is education.

Just to give you an idea of what is entirely possible, I know some real estate investors that expect 20% annual return on their investment (and meet their expectations!). It sure beats a savings account, CD and money market, including many stock market investments. That's the beautiful thing about real estate investing; **You** get to decide what an acceptable rate of return is., assuming you know your market well enough!

Commitment to Success

Your new real estate endeavor is like anything else in life that's worthwhile; it requires effort. This is not a “get rich quick scheme”, or something that takes off by itself. The good news is real estate investing is easy. You don't need an advanced education or a background in real estate. You need a positive attitude, the ability to listen, follow instructions, ask questions, and read.

You must believe you can be a successful real estate investor!

Attitude is everything. What happens to you in life matters, but how you react to it matters more. Where you are in life is a result of the choices you've made. Your personal standing is a direct result of your thinking.

So, the first step to becoming a successful real estate investor is to optimize the way you think about investing. Through my education in real estate investing, I learned how to think like an investor. I used to consider opportunities by immediately wondering how much money it was going to cost me. That is how many people think. I have since learned how to evaluate opportunities in terms of the profit I will realize. This is how a successful investor thinks.

So, how much profit are you going to realize?

Having established your profit motive, the next thing to do is develop a concrete plan; your blueprint for success. This plan should be a plan of action. Every day, you should have activities identified that will advance your knowledge and understanding of real estate investing. I try to fill each day with concrete activities.



★ ★ ★ ★ ★ ★ ★ ★ ★ ★

When establishing goals, it is imperative that they are realistic and achievable. If you set the bar too high, it will seem like you are always paddling upstream. You want to be able to make significant and measurable progress so you can build self-confidence.

Remember my motto, little by little, a lot gets done. It is much easier to achieve a major goal through a series of small successes.

That's why it is important to have both short and long term goals that are measurable and achievable.

Setting Goals

Setting goals is crucial to your success! I have included an exercise that will help you establish goals and commit them to paper. I never had difficulty setting goals, but I frequently did not achieve them. I never wrote my goals down (even though it was suggested to me several times). My failure to write them down was really a lack of commitment. I used to worry that I wouldn't or couldn't follow through with the action required to accomplish my goals. I would get overwhelmed with the magnitude of what I was trying to accomplish. Soon, doubt would creep into my mind. I would make excuses and think of all the reasons why I couldn't accomplish my goals instead of thinking about all the reasons why I could.

After you commit your goals to paper, I recommend you share them with someone who is a positive influence in your life. This should be a person who will be sensitive to your goals and encourage you. There are many nay-sayers who may discourage you and tell you that you can't or won't achieve your goals. I understand that, for some, this negative

response might be what it takes to spur your drive to succeed. However, I still strongly believe and encourage that you share your goals with someone who has a positive outlook on life and will offer you words of encouragement. It is also important that you review your goals often, possibly even on a daily basis. Post a sticky note on your bathroom mirror or in your car that lists some of your goals. This will help to keep you focused and stay “on task”. It is helpful throughout your day to see if what you are currently doing is helping you achieve one of your goals. The majority of each day’s activities should be goal oriented and goal driven.

Short-Term Goals

Short-term goals should be quickly attainable. Many of my mentors suggest that short-term goals should be achievable within one year. This is a good plan, but I recommend starting with goals that are attainable in shorter periods, preferably quarterly goals - even daily & weekly.

These short-term goals should be a “slam dunk”, easily attainable so you can experience some early success. Some examples could be reading a book on real estate investing for 15-30 minutes a day, or listening to motivational or spiritual speakers in your car. When you engage in these activities for a few weeks, they become habit and greatly contribute to a positive and creative outlook. These small successes will snowball and you will gain confidence with your ability to follow through with your commitment to becoming a successful real estate investor. As soon as these goals are achieved, you should identify new ones that are more challenging and increase the time and effort you spend in achieving your long-term goals. For example, you might set a goal to complete these classes (and the homework) so you can acquire your first property in the next 90 days. This can be done! Believe it and you can achieve it!

Long-Term Goals

Long-term goals should be objectives you want to accomplish in a few years. You might have one set of goals for the next year and another set of goals for two and five years. Again, these should be realistic and achievable, but maintain a high bar by setting aggressive long-term goals. Even if you don’t always reach your long-term goals in the desired time frames, you will have advanced your position tremendously when your long-term goals were aggressive. You might set a goal for your first year to get out of debt or acquire four properties. A five-year goal could be to have twenty rental properties with enough positive cash flow to live off of so you can quit your current job. You should also have a reward in place for yourself once you achieve your goal(s). Maybe you can buy an automobile or your dream home!

Time Management

Using your time wisely is critical in achieving your goals. We all have busy lives and most of us can’t just put them on hold while we undertake this new endeavor. Something that can be helpful to you is to inventory your daily activities



and write them down for the next week. I think you will be surprised to see how much time you spend on things that are not very productive. This will provide the basis for how you optimize the use of your time. Awareness is the first step in changing how you allocate your time.

I recommend that you write down all your commitments (your goals and commitment to education included). Then assign each one a number based on importance. Then, you can allocate time to each task. You definitely should make the time you allocate for learning real estate investing a top priority. Make sure you devote plenty of time to learn more about your investment endeavors. Let your friends and family know what you're doing and ask them to respect and honor your commitment. Be sure it is only those that would encourage you!

A great way to organize your time is with the use of a planner. This doesn't have to be a fancy electronic one; it can be a paper planner. If you currently use one, you already understand its benefits. If you do not already have a planner, get one! There are many different styles available, so spend a bit of time browsing. They come in different sizes, colors and organizational tools. When considering, keep in mind:

1. It should have a monthly recording capability. You want to be able to see your entire month (and year) at a glance.
2. It should have weekly recording ability, with space in the margins to write notes, when necessary.
3. The writing space provided should accommodate the size of your writing.
4. To further your time organization, you might seek a planner that includes an address section and phone number section; a sleeve for storing business cards; an "important people" section for those in your Power Team (to be later discussed), and family doctors, teachers, caretakers, etc.
5. There should be plain notebook paper available for any additional notes. This might also be where you keep your master list of "things to remember". Maybe they don't need immediate attention, but they might later.

There are many electronic versions of these tools available today as well. Do your own research and select what fits your lifestyle and personality. There is no perfect tool, but choose something!

Cash flow? Explain that again!

We know that cash flow is the recurring income (profit) over a period of time. You must know how much you stand to gain in profit each month. But is what you gain the only component? The answer is no. You definitely must account for your expenses as well. So, what kind of expenses should you expect?

The most obvious expense is any rehabilitation (rehab.) and clean-up requirements for the property; anything that needs to be fixed, replaced, updated or restored before it can be rented or sold. This is only one kind of expense though! You need to consider taxes, insurance, other maintenance costs, property management company, and any costs incurred to advertise your property. In addition, you must remember that your newly-purchased property may not always be occupied. Even though the property sits vacant, the mortgage payment is still due each month; you must plan for this to happen.

Now that you have considered all the possible expenses, you can accurately determine your monthly and annual cash flow. You will use this information to calculate the ROI (explained below).

Appreciation

Appreciation is a way to measure the value of your property since you purchased it. Under normal circumstances, real estate tends to increase in value over time. Historically, real estate has appreciated at a faster rate than inflation. We should remember though, that the real estate market is cyclical; the good times and tough times occur in cycles. Overall though, real estate investments have largely been a profitable one.

Forced Appreciation

Another way to increase the value of a home is through forced appreciation. To do so, you can improve or update the property's structure or style. For example, you can repaint the home (inside and out); create new, clean lines with siding; update the landscaping; with curb appeal, the sky is the limit! There is also the interior to consider. The interior of a home tends to become outdated fairly routinely. In years past, emphasis was placed on how many rooms were found in the home. Newer homes are being built with more open floor plans. They possess the same square footage of interior space, but allow continuous flow from living room to kitchen to dining room without restrictive walls. Instead of knocking out interior walls, you can add on to an existing room. Maybe that master bedroom or kitchen is just too small. An addition is needed!

Appreciation- an increase in property value, either naturally due to market demand, or "Forced Appreciation", due to enhancements that were made to the property that immediately made its value higher.

Depreciation- a decrease in property value, due to damage, age, wear and tear, deferred maintenance or demand decrease.

Cash flow- recurring monthly income over a period of time.

ROI- return on investment

Tax Benefits

As with earned income, the government also taxes you if you realized profit in the real estate market. This can be frustrating. However, income tax laws do permit shelters that can maximize your tax liabilities, if you follow the law very carefully.

1031 Exchange

Under the IRS Code Section 1031, real estate investors may cash in their equity from one or more properties without paying capital gains taxes provided they reinvest the monies in another “like-kind” property. Real estate properties are generally considered, “like-kind”. A real estate investor can defer capital gains indefinitely as long as an outright sale does not occur. There are a few guidelines that must be carefully followed when pursuing a 1031 Exchange.

1. You must have a professional that is qualified to facilitate the exchange who is not related to either party.
2. The purchase price of the new property must be equal to or greater than the amount of money being tax deferred. For example, if you’re selling a home for \$100,000, the home you buy in exchange must cost \$100,000 or more.
3. The new property must be chosen within 45 days and you must close within 180 days of the completion of the first transaction.

Note: There are numerous other rules to follow when performing a 1031 exchange, so always seek the advice of a certified public accountant when attempting a 1031 Exchange. Laws are changing constantly, so seek legal guidance here as well.

Primary Residence Tax Shelter

As previously discussed, when you realize a profit in the real estate market that profit is subject to taxation. An exception to that rule is if you sell your primary residence (given that you do not profit more than \$250,000/single; \$500,000/couple).

Another requirement is that you must have occupied the property for two of the last five years.



Let me offer an example where tax shelters benefited some former acquaintances very nicely. Where I grew up, there were two brothers who were skilled construction contractors. The two brothers (with the help of their spouses, children and outside family members) jointly bought a piece of land. They built a house on the property and one of the brothers made it his family’s primary residence. They lived in that house for a few years, while they built a home for the other brother’s family. Every few years, they would sell one of their primary residences and move into a brand new home. A decade or so later, the two brothers had made quite a profit on their creative handiwork. Because the brothers followed the tax laws very carefully, they were able to benefit from these tax shelters.

Depreciation

Also known as cost recovery, depreciation is non-cash tax deduction that allows you to a tax benefit for a percentage of the amount of depreciated value. Depreciated value can be related to damage on the property (inside or out), wear and tear, age, demand, etc.

The demand part can be a little tricky. The demand for your property is affected not only by the look and quality of your home, but by surrounding homes and environment. So, if you have neighbors who do not maintain the appearance of their homes, it can affect the value of your home. The same goes for the environment; if there is a park that is unkempt, or thought of as a “danger zone”, the value of your home can be affected.

When considering depreciation, only the building is depreciable; not the land on which the building resides. The thinking behind this is that a building or any improvements on the land will deteriorate over time; the land will not.

To calculate depreciation, the IRS will accept a recent appraisal or a comparative market analysis (which will cost you less than an appraisal). Also, there are several other factors to consider and different guidelines for commercial vs. residential, etc. So, always consult your certified public accountant when depreciating value for an investment property.

Refinance for Cash

As your real estate portfolio continues to grow, you are going to have an increasing number of opportunities to access tax-free cash. For example, you may have purchased a property that needed major rehabilitation. The result of your completing the fix-up project was a large increase in the value of your property. You could refinance the property at the new value and put the extra cash in your pocket, without paying taxes.



If your property has a substantial amount of equity, you could also secure a home equity line of credit (HELOC). This is a revolving account that allows you to draw cash out based on the equity that has accumulated in the property. You will be subject to interest charges from your bank, but you will not be required to pay taxes on this money.



investment is you have more with your money. This has and downs of the stock market. complexity, so as always, specializes in this type of money

Save for Retirement

There are several ways to save and invest money for your retirement. As was mentioned earlier in this chapter, real estate is one of the best opportunities available today. If you own an Individual Retirement Account (IRA), you may be able to invest all or a portion in real estate and the earnings can be tax-free or tax



deferred. One of the advantages to this type of control over what happens been evident with the ups This subject is one of great consult a professional who management.

What is (ROI), exactly?

ROI, or *return on investment* is your yearly cash flow + appreciation+ tax savings, divided by your total investment. More simply, ROI is (what you gained in a year) minus (what you spent in a year) divided by (the cost of the initial investment). You must also factor in the total operating expenses, which can include (but not limited to) taxes, insurance, vacancy, management, maintenance, pest control, etc.

$$ROI = \frac{\text{Investment Gain} - \text{Yearly Expenses}}{\text{Initial Cost of Investment}}$$

I personally know successful investors that will not consider a project that does not yield a minimum of 20% Cash on Cash ROI. You should decide for yourself, what percentage ROI fits your financial goals. Let's use the ROI formula for a couple different real-life scenarios.

Let's break it down!

- Monthly cash flow (profit) of \$400
- Multiply \$400 by 12 months (= \$4,800)
- Subtract the \$1,800 yearly expenses from the \$4,800 (= \$3,000)
- Divide -\$3,000 by the initial cost of investment (=3.4%) Return On Investment (ROI)

Example #1 Let's assume you are able to purchase a home for \$75,000, but had to spend another \$10,000 in rehab costs. We will assume the monthly cash flow is \$400 (× 12 months = \$4,800). For this example, we will assume the yearly expenses were \$1,800 and the closing costs (escrow, title, etc.) were \$2,250.

Note: I did not include any rehab or closing costs in the "operating expenses". This cost was incurred as part of the initial investment of the property.

$$ROI = \frac{\$4,800 - \$1,800}{\$87,250} 3.4\%$$

Using the ROI formula, you can see that this is not a great investment. An ROI of only 3.5% is better than what you might expect to yield in a money market account. As an educated real estate investor, you should demand a much higher return on your investment. Unless you are convinced that the market this house is in will appreciate in value, very rapidly, this property does not work as a rental.

Example #2 But, what if you were to instantly resell this property to a first time home buyer? For discussion purposes, let's say that the forced appreciation that you achieved by doing the fix ups you've done have made the property worth \$150,000.00, and your selling and closing costs totaled \$10,000.00.

By subtracting your total out of pocket expenses (\$97,250.00) from the sales price of the property (\$150,000.00) you end up with a profit of \$52,750.00.

$$ROI = \frac{\$52,750}{\$97,250} 54.2\%$$

Now THAT'S a little more exciting! How many of those can you do in a year? As you'll learn, there are many different strategies to get the deal done. We just need to have an open mind!

Example #3

We will assume we purchase a turn-key property for \$80,000 that yields \$450 (X 12 months = \$5,400 a month) in positive cash flow. For this example, we will assume the yearly expenses were \$1,200.

$$ROI = \frac{\$5,400 - \$1,200}{\$80,000} 5.25\%$$

Using the ROI formula for this example, we find that this property is a better deal than the first example, but still not great. An \$80,000 property may seem like a great deal in most markets. However, after running these numbers, we can see that the return is still fairly low. As mentioned before, real estate has historically been the most consistent investment. For example, if you invested your money in a traditional bank savings account, the ROI percentage would be < 3%. Again, one of the major advantages of investing in real estate is you decide how much of a return you want on your money.

Let's break it down!

- Monthly cash flow (profit) of \$450
- Multiply \$450 by 12 months (= \$5,400)
- Subtract the \$1,200 yearly expenses from the \$5,400 (= \$4,200)
- Divide -\$4,200 by the initial cost of investment (= 5.25%)
Return On Investment (ROI)

In Summary

Well, we have covered quite a bit of information here which, to some, may seem basic. To others, there may be many questions. Either way, we must lay the foundation for success, so if the information seems basic, hang in there. For those of you that have questions, write those down here, while they are still fresh in your mind, and we will cover them when we get together for detailed clarification. There are no silly questions! We will build upon this information as we go, so it is imperative that you thoroughly understand these basics.

Notes and Questions:

Now take the time to go through the exercises on the following pages. ***This is mission critical to your success.*** There's an old saying that goes "If it's not in writing, it does not exist". Let's get these goals and ideas in writing, *so you can commit to them.*

This will also give me an idea of what we are working towards as we go through the process of getting you to success. If we do not have a success picture painted, how will we know when we get there?

What do you expect to get out of this coaching process? What do you want to achieve?

Exercise 1.1

Date: _____

1.

2.

3.



You have defined your expectations. Commitment is the next step. What will you do to reach your goals?

- Spend _____ hours every week working on assigned tasks and readings; educating myself.
- Make my weekly/bi weekly coaching sessions a priority.

What else? What are you committed to? Write it down!

1.

2.

Exercise 1.2

To make effective goals, you must write them down. And, you need a strategy! Let's identify a minimum of three goals you want to achieve.

Here are some ideas to get you started!

- Time frame for making your first real estate purchase.
- Make enough positive cash flow to pay some bills.
- Commit a certain number of hours to your real estate endeavors.
- Timeframe for when you could work for yourself exclusively.
- Eliminate a specific debt that you have.

A goal I have is... <i>Example: Double partner's income</i>	I will achieve this goal by (DATE)... <i>Example: One year from now.</i>	To achieve this goal, I will... <i>Example: Follow through with my time commitment to education and follow through with the recommendations made.</i>

Exercise 1.3

With my positive cash flow, I plan to:

1.

2.

3.

*Picture yourself 12 months from now...
you have met your goals. All of them!
What is life like for you?
Describe it... this is your future, your life!*

Chapter 2

What Types of Properties Will You Invest In?

In this chapter, we will cover:

Types of Properties

1. Detached Homes
 - a. Single-Family Home
 - b. Mobile Home

2. Attached Homes
 - a. Single-Family Home
 - b. Townhouse
 - c. Condominium
 - d. Duplex, Triplex, Fourplex... etc.
 - e. Apartments
 - f. Cooperational (co-op)

Types of Properties

It is important to familiarize yourself with the different types of residential properties in your area. After gaining familiarity, you may want to concentrate your efforts in one area of real estate specialization. For example, if you happen to live in an area with many condominiums. You could naturally become highly knowledgeable in condominium acquisitions.

Detached Homes

Homes that stand independent are referred to as, detached. They do not share common walls and are not stacked on top of one another. They also do not share utility sources. Single-family homes and manufactured homes are frequently detached. Please note, single-family homes can be either attached or detached (see next section for further explanation).

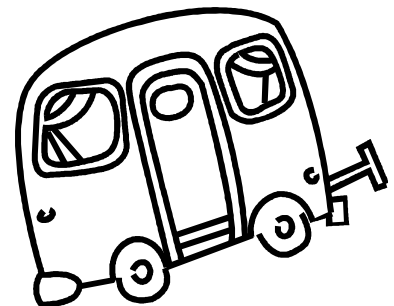


Single-Family Homes (detached)

This home type is considered a traditional house. It typically houses only one family and is not connected to another dwelling, as a condominium.

Manufactured Homes

This type of home is constructed in a factory, not site-built. That is why they are known as, pre-fabricated homes. Another term for prefabricated homes is mobile home, because many are mobile; they can be relocated to different sites. Although they can be mobile, they are considered permanent residences. The square footage of manufactured homes varies greatly. A single-wide manufactured home is 18'x90' or less, and a double-wide manufactured home is 20'x90' or more. There are also manufactured homes that are quite large. Once at the site, they are put together in three, four, or five sections. The traditional rectangular shape can be altered as well. Some of the larger manufactured homes can be configured to more closely resemble a traditional single-family home.



Attached Homes

Certain attached single-family homes, townhouses, condominiums, duplexes, apartments and cooperatives (co-ops) are all commonly known as Multi-Family Homes (attached). In attached home units, the utilities may or may not be linked together. The architecture and age of the multi-family structure may dictate whether the tenants or landlord are responsible for the utilities.

Attached Single-Family Homes

This type of dwelling usually houses a single family. However, there is a shared wall with another dwelling. These homes can be called patio homes or twin homes. Please note, some townhouses may also be marketed as single-family homes.

Townhouse

A townhouse (or townhome) is a “row home”; a dwelling that shares a wall with a neighbor. They do not however, have occupants living on top of each other, as a condominium does. Individual units can be two-story structures, but can also have additional floors. Sometimes, a townhouse includes a small yard and can also include an attached garage. The cartoon to the right shows one example, with the garage on the first floor and the living space is on the second floor. As mentioned, townhomes can also have a third floor for additional living space.



Condominiums

Condominiums (condos) are attached homes that share common walls. They can also be stacked on top of each other, as is the case with apartment buildings. Condominiums are usually owned by the occupants, while apartments are more often rentals, all owned by one owner.



Apartments

Apartment buildings are much like condominiums. They are also attached homes, either sharing a wall or are stacked on one another. There are frequently common areas available for the occupants, such as swimming pools or spas, exercise rooms or playground areas.

You will work closely with your coach, real estate attorney and mortgage broker when financing an apartment building, as there are many financial nuances. For example, when there are four or fewer apartments on the property, it is considered residential property. More than four units are considered commercial property. We will cover this more in depth later, but here we are just laying the groundwork of understanding.



*The property above is an actual property we acquired in 2017 with partners. Let's discuss when we get together.

Lofts

Like apartment buildings, lofts share common walls and can be stacked. Lofts differ from traditional apartments in style and structure. For example, lofts usually have higher ceilings, large windows and exposed piping and ducts, that apartment ceiling would normally cover. They may also feature only cement or stone flooring.

Duplex

A duplex is a structure comprised of two attached homes. They can be stacked on one another. You can find properties that feature two standing buildings, each comprising two stacked homes and is called a “Four-Plex”, or a “Quad-Plex”. The outer area of these properties can vary. They may or may not include a yard. Sometimes, there may be shared yards, known as the “common areas”.



Cooperatives

Cooperatives, more commonly known as “co-ops”, are shared housing, much like condominiums and apartments, they are most often attached. The major difference however, is the terms of ownership. When you buy a single co-op, the owner is issued a stock in the entire property, to include the total living space of the other co-ops, and the common out-door areas. Each co-op owner has a say in affairs related to tenant behavior, remodeling, and landscape, to name a few. The co-op board of directors can decline a request to rent a co-op. They can also be involved in deciding who can buy into the property.

Commercial

This type of real estate includes properties used for business: retail, office, hospitality, and industrial purposes. Commercial real estate can be profitable for the seasoned investor. Commercial real estate deals are typically more complex than residential. They may require substantial upfront capital, including from sourcing other investors and proof of a profitable real



estate portfolio. Commercial deals also require extensive research from your real estate attorney to address any possible liabilities and legal concerns. Beginning investors should concentrate on residential real estate to promote early success, but I know investors that have begun on these types of properties and had success. It’s all about getting the right education.

Exercise 2.1

Think About It



1. Townhouses are sometimes referred to as _____.
 - a. park homes
 - b. row homes
 - c. lay homes

2. A single-family home never shows a wall with its neighbor.
Circle: True or False

3. Something that makes a co-op different from other types of properties is _____.
 - a. there are no yards
 - b. they must be at least two stories high
 - c. tenants have a say in all matters; tenant behavior, remodeling and landscape, to name a few.

Take Action!



This week, spend some time driving around your city. Find 10 different properties, write down the addresses and try to guess which type of property it is. Mix it up! Try to find as many of the different properties described in chapter 2 as you can. Check yourself! Plug your addresses into this site:

www.zillow.com

Chapter 3

Who Can You Count On?

In this chapter, we will cover:

1. Building Your Power Team

Who is in your Power Team? Do you have one?

You are only one investment person. Few, if any, individuals know everything about real estate investing. Your job is to find the deal (FTD) and the money to make it happen. A power team is a group of professionals who specialize in specific areas relative to real estate investing. Your power team provides you with valuable information necessary for successful investing. They compensate for your lack of experience or knowledge. A good power team provides necessary information rapidly. Timing is everything! A great deal will pass you up if you are wasting valuable time trying to find answers to questions that are rather trivial to an expert.

Networking

We all recognize the importance of networking. The value of networking is particularly applicable in identifying members of your power team. Start early to search for these people. A good team of professionals are required for your career success story. A well-organized, easily accessible team can make you ready for anything!

Once you identify your team, systematize your organization! Maintain a log book or professional planner. You should maintain a section designated only for your Power Team (part of your “Important People” section). Keep in mind that your team players are human: they can make mistakes, not know an answer right away, and they even go on vacation. So, plan ahead. Have a back-up. Actually, have two back-ups.

Once you have your team in place, use them! Don’t be afraid to say to a client, “Let me get back to you on that. I’d like to double-check with my colleague to make sure you get the best answer”. Again, use your resources. This is what successful people and companies do. For example, I’ve never seen the late Sam Walton stocking shelves at Walmart. There is no way he could have done everything alone. It takes a reliable team to achieve extraordinary results! Remember, have your qualified team ready and accessible, so you can execute your plan well.

“Good fortune is what happens when opportunity meets with planning”.

-Thomas Edison, inventor



Okay, now that your Power Team is in place, you must know how to utilize them.

Banker- Many of the parts throughout the investment process will be spent in banks. It's a very good idea to begin developing good rapport with the local banker(s). The benefits from bankers and mortgage brokers overlap in some areas. Nevertheless, bankers are a great source when trying to find money. Sometimes, local banks and credit unions will lend on projects that national lenders will not, simply because they know the neighborhoods.

Real Estate Attorney- Unless you are a lawyer, don't risk it. Any contracts you have should be reviewed by a real estate attorney. Also, it is well worth the cost to call and share an idea, or ask a question, to get an attorney's perspective on what you have going on. You ultimately will be the one that makes the final decision, it's your business, but this insight will prove very valuable.

CPA- Continuing on with all things legal, we have the CPA. These people are useful with anything dealing with taxes, or the laws concerning taxes. A CPA is a trained and licensed professional who identifies top benefits and avoids expensive tax penalties for a real estate investment.

The MLS (Multiple Listing Service) provides great information on properties, such as number of bedrooms, square footage and usually includes photos!

Mortgage Broker- For investment purposes, a broker is a good one to have in your circle. These people are able to do your finance (loan) hunting for you.

After they have run your credit, they can find the most appropriate loan, from the best bank, for your situation. It's a time saver!

Realtor- You should have a good working relationship with a realtor you trust. They can be of help in more than one way. They can provide you appropriate comparables (comps). If part of your plan is to buy, fix and sell homes, they can help sell them for you. They can even locate some great projects for you to work on. Before you select a realtor, obtain references. For instance, it's best to work with someone with experience. A minimum of three years is good. Depending on your long-term goals, you may need more than one realtor, especially if you are shopping around in different areas. You want to ensure that your agent is familiar with a specific area. Remember, when realtors are your buying agent they are actually paid by the seller, not you.

Another valuable resource a realtor provides is the Multiple Listing Service (MLS). The MLS is a list of properties, shared among licensed real estate agents. This MLS list is available only to licensed real estate agents. It has a lot of very valuable information.

1. Who lives in this area? What is the demographic?
2. What type of industry is here? I mean, these people must have a place to work, right?
3. When did the population grow (or shrink) to its present number?
4. Where, exactly are these people living? New homes, rentals, etc...
5. Why do people stay? What is the driving force? Schools, work, atmosphere?

Appraiser- An appraiser can calculate the value of a property. This applies to both fair market and after repair value (ARV).

Title Company- The Title Company checks for any liens on a property. When it is time to close on a property, you will do so through the Title Company.

Escrow Officer- In some states, the escrow officer works at the title company, while in some states, the escrow officer is their own company and has their own office. In even other states, it is required to utilize an attorney as an escrow officer.

Escrow officers are basically transaction coordinators. They will generate escrow instructions from the Purchase and Sales contract. They make sure the seller and buyer provide any and all documents needed to be signed. They will also contact the title insurance company and make sure any unpaid taxes are paid. They make sure realtors are paid. Any outstanding HOA fees are paid.

Property Inspector- Property inspectors evaluate properties thoroughly. They inspect major components, such as the foundations, roofs, heating/cooling systems, and check for termites. They also check for other potential maintenance problems or safety code violations. Following an inspection, the inspector provides a full report detailing any concerns, issues or violations that need to be addressed. In turn, you can present this report to the seller as leverage if in negotiating the sale price of the home. In some cases, you should insist that issues be addressed prior to finalizing the deal. Their fee is minimal for the service provided.

Could references be unreliable??

Ask to see his/her work.
Remember, this could end up being a long-time business relationship. It's better to find a good one the first time around...

Other Investors- It's a great idea to network with other real estate investors. They can sometimes refer property investment opportunities to you. A great place to meet and network with other investors is your local REIA.

Council for Economic Development- Most communities have Economic Development and Growth offices. These offices track the economy in that particular area. They can

provide information about the growth and decline of business and housing in those areas. These are all things you must check out before buying in a particular area. For example, just because you have identified a good deal, does not necessarily mean you have found the best ROI, since there are many other factors to consider, based on information from the council.

The best place for you to buy properties is in an area that has new industry moving in and hiring people. Be wary of areas where there are many FOR SALE signs. Frequently, people want to work close to where they live. If business is slow, people will commonly relocate. The vacant properties they leave may not be good investments. Do your due diligence!

Property investment opportunities may be available in these "bedroom communities". Certain suburban areas from which residents commute to work each day.

Contractor- Seek out only licensed and bonded contractors. Be wary of folks who claim to be a contractor.

There are certain "rules of thumb" that should be followed in identifying reliable contractors.

Friends and family members, who have had work done on their home or property can refer good contractors. People love to talk about their woes and triumphs. And, they love to think they are in some way, assisting you in your decision-making. This is the perfect opportunity, take advantage of it. It also works to your advantage that you know these people. You can surely ask to see the work for yourself.

Beware, however, of flyers stuck to your front door every Saturday morning. These people may call themselves a "contractor" and they may actually be. Or, they may not be. Yikes! This

Where do I find a good one?

- Referrals from family and friends.
- Local hardware stores.
- Other investors who have experience in hiring rehab work.

Beware of random signs you see on the freeway or stuck to your front door! This may not go well.

could be scary! If you do go this route, be very cautious and invest extra time and effort when verifying references and insurance coverage.

Sometimes, someone will “highly recommend” a friend or relative of theirs for a particular job. Again, use due diligence! Ask to see their work. There is no crime in that, in fact, if they are a reputable contractor, they will expect it. Remember, this is your livelihood, and you must treat it as such. Think about your past jobs. You likely had to interview for them. Would you have been given a job if you were ill-qualified, lacked references, or simply did not interview well? Probably not. Now, you’re in charge of your own destiny! You do the hiring, and you only hire those who will boost the quality of your operations.

The next step in this process is deciding on a budget and a “wish list”. What do you want to see accomplished in this rehab and what are you willing to pay? Contractors appreciate a well-organized plan of attack on your part. So, have your budget put together beforehand.

Write down exactly what you want. This should be fairly straight-forward. For instance, you might say: Patch the two holes in the drywall in bedroom 2; Tile and grout both bathrooms and laundry room; Paint throughout; Re-stretch carpet in living room; Add two light fixtures in the hallway; Remove popcorn ceiling throughout and repaint ceiling.

The contractor will review your request. If he or she can accomplish the desired tasks with your proposed budget, the game is on! If it is not, a couple of things may happen. You could either decide to fork over the remaining amount due to complete the rehab, or you could stick to your original budget plan. Of course, you would have to axe one or more items on your “wish list”. I tend to share my vision on what I want done to the property with my contractor and ask for a bid on the “list”. If his number and mine do not match, we will negotiate a number that still works for the two of us. We always want win/win situations, the goal is to have them wanting your next project as well.

Okay, you have decided what exactly the rehab entails and how much it will cost. Now you and your contractor must come to an agreement on a completion date. Depending on how your contractor does business, this could be tough to get him or her to nail down a date. Stick to your guns! They need to at least offer an approximate timeframe. If you do not have this conversation, you will be sorry! It could drag on forever. So, take care of it in the beginning.

Get it in writing!

- Write down exactly what you expect.
- Set a timeframe.
- Set a dollar amount.
- Both parties sign.

Money talks...

- Pay the money as the job progresses.
- Last chunk of money is paid when the job is to your satisfaction.

The issue of payment can be a source of anxiety. This is your money, and your contractor works for you. You can dictate when they receive payment and how much. Yes, your contractor will likely need a bit of money prior to starting the job. This is fine, but your contractor should be able to give you an estimated “start-up” amount needed. Give them the money, but request that they bring a receipt for the items purchased.

Another way to go is to have your contractor pay for the materials themselves, bring you the receipt for materials purchased and you can reimburse them.

Either way you choose to work with them is acceptable. What is not acceptable is you handing over money to cover the entire estimated cost of the job. If you do this you’ve, quite possibly, just opened yourself up for a very long rehab job. Your contractor can take his or her time. The very last chunk of money must not be handed over until after the job is finished. Again, if you give your contractor the last bit of cash before they finish the job, it could suddenly take a very long time. After all, you’ve already paid them in full. They’re in no hurry anymore. Always protect your investments.

In Summary

For some it may seem overwhelming to look at the list of Power Team members that you will eventually need on your team. I know it was for me. We didn’t know any of the people listed. Not to worry, this is an elephant that you will eat one bite at a time. These people are all around you, and you likely know some of them already. Through networking events, your local REIA affiliation (Which we will discuss) and just being out there getting this new endeavor off the ground, you will find your team members. **Trust me.**

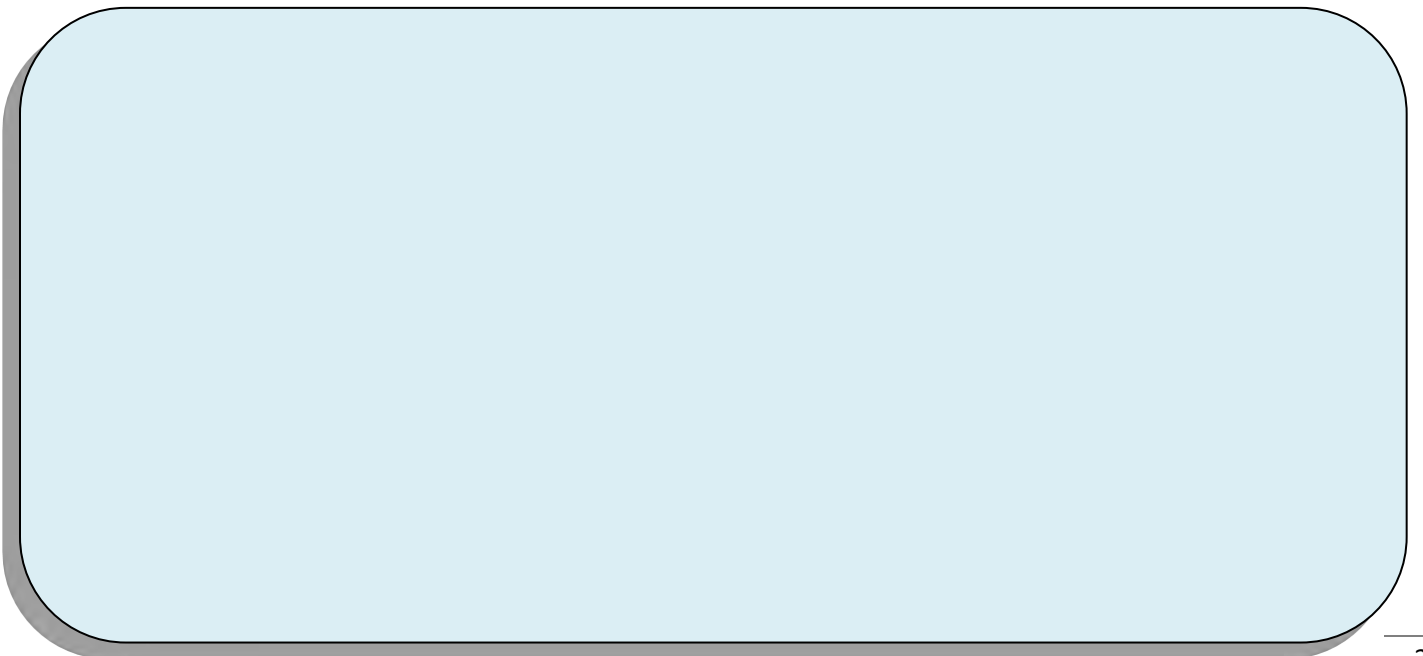
I would recommend that you make copies of the fill in the blank pages that follow and hang them in your home office to remind you of who you still need to add to your team. It is amazing how keeping this goal out in front of you as a reminder will help you stay focused on filling in those blanks with team members. Many of those team members will eventually become your lifelong friends. They have for me.

Exercise 3.1

Using the internet, check out the Council for Economic Development for the area in which you live. Keeping the 5 W's in mind (who, what, when, where, why) what did you find out? Is this a good area to invest in? Why or why not?



From what you have learned in Session 2, as well as your own life experiences, list 5 suggestions for locating and hiring a Contractor or tradesperson.



Exercise 3.2 Power Team Reference Guide

Keep this list as your Power Team back up. Make extra copies of the template before you fill it out.

Realtor
(T) _____
(F) _____

Mortgage Broker
(T) _____
(F) _____

Realtor
(T) _____
(F) _____

Mortgage Broker
(T) _____
(F) _____

Realtor
(T) _____
(F) _____

Real Estate Attorney
(T) _____
(F) _____

CPA
(T) _____
(F) _____

Real Estate Attorney
(T) _____
(F) _____

CPA
(T) _____
(F) _____

Appraiser
(T) _____
(F) _____

Banker

(T) _____

(F) _____

Title Company

(T) _____

(F) _____

Note Buyer

(T) _____

(F) _____

Property Inspector

(T) _____

(F) _____

Council for Economic Development

(T) _____

(F) _____

Council for Economic Development

(T) _____

(F) _____

(T) _____

(F) _____

Contractor

(T) _____

(F) _____

Contractor

(T) _____

(F) _____

Contractor

(T) _____

(F) _____

Power Team Reference Guide

Realtor	Name: Tel: Fax:	Notes:
CPA	Name: Tel: Fax:	Notes:
Mortgage Broker	Name: Tel: Fax:	Notes:
Attorney	Name: Tel: Fax:	Notes:
Appraiser	Name: Tel: Fax:	Notes:
Property Inspector	Name: Tel: Fax:	Notes:
Contractor	Name: Tel: Fax:	Notes:
Landscaper	Name: Tel: Fax:	Notes:
Mortgage Broker	Name: Tel: Fax:	Notes:

<u>Team</u>	<u>Name</u>	<u>Phone</u>	<u>Fax</u>	<u>Notes</u>
Realtor				
CPA				
Mortgage Broker				
Attorney				
Appraiser				
Property Inspector				
Contractor				
Banker				
Landscaper				
Other				
Investor				

Power Team Reference

Chapter 4

Let the Seller Help Finance the Deal

In this chapter, we will cover:

8. What is Creative Financing?

9. Securing Properties With Little Or No Out-Of-Pocket Cash

10. Seller Financing

- a. Trust Deed
- b. Contract for Deed
- c. Assumption
- d. Subject-To
- e. Lease Option
- f. Lease Purchase
- g. Wrap-Around
- h. Profit Sharing

Now, I am going to dive right into creative financing. First, we're going to revisit a few key terms that we discussed earlier.

Creative Financing

Creative financing is only a part of real estate investing. Please remember that there are many variables to consider when scouting a prospective property. You will rarely find two deals that are exactly the same. So, be open for change. Being flexible with your strategies is a key component in real estate success. It is often possible to obtain a property with little or NO money.

Exit Strategies

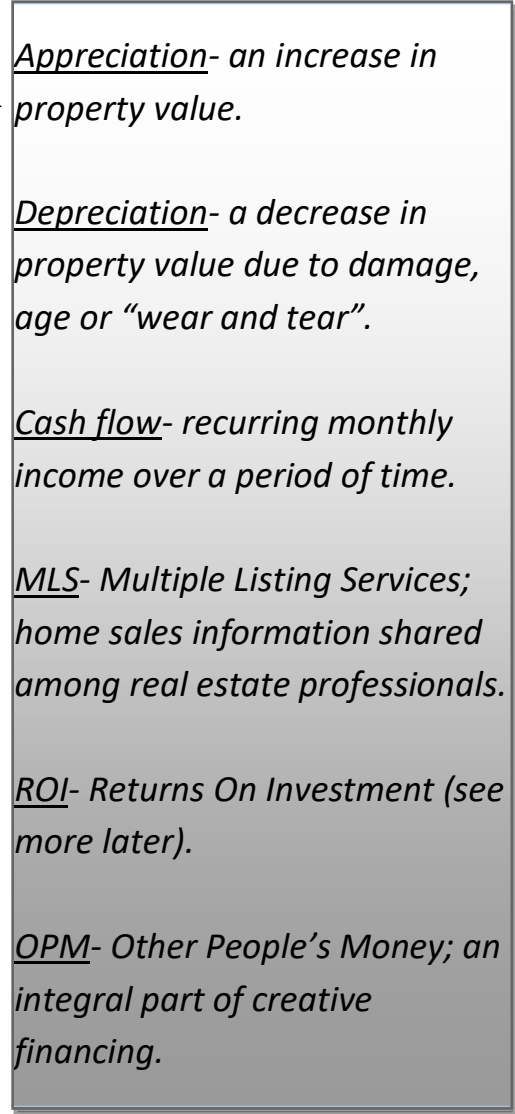
Once you acquire a property, you must decide what you will do with it. How will you make the most money? What is the best exit strategy? The answer is the one with the best ROI. Remember, we always want the exit strategy that is the most profitable.

Buy-Fix-Sell (BFS) – Very simply, you are buying a property, fixing it up and selling it in a timely manner. You may have heard this called “flipping”. Most “flips” are 90 day holds. I call it the “hot potato” strategy.

Buy-Fix-Hold (BFH) – Rather than selling the property right away, you can fix it up and keep it as a rental. This is referred to as holding the property. This is a cashflow strategy and/or an equity strategy.

Lease/Option (L/O) - Sometimes, people call this “rent-to-own”. There are two contracts needed for a L/O. One contract is a rental contract and the second contract is a right to purchase contract (more on L/O on pages 4-5).

Wholesale - After you put a property under contract, you can exercise your right to assign the contract to someone else for an assignment fee. This does not mean you purchase the property, only put it under contract and sell your rights to the contract. *(This is a great strategy for beginners, because it requires very little, or no, cash out of pocket.)*



Appreciation- an increase in property value.

Depreciation- a decrease in property value due to damage, age or “wear and tear”.

Cash flow- recurring monthly income over a period of time.

MLS- Multiple Listing Services; home sales information shared among real estate professionals.

ROI- Returns On Investment (see more later).

OPM- Other People's Money; an integral part of creative financing.

Creative Money

The previous section, Creative Financing, you learned about different strategies to buy and sell homes. But, what about the money? For BFS, BFH and L/O, you must come up with money with which to start. That's why this section is called Creative Money, because these are creative ways to find workable money.

Securing investment properties with little or no out-of-pocket cash

Even if you don't have a huge bank account just waiting to be tapped into, you can still "buy" homes competitively. Having a good credit score helps, but it is not altogether imperative to your success as a real estate investor. As your investment endeavors progress, you will have opportunity to improve your credit rating. You will have a monthly cash flow that did not exist before, which will make it much easier to pay your monthly bills on time, and clean up some things that from the past.

Seller Financing

When dealing with creative financing, there are many different approaches you can take. The majority of these options involve the seller helping with the financing (we will devote this chapter to seller financing and spend time on various other tactics in the following chapter). At first, it may seem unrealistic to consider using other people's money (OPM) to finance your investment properties, but it is possible indeed! To clarify the objective in this situation, the buyer will not secure a traditional loan through a bank; instead, the seller will act as the bank, using their equity as a loan to the buyer (That's you). In the sections to follow, I'll explain several ways to achieve seller financing. There are several advantages to seller financing. Frequently, you will save money on closing costs, you can negotiate the interest rate, payment schedule, and you may even be able to negotiate a lesser down payment, or no down payment at all!

Seller Mortgage or Trust Deed

With a trust deed, the seller deeds you the property, and you agree to pay the seller monthly payments. In exchange of this contractual agreement, the seller agrees to transfer the deed of the property to the buyer. The seller may ask for a down payment (or not), which may be used for the mortgage. Just as a bank would, the seller can foreclose on the property if the buyer fails to pay the mortgage payment. Just as if a buyer were to secure a traditional mortgage on a home or property, there are owner rights; they have the right to rent, sell, or fix up the property.

Contract for Deed

A contract for Deed works the same way as a Seller Mortgage works, except that the deed is not transferred to the buyer immediately. The time of transfer into the buyer's name is written into the contract. The seller may transfer the deed over to the buyer only once the mortgage is paid in full. Another option is to transfer the deed to the buyer after a specified number of mortgage payments are made on-time. All of this is negotiable between the buyer and seller at the time of the contract. In this type of contract, the buyer should expect to pay a down payment to the seller's liking. The buyer possesses the same rights as mentioned above.

Note: *This type of contract may also be known as Bond for Deed, Real Estate Contract, Installment Sale, Land Contract or Seller's Held Mortgage.*

Assumption

By "assumption", I mean to assume the existing loan on a property. This means the buyer will take over the seller's current loan, at the current financing rates. Even if the current mortgage rates are rather high, you might be able to enjoy the rate the seller was able to obtain years ago! There are conditions for this petition.

1. The loan must be assumable, not all loans are. (Many have "due on sale" clauses)
2. You must find a seller who has secured an assumable loan when they purchased.

Qualifying may be a stipulation the bank requires to assume the loan. In addition, upon assuming a loan, the bank might require a down payment to be made on the mortgage.

"The only thing that overcomes hard luck is hard work".
-Harry Golden, writer and publisher

Depending on the situation, the bank may also require the buyer to make any past-due mortgage payments.

Note: *Assumptions are very common on commercial mortgages, especially when pre-payment penalties are due if the mortgage is paid early.*

Subject-to

A subject-to agreement is similar to assuming a loan, just discussed. The difference is that the bank is not necessarily informed of the agreement. The loan responsibility is transferred to the new buyer "subject-to" the current financing agreement (terms and interest rate) that the first owner has in place. Do understand, the bank has rights that it can exercise. For example, if the bank discovers that the loan has been handed off to a new buyer, the bank can exercise the "due on sale" clause, which is in most loan documents. This means the balance of the seller's mortgage is due. This means someone needs to pay up on demand! So, either the seller or buyer would need to come up with the remainder of the loan or refinance the loan with the bank. Another potential problem for the seller is that if the buyer fails to make a mortgage payment or is late with payment, it will show up on their (the seller's) credit report. A 3rd party handling payments and distributions assures the seller things are happening as planned.

Lease Option

A lease option works just like a typical rental or lease agreement. The “option” portion of the agreement simply means the tenant has the option, or right, to buy the property by a specified date at a specified price (terms are agreed upon up front as well). When a lease option contract is put into effect, the seller is obligated to sell. The lessee (or buyer) is not obligated to buy; the contract only provides that they have the option to buy.

Amortization: A gradual reduction of the mortgage amount (including principal + interest) by way of monthly payments over a specified timeframe.

The loan amortizes as it is gradually paid off. When the loan has been fully paid, then loan has been fully-amortized.

With a lease option contract, the seller can usually charge rent higher than market and, sometimes, a portion of the monthly rent payment will go toward the down payment of the sale of the home. Another plus for the seller is that the buyer has to pay for the “option to buy”. This fee (an agreed upon percentage of the total sale of the home) is usually non-refundable and paid upon move-in. This is referred to as up front “consideration.”

With a lease option contract, the non-refundable option fee is almost always less than a traditional down payment required by a lender. If the buyer has a less than perfect credit score, this may be a great option for them. If the buyer has little capital to work with, leasing with an option to buy is also very attractive to them.

Lease Purchase

A lease purchase agreement is different from a lease option agreement, in that a lease purchase agreement obligates the tenant to purchase the home, according to the term of the lease. Keep in mind, a lease option is exactly that: an option. There is no obligation to buy.

As with the lease option agreement (see above), the same advantages apply for the seller and the buyer with a lease purchase agreement. A portion of the monthly payment to the seller will sometimes go toward the down payment on the house, depending on what was agreed upon. The down payment is typically lower than a traditional down payment required by a bank or lender.

Wrap-Around

This financing method works much like many of the other Seller Financing methods we’ve discussed in this chapter. The existing financing remains in place, meaning the buyer does not have to qualify for a traditional loan through a lender. What makes a Wrap-Around mortgage different is that the seller can sell the home for more than what is currently owed on it, by “wrapping a new mortgage around” the existing mortgage. Remember, the seller is going to act as the bank for the new buyer. It sounds very complicated, but it’s really easy to understand.

Here's a quick example:

Billy Bob bought his house in 1989, for \$100,000 (and put down \$20,000, a 20% down payment) at 7% interest, amortized over 30 years. The payments on the \$80,000 mortgage are \$532.24. After 20 years, Billy Bob decides to sell you his house for \$150,000 with no money down, at 8% interest, amortized over 20 years. Your payment would be \$1,254.60. You know that the rental rates in this area for this three bedroom/two bathroom home are \$1,800/month. Let's see how this works!

Selling Price:	\$150,000	Interest Rate: 8%	Term: 20 years
Amount of original mortgage:	\$ 80,000	Interest Rate: 7%	Term: 30 years <small>(10 years remaining)</small>

As you can see above, the agreed upon selling price is \$150,000 (this example assumes there is no down payment made). This is a 20 year term at an interest rate of 8% fully amortized. Looking at the table below, we can see that the buyer will pay the seller a monthly payment of \$1,254.60. With this money, the seller will pay the original monthly mortgage payment of \$532.24. For the next 10 years, the seller will profit \$722.36 per month. For the remainder of the new mortgage (10 years) after that, the seller will profit the full \$1,254.60 per month, because his mortgage will be paid off. Since the property was sold, not rented, all expenses are the responsibility of the buyer! Property taxes, insurance, maintenance, etc.

	Amount	Interest Rate	Term	Monthly Payment
Existing Mortgage	\$80,000	7%	30 years (10 years remaining)	\$532.24
New Mortgage	\$150,000	8%	20 years	\$1,254.60

Note: If you were to calculate the ROI for this investment (as seen in chapter 1), you will find that it is an infinite return!!

Profit Sharing (Equity Participation)

In profit sharing, the seller waits an agreed upon period of time for their equity in exchange for a percentage of the profit after the property has been sold by the buyer. This type of agreement can be structured in two different ways; with the involvement of the seller or with an investor. We will stick with seller financing for the moment, and will discuss Profit Sharing with an investor in Chapter 5.

Profit Sharing with the seller: If the seller does not want to owner finance the equity portion of the deal (and receive payments for all or a portion of the equity), this may be an option worth considering. The buyer can propose that the seller wait to receive the equity amount for a brief period, while the house is being fixed and sold for a profit. After the sale of the home, the seller will receive the full equity portion amount, as well as a previously-negotiated percentage of the profit from the sale.

Subordination of a Mortgage

The buyer arranges the subordination of an existing mortgage in the first position to a second position of a new mortgage. The purpose of this method is so that the seller can continue to receive monthly interest income payments and the buyer can cash out any equity that has accumulated through appreciation. The bank usually will not assume a second position on a mortgage, which is why it is important that the seller be willing to take and assume the second position.

In Summary

As you can see, there are *many* ways to creatively structure a real estate purchase. You may never use some of the strategies mentioned here but getting to understand them better, and knowing they are available to you, will help you decide what best fits your geographical area and business model. Knowing more than one way to creatively buy RE may be the “tie breaker” between you and your competition.

I know RE investors that have mastered only one of these strategies and become very wealthy in doing so. I know others that have mastered them all. This will really be up to you.

Write any questions you have below, and we will discuss them when we get together.

Notes and Questions:

Exercise 4.1

Think About It



1. How does a Lease/Option work?
2. How would you describe a Wrap-Around mortgage?
3. Assumptions and “Subject to” deals are common, how do they work?

Take Action!



Once you own a property, you will need to decide what to do with it; you will need an exit strategy. Thus far, which exit strategies are you most interested in? What are your reasons?

Chapter 5

Other Ways to Finance Your Deals

In this chapter, we will cover:

11. Assignment
12. Profit Sharing (with Investor)
13. Barter

In the previous chapter, we learned about avenues for financing through the seller. If you are just beginning and short on investment capital, there are other ways to make money and/or purchase real estate. By using the seller's money to help finance your deal, you save loads of money and avoid tying up your money, and lines of credit, that can be spent elsewhere. If you are not able to secure financing from the seller, there are additional ways to find money, as you will see.

Other Ways to Obtain Financing/Cash

Assignment of Contract (Commonly referred to as Wholesaling)

Once you find a property, you can place it under contract using your name and "and/or assigns". This means you have the ability to assign the contract to someone else. The offer you make to the seller should include a "free look" clause. This protects you in case an investor cannot be found in time. You do not want to be stuck in a contract you cannot transfer, but if you're buying right, this will never happen! This contract is a mutual agreement between you and the seller. It states that the seller cannot sell to someone else, and it gives you the right to purchase, or assign, the property. The contract will detail the terms of the sale. It will also include a target closing date. With intentions of assigning the property to an investor, you should avoid deals that propose closing too quickly in the beginning. Negotiate deals that you can have closing dates 20-30 days out. This will give you time to work out a deal with your investor (Cash buyer). You will then send this contract to the escrow/title agent to open escrow and draw up escrow instructions. They will be the one that ensures all parties are performing according to the contract.



When you have found an investor (cash buyer) interested in the property, you will offer them the right-to-purchase and assign it to them. This contract is known as an Assignment of Contract. When you have determined the assignment fee (your profit), you can draft the Assignment of Contract. The investor will review and sign the Assignment of Contract with full knowledge of the amount you will profit on the transfer of the property. After the investor signs the Assignment of Contract, you will collect the non-refundable assignment fee from the investor. You will collect the entire amount up front, otherwise you may not get it. Before assigning the contract, you will verify that your investor has the cash to close, because you want to be sure he can honor your contract terms with the seller.

Next, you will send a copy of the Assignment of Contract to the closing agent, so they are aware of the replacement buyer. The investor (new buyer) will show up at the closing and sign all closing documents, and wire to escrow the funds to close on the original purchase contract you negotiated. All funds are distributed to seller, and others, by the closing agent, ***but you've already been paid!***

Assignment contract fees can vary. It's common for an assigning investor (you) to charge a \$5,000-\$8,000 assignment fee. However, assignment fee trends can vary across the country. For instance, in southern CA it's common to assign a property for \$20,000, or more. As long as you have left the "lions share" of the profit for the investor who is going to flip the house, he will always want another one from you. This you can depend on!

Profit-Sharing (Investors)

As mentioned in Chapter 4, profit-sharing means that the seller waits a predetermined period of time for their equity in exchange for a percentage of the profit when the property has sold. There are a couple of ways that this can be accomplished, both with the assistance of the seller or with an investor.

In chapter 4, we discussed profit sharing with the seller. Now, we will introduce you to profit sharing with an investor. If the seller is unwilling to wait for the resale of a property to receive their equity, the buyer (that's you) can locate an investor to pay the seller their equity at the time of closing. Instead of the seller enjoying a percentage of the profit, as discussed above, the investor will benefit when it sells. The investor will receive their original investment when you sell it and will share in a previously negotiated percentage of the profit from the sale.

"Note" - A Legal document obligating the buyer to repay a loan at a specified interest rate, over a specified time frame. A note will contain the T.I.P.B.A.A. = Term, Interest Rate, Payment Amount, Balloon Date (if any), Amount of note and Amortization period.

Transferring Other Notes or Debts Owed

When you encounter a property requiring a down payment that you don't currently have, you can pledge a note, or debt, that is already owed to you from a third party. For example, you may have sold a property and allowed that buyer to make monthly payments to you for the equity owed. Perhaps the agreement required the buyer to pay you \$300/month over a period of 5 years. You could pledge the note to the seller as a means of covering the down payment.

Barter

As with transferring notes or debts owed, you can make down payments by means other than cash. You can exchange services or products for down payments. For example, you may work in landscaping. You could, in place of a cash down payment, provide landscaping services equal to an agreed upon cash amount for a down payment. Don't think this is silly, it's been done before.





Another option is to barter tangible assets. For instance, maybe you have a vehicle, motor-home, time share, or vacation home to offer in place of a down payment. Anything of value can sometimes be substituted for a down payment on a property. Keep in mind, many things are negotiable. By asking questions and getting the sellers needs understood, you'd be amazed at what can be worked out. As long as you can reach a mutual agreement with the seller, both parties can benefit. So, don't be afraid to get creative! You won't know if you don't ask.

In Summary

As you can see here, the options that are available to you for the purchasing and financing of real estate are as endless as your imagination. The idea here is to get your creative juices flowing, and to open your mind to the many possibilities that you might use to get your first deal. You have something of value to any seller. You just need to determine what they are looking for, what is their motivation to sell, and you can help them solve their problem. Never assume all sellers are the same. Write down any questions you may have, while they are still fresh on your mind. We can cover them together.

Notes and Questions:

Exercise 5.1

Think About It



4. When assigning a property to an investor, why is it advisable to choose properties that can allow for a longer closing?
5. How is Profit-Sharing with investors different from Profit-Sharing with the owner (as discussed in Chapter 4)?

Take Action!



What assets or services can you offer in exchange for a down payment? Write about it!
Here are a few ideas to get you started:

Services-

Vehicles-

Vacation Timeshare-

Chapter 6

Location! Location! Location!

In this chapter, we will cover:

14. Knowing Your City

15. Deciding Where to Invest
 - a. Population growth, job growth

16. The “Comps”

17. Does Appearance Matter?

Know Your City

It is very important that you know your community and surrounding areas well, over time. You must consider each of the following when shopping around for properties:



Presence is Peace of Mind

There are many advantages to investing in properties close to home. For one, the convenience in managing a rental or rehab project personally is huge. In the beginning, presence is everything! It is usually advisable to invest in your own backyard, because you will be able to personally observe and inspect the property before you buy. Some investors bid on a properties sight unseen. Even with the help of an appraiser, nothing can enhance your ultimate appreciation for a property like personal observation. If you decide to purchase a property and keep it as a long-term investment, you assume the responsibility for its maintenance. You have choices; you can pay a company to manage it for you, or you can manage it yourself. I recommend you assume this task in the beginning, because the experience is invaluable. I have learned much from my experience in managing my own rental properties. If you invest in a property remote to you, you will have no choice but to entrust its management to someone else.

A big advantage to investing in the same area, in which you live and work, is that your research is your experience. You have a good idea what you are going to find in different parts of your community.

For the seasoned investor, buying non-local properties can be a good option. However, to be successful in that location, you must have professionals you trust (power team) in that area to be your eyes and ears. A reputable property management company can serve as a priceless component to your investment. Exercise extreme caution in pursuing property deals that appear to be too good to be true, because they possibly are.

Deciding Where to Invest

As previously mentioned, a big part of success in real estate is that you must work hard to understand the market in which you are investing. There are many variables to consider when choosing an area in which to purchase property. The first thing to consider is your personal goals in acquiring property. Are you hoping for immediate income? Or are you pursuing a long-term investment that will provide income for retirement? Maybe you're interested in rehabbing a property to sell for a profit. Your search for real estate opportunities will be influenced by your personal motivation.

Short-Term Income (immediate)

Generally, a good way to generate immediate income from real estate is to locate motivated sellers, contract their properties and sell the right to purchase to other investors. This approach is called wholesaling. As discussed in Chapter 5, the income generated is the assignment fee. This can also be viewed as a finder's fee, meaning you are being paid for finding and negotiating the deal. This is a great strategy that has worked *very* well for me.

Another profitable way to generate income quickly is to buy a distressed home, rehab it, and sell it for a profit. This is also known as the Buy-Fix-Sell (BFS) strategy. You've likely heard it called "flipping".

The best way to locate these opportunities is to focus on areas that have many distressed properties. This can be in entry level areas. If you are not familiar with the part of your community that is considered entry level homes, you can contact a realtor, your local economic development council or someone who has a working knowledge of your city. Look for other ways to identify homes that are in entry level home areas in Chapter 8.

Long-Term Income

If you have determined that your strategy is to buy and hold properties for long-term benefit, you should focus your efforts in a more attractive and desirable neighborhood. This is considered moderate to middle income. This type of investment usually means investing in single-family homes. There is usually a plentiful inventory from which to choose. Deals are everywhere, you just have to find them. This type of investing is called Buy-Fix-Hold (BFH).

One of the most popular strategies for BFH is single family home (SFH) rentals. In most cases, you can charge rent at a higher amount than the mortgage payment and all expenses. If you don't know what the going rental rates are in the area, you can check with your Power Team or look at ads for rentals in the area. Sometimes rental rates can vary. Another way to find rental rates is through one of the many online sources, such as Rentauthor.com or Rentometer.com.

Population Growth/Job Growth

People tend to want to live in areas where there are jobs. As investors, we need to remember this as we search for properties. The best way to know about the population and job growth in a particular area is to contact the Economic Development Council (EDC). There are other ways, however. Certain websites can provide the same information. For instance, Customscoop.com will take your buying criteria and research what kinds of jobs are in the area, as well as the employment rate. They will even provide information on new industries in the area, if applicable.

The Comps

Assessing comparables, otherwise known as “comps”, is one of the most valuable ways to learn about your area and determine the value of properties in that area. You will want to practice at this and get good at it! A list of comps will detail recent home sales in your area. A solid guideline is to evaluate only properties that have sold within the past few months, when possible. When evaluating the comps, examine the most recent transactions. This will provide the most beneficial information about homes currently selling in the area. Having a Realtor or Appraiser on your Power Team in the beginning to help you with this is priceless.

Comps also provide information about each specific property, including list price, sale price, days-on-the-market, square footage, lot size, year built, number of bedrooms and bathrooms, etc. There are usually multiple pictures to view and finance information about the property, such as its lien holder, and major repairs needed. A further discussion about comparables is included in chapter 8.

Does Appearance Matter?

Appearance can be a significant factor when buying a property. Although, outer appearance may not be as important as structurally soundness, the property’s appearance can reveal critical information about the structural quality of the building.

Once you have obtained a list of recent comps in your target area, evaluate the most recently sold property on the list to gather information about the property. What is the external appearance? Does it need to be painted? Is the landscaping shabby or overgrown? Does the roof appear to be in good shape, or is it weather-beaten and worn? How do neighboring homes appear? Would you want to live there? All these issues, and more, contribute to the sale price of a property.

Chapter 7

Finding Great Deals!

In this chapter, we will cover:

18. Direct Contact
 - a. Drive-by
 - b. Boarded-Up? Must Be Vacant!
 - c. By-Chance Opportunities
 - d. Referrals

19. Code Enforcement

20. Check the Ads
 - a. Newspapers
 - b. Online Subscription

21. Market Yourself!
 - a. Fliers
 - b. Business Cards
 - c. Post Cards
 - d. Car Signs
 - e. Bandit Signs
 - f. Website
 - g. Radio
 - h. Billboard

22. Property Management

23. Auction: Going once, going twice... SOLD!

24. Check in With Your Power Team
 - a. Real Estate Agent
 - b. Title Company
 - c. Appraiser
 - d. Attorney
 - e. Hard Money Lender
 - f. Bail Bondsmen

25. Senior Services

How do I find the best deals?

There are great deals out there, if you are willing to look! You've got to think outside the box. After all, these fantastic deals probably won't just walk themselves into your life! So, where should you start? It's best to evaluate the resources you have closest to you and branch out from there.



Wherever you start, you must do so with assurance. Not only are you an investor, you are providing a service. When you interact with others, be professional and polite. To be professional, you must know your stuff, so be sure you are doing your assigned reading! Be courteous: these people do not have to talk to you. Address people with respect and always thank them, even if things don't go as you'd hoped. You must conduct business with integrity, have a highly professional, but friendly, demeanor about you and be confident.

Direct Contact

Drive-By

Order professional-appearing business cards with your information. If you are driving through a neighborhood and you spot what appears to be the homeowner rehabbing their home, pull over! Start the conversation. Are they rehabbing the home to sell? Leave them your business card. When it is obvious that work is being done to a property, leave your card, even if someone is not there at that moment. If you are interested in further discussion, leave a note that states something like, "I noticed the lovely job you're doing on your property. I was wondering if you are interested in selling it to me. Please contact me with more information". Keep a stack of these cards in your car, and a few in your wallet. Be prepared for a potential deal to present itself anytime, anywhere.



Do not disregard front yard signs that state, FOR SALE BY OWNER. These property owners are usually not utilizing realtors, and they are trying to sell their home themselves. This can be a very daunting task if you are not familiar with marketing and selling a home. If appropriate, stop and introduce yourself. The seller may be very motivated! If you feel that your safety may be compromised in any way, you can at least leave your business card. Attach to it a note explaining your intentions. You can leave your card on their front door or garage.

Boarded-Up? Must Be Vacant!

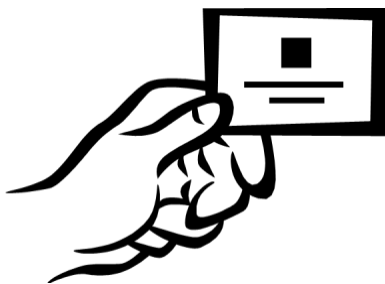
We have all seen that one house that sticks out amongst the crowd... for the wrong reasons. Its front yard may be completely overgrown and full of weeds. Maybe there are a stack of newspapers in the drive and endless coupons stuck to the front door. Vacancy! Pay attention to these. You never know what the story is (and every vacant home has a story!). Leave your card, of course. Perhaps the owner stops by now and then. Another way to obtain information about a vacant property is to contact the County Assessors Office. The Recorder of Deeds can provide the name of the property owner. The County Tax Office will provide the address used for tax-related correspondence.



By-Chance Opportunities

Continuing with the face-to-face contact approach, I want to restate how valuable it is to be on your toes at all times. We can experience potential property deals daily, we just have to recognize the signs. You may be picking up some potting soil at the tree nursery, or maybe a socket wrench at the local hardware store, when someone strikes up a conversation that begins taking a turn to the selling of their home. For some reason, people enjoy talking about their projects they are working on at stores like these. They might mention setbacks, such as a rehab project that has taken a turn for the worse. These are perfect times to give them your business card. Be prepared for a potential property deal anytime!

Referrals



Anyone you have contact with can provide referrals. This is the reason you always keep business cards with you. To encourage referrals, you can offer cash to those who refer good deals to you. The amount is up to you. But remember, their referral work has brought you a profit, so they should be well rewarded. Depending on the deal, \$100 or more is usually appreciated, *and may yield more referrals*. I've paid \$500 for a good deal referred to me!

So, who should you be talking to? For starters, friends and family. Others include local delivery personnel like your pizza delivery person, mail carrier and newspaper deliverer. Another avenue to explore are people who work on or around properties, such as landscapers, contractors, handymen, pool service personnel and lawn care professionals. These individuals are in a very good position to know about available properties. They just might know about that vacant house down the street! This is only a small list of possible referral sources.

Code Enforcement

Code enforcement officials identify properties in their community that are not up to code, are vacant or have been condemned. Many areas maintain websites that provide information on such properties. If there is not a website, you can call the community offices for information. Another option is to pay a visit to the Code Enforcement office. As far as how much information is made available, each city's protocol varies. Sometimes obtaining information about a property is simple and straight forward and other times it may be difficult. Be patient, but persistent!



Boarded-up, vacant houses are unsightly and problematic to community officials and neighbors. For one thing, these properties start to become hazards; especially when there are curious children nearby. As time goes by, the condition of even the nicest home tends to deteriorate. When an older house has been abandoned it is possible that the structure is not in sound condition. This can pose a threat to those who live nearby. These properties run the risk of collapse, gas leakage, incur water breaks and more. In most cases, the owner will assume the expense of demolishing a property when it has been condemned. Sometimes, the cost of demolition is not an expense the owner can afford. This definitely qualifies them as a motivated seller.

Check the Ads!



Newspapers

A major information resource is the newspaper. People interested in selling their homes oftentimes utilize the newspaper, or online equivalent! They are aware that investors seek out potential property deals through the newspaper. Sellers tend to compare their homes with other homes by checking these ads. Either way, they're going to see your ad in bold print:

WE BUY HOMES
Any condition. Any circumstance.

Note: *The use of newspaper ads varies nowadays, depending on where you are in the country. Check the Sunday paper in your town and see if ads are still run there. The move to online resources has become the norm in many areas.*

Internet-Based Services

Internet-based ad services, such as Backpage or Craigslist and local online newspapers are very useful resources as well. A main reason for their popularity is the color pictures that frequently accompany the advertisement, something lacking in newspapers ads.



While browsing through the newspaper and online subscription ads, don't forget to check rentals. After you have been in the real estate market a while, you quickly identify "re-run" advertisements. These are ads that seem to run over and over again. For whatever reason, some owners cannot keep tenants in their rentals. This may be a prime opportunity to respond to one of these ads. "Hi, I've noticed your property over on Elm Drive is up for rent again. It must be frustrating and expensive for you, having to get it ready to rent every couple of months. I am interested in buying it from you."

If you choose to go this route, be prepared to be diligent in your search, you must check the advertisement columns (paper and online ads) daily. You are not the only one searching for great deals. Check the online subscriptions the evening before. Some of the advertising sources make the following day's edition available the evening before.

Market Yourself!

We've already covered placing and checking the newspaper and internet-based classifieds, as well as handing out personal business cards where potential deals are found. Now you must use other means of marketing yourself.

There are many ways of marketing your services. They can be as inexpensive or expensive as you would like them to be. The world of marketing can be at your disposal.

Flyers

Print fliers on your home computer. Include your name, telephone number and service provided on the fliers. You can use the fliers for Saturday morning door hangers or handouts at sporting events, grocery stores, malls or schools. The possibilities are endless.

Business Cards

As mentioned, countless times, business cards are an invaluable tool and relatively inexpensive way to market your service. You can leave a business card on the front door of a vacant home, hang it up on announcement boards at the bus stop or thumb tack it in the break room at work or a local college, to mention a few.

Post Cards

There are many companies that offer full-color post cards, including your business information, logo (if applicable) and even a photo of you! The cost depends on the size of post card, the sheen, and paper quality. You can use these post cards in different ways. You can mail them to investors, marketing properties you want to sell. Or, you can mail them to potential sellers, indicating you are an interested buyer.



Car Signs

As you drive around town, you may have noticed cars with advertisement signs. The signs can attach magnetically or be attached with adhesive. You may have also seen an entire car wrapped in an advertisement. These are all great ways to market your business.

In the beginning I offered incentives to friends and family members who were willing to sport my magnetic signs on their vehicles. This turned out to be a great marketing tool, I received several calls from the signs. I was somewhat surprised at how successful this idea was, though. I had some friends visiting from out of town and on Sunday they accompanied my family and I to church. When we pulled into the parking lot, they were awestruck to see several cars with my signs on the sides of them. It astonished them to see how a small idea really blossomed! I had an idea and I made it work for me, and them! I offered an incentive strong enough to encourage people to want to participate in my advertising campaign. Get creative.

Bandit Signs

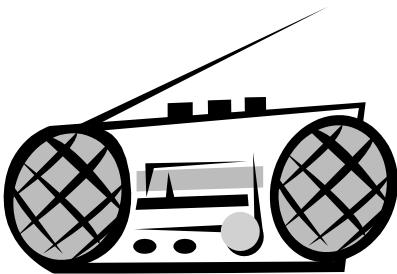
If you have ever been stopped on an on-ramp to the freeway, you may have seen small advertisement signs stuck in the ground, or up on a pole. These are called bandit signs. These signs are designed and placed to be attention-grabbers. They may be smaller, but they should have bold, eye-catching lettering. There should not be too much information to read though, because people will be attempting to read them while moving. Bandit signs are usually placed on freeway on ramps and off-ramps, but they are not restricted to freeways. They can be successfully used on side streets, near stop signs/lights, anywhere they will get seen by many.

As mentioned above, bandit signs should not be overly wordy. Although drivers should be focused on driving safely, when they stop, they may have a minute, to jot down information. This is a great way of getting your contact information out there. This can also be an opportunity to plug a website you may have. If your website is catchy, enticing and not too long, people may write it down and may even be able to remember it.

Note: *Bandit sign laws vary, so please check your local city ordinances before you place bandit signs.*

Website

If you are computer savvy, building your own website may be the way to go for you. The cost of building a website can vary greatly. There are web hosting companies that can provide a “do-it-yourself” website kit. The kits can be free or cost up to \$500. You can also opt to have a custom website designed for you. This option is more costly; at the time of this writing, possibly \$1,000-\$5,000 or more, depending on functionality and design detail. Should you decide to market and conduct the majority of your services online, investing in an attractive, well-functioning website may prove highly rewarding. If you are a novice or wish to use your website for information purposes only, choosing a website less costly may be a better choice.



Radio Advertisement Spot

Radio advertising can be expensive. Radio marketing is usually utilized by investors who have a sizeable portfolio. Seasoned investors have funding allocated specifically for marketing.

If you can fit radio advertising in your budget, you will see that it can be very effective. Thousands of people listen to the radio during daily commutes to work, school, church and leisure activities. This is a great way to reach many people in a brief amount of time.

Billboard

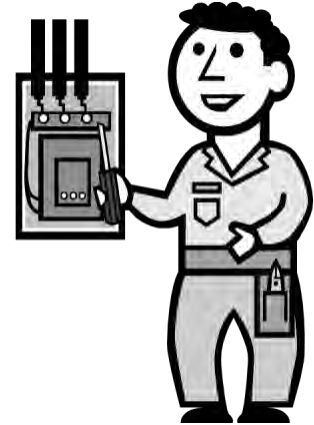
Billboards are highly effective in the world of marketing. They exist in nearly every city across America. Although billboards are all large in comparison to bandit signs, they do range in size. The billboard signs you see along the freeway are usually around the same size. You can also find enormous billboards the size of entire building walls! The location of a billboard is very important. The more people that drive past it daily, the more expensive it will be. A billboard

strategically placed along a busy freeway will be more costly than one on an isolated country road. The cost of a billboard can cost from \$1,000 a month on up, depending on its placement. But if you were to get just one property that you were able to wholesale for \$10,000.00 assignment fee, that would be a great ROI!

Property Management

A property management company can manage your rental properties for you. They can screen potential tenants, collect rents and late charges, oversee repairs when needed, and general upkeep of the property.

A good property manager may possibly know as much or more about the property than the actual owner. This person will certainly know if the owner is experiencing frustration with tenant turn-over and repair costs. It's possible that the owner has not even considered selling the property (They've just become accustomed to the frustration). But, maybe no one has ever offered!



So, where are these property managers to be found you? Start with referrals from other investors. Usually a referral will have been time tested by another investor. This will take the guess work out. You will also meet them at your local Real Estate Investment Association (REIA) meeting. Another place to check is the online classified services, such as Craigslist or Backpage. Many local newspapers also provide an online service as well. Using the internet to find online directories for the property management companies in your desired investment area is a great idea too.

Note: *Anyone you speak to can be a future contact, so always have your “networking hat” on!*



Congratulations
! You are the
new owner of

Going once, going twice... SOLD!

Another option for locating possible deals is to check local home and land auctions. Typically, these are homes that are undergoing foreclosure. It is possible to get great deals at auctions. The downside

to auctions is that there may be only limited information about the properties. You should obtain a title search on the property before you bid. A title search will reveal things such as second or third mortgages. Remember that when you are the successful bidder for a property, you are usually expected to have the full bid amount as cash in hand. Sometimes auction companies organize their financing differently. So, be sure to understand financing specifics before you participate in any auction bidding! The key to successful participation in auctioning is to know your limit. Do not let the excitement of the auctioneer and the crowds push you beyond your maximum offer.

In addition to locating potential deals, you can also use an auction to sell a property you own. Investors are there to buy. Auctions are a great place to meet other investors, network and market your properties. Use your business cards. Casual conversations can result in great property investment opportunities.

Check In With Your Power Team

Next, you will be reaching out to your Power Team. It is possible that someone from your Power Team has had the same property just sitting on their desk for a time, or maybe the seller is highly motivated and ready to deal. It's important to stay in contact with the members of your team. They can provide valuable leads! In the beginning, don't worry if you are operating without a full Power Team. This is a process. You're likely to fill those spots as you start finding great deals on property, and networking with other investors.



Real Estate Agent

It is highly advisable to have a strong working relationship with at least one realtor, likely several! The biggest reason is that realtors have full access to the MLS (Multiple Listing Service). Your realtor can tell you which houses are available. Good potential investment



properties are those that have been idle for 45 days past whatever is the typical time on the market. The MLS can also filter homes for sale specific to location, price, condition and size. Checking with your realtor contacts often, you will soon realize a pattern, and you can find huge pockets of vacant homes. These areas can be investor hot spots.

The owners of these homes understand that many of the neighborhood homes are not selling for their asking prices. When a cluster of homes have been sitting on the market for an extended period, the average buyer may continue to pass them up. The average buyer doesn't think and act as an investor though, but you do!

Escrow/Title Company

The final step in buying houses is closing the deal. Both buyer and seller typically go to the closing agent's office at different times to close the deal. Every so often, the buyer backs out of the deal. This can happen for various reasons. Whatever those reasons may be, the seller is left frustrated, especially if they really needed this deal to go through. So, if you are in contact with your closing agent, they can alert you if a circumstance like this ever comes up. This inside scoop may get you a deal! This is a relationship business.



Appraiser

An appraiser's job is to determine the value of a property. People hire appraisers for various reasons, but their core business is from people trying to buy and sell houses. Almost always, a buyer requests an appraisal for a property from the seller. It is common for the seller's asking price to exceed the appraised value of the home. When this happens, the buyer and seller can reach common ground on the asking price through negotiation. Either the seller will lower the price, or the buyer might secure financing arrangements from other sources.



For numerous reasons however, negotiation isn't always possible, therefore the deal falls through. As with the example above, the seller is left frustrated. If the appraiser was one of your contacts, they could refer the seller to you, or vice versa.

Attorney

People utilize lawyers for many reasons, including divorce or bankruptcy. In both instances, the parties involved, risk losing their assets through this process. Attorneys can provide leads to potential real estate investments. An attorney's client might be willing to sell a home at a discount for cash and a speedy closing date. In most cases, this is a far better route for individuals engaged in legal issues, than losing a home to bankruptcy (and getting \$0 in the process) or battling it out in divorce court, possibly losing it to foreclosure anyway.



Another reason people seek attorneys is to assist in settling estates and debts of those who have passed away. This is known as probate. When there is a Living Trust, it is clear how the deceased wanted their assets dispersed. It can also direct how to pay off existing debts. When there is no Living Trust, things are not so clear. When the deceased person's

home is not paid off, it is often a debt that the family members aren't able to financially assume. Attorneys need to know investors with cash that they can refer these families to for selling their properties, often at great prices.

Retirement/Nursing Facility

Many elderly people move into retirement villages or nursing facilities. When they are moving into a retirement village, they will either be buying their living space or renting it. Their old mortgages are probably not something they want to continue. Make an appointment with the director of sales at the retirement village and the director of marketing at the nursing facility. Advertise how you may be able to help their residents dispose of their previous residences.



Hard Money Lender

Hard money and private lenders make loans, just like a bank. They are sometimes forced to foreclose on borrowers who do not meet their payment obligations, just like banks do. When this happens, the hard money lender and private lender may be stuck with a property they would like to sell. As investors, they want to realize profits, not collect properties. A great place to network with hard money lenders and private lenders is at your local Real Estate

Exercise 7.1

Think About It



9. List at least three people in your life that may be able to refer potential investment deals to you. They may or may not be people you know personally.

10. Several advertisement strategies were discussed in Chapter 7. Which advertising route will you begin with and why?

Take Action!



Question #2 refers to your first advertising strategy. Investigate the pricing for whichever strategy you chose.

Chapter 8

Calculating the Numbers

In this chapter, we will cover:

26. Are You Interested?
27. What's Your Motivation?
28. Understanding Key Concepts
 - a. After Repair Value (ARV)
 - b. Repair Cost Estimate (RCE)
 - c. Investor Percentage Profit Gross (IP%)
 - d. Assignment Fee
 - e. Maximum Allowable Offer (MAO)
29. Running the Numbers
 - a. What's the Story?
 - b. What is the Repair Cost Estimate (RCE)?
 - c. What is the After Repair Value (ARV)?
 - Comps, Depreciation, Square Footage, Number of Bedrooms, Property Age, Distance, Property Extras
 - d. Low, Moderate or Middle-Upper Income?
 - e. Investor Profit Percentage (IP%)
 - f. Assignment Fee
 - g. Maximum Allowable Offer (MAO)
30. Running the Numbers EXAMPLES

Are You Interested?

By now, you should realize that property investing is not necessarily difficult, but it is involved. In locating opportunities, there are so many variables to consider. We may be drawn to a property based on its outward appearance. Never mind that the inside is trashed, never mind that the loan is upside-down (the house is worth less than what is owed on it). Or maybe we fail to notice the potential in that little house that seems particularly drab. By ignoring its potential, we may miss out on a possible gem in the rough. Maybe the rehab cost is only a fraction of what the house will be worth after all is done.



The point is, as an investor, it is important to carefully consider the ups and downs of every property presented to you. If the property looks good, make sure you know exactly why it looks good. Is it just the appearance? Will the end result cash flow be just as attractive? And as far as the seemingly junky house on the corner, you must determine what exactly is “junky” about it. It may just need a new coat of paint, trim and landscaping. Or, maybe the entire foundation is literally junk, which is an entirely different story. To be successful, you must carefully evaluate every property that you consider.

What’s Your Motivation?

You have probably heard the phrase, “highly motivated seller”. In case you still aren’t sure what that means, I’ll explain. A highly motivated seller is someone who is willing to negotiate with you. For some reason or another, it is in their best interest to work out a deal that may be less than their asking price, so they are willing to sell a property at a discounted price. This does not mean that it is a great deal for you, just that it deserves a closer look. As an example, the seller could be facing foreclosure, or maybe is needing to relocate out-of-state and does not want to leave the home vacant. Another possibility is that the property has been on the market for an extended period of time without any offers. Maybe it’s in bad shape, and they don’t have the ability, money or know how to prepare it for a retail sale. The scenarios are endless. At some point sellers simply want to sell, they want to be freed from the financial responsibility as soon as possible. They become a “highly motivated seller”, as we call it.



Running the Numbers

Not every deal is the same. There are factors that will need to be considered before you make an offer on a property. Before you offer the Maximum Allowable Offer (MAO), you have some number-crunching to do.

What's the Story?

Every property has a story to tell. It is important to get the whole story up front. For example, what kind of neighborhood surrounds the property? Know the area you are considering. In an area with many vacant properties, check-cashing businesses, low-budget motels and used car lots, all can be indicators of a low-income area. Perhaps the neighborhood has a number of full-service restaurants, dry cleaners and a mall. This area is likely to be middle-income. A high-income area may have car dealerships, like Mercedes and Audi, homes in gated communities and golf courses. This is just an example of one part of the story of a home, it's location.

What is the After-Repair Value (ARV)?

The After-Repair Value (ARV) is the fair market value of the property after the rehab is completed. This is determined by comparing the property after completed rehabilitation with comparable properties (comps) in the area. When comparing properties in the area, there are a few things to consider.

Check the Comps!

The first thing you will look for, when comparing, are homes that have recently been sold. It doesn't make much sense to compare your prospect with a home that was sold in the too distant past. Factoring in shifts in the economy, the present value may differ greatly to what it was years, or even too many months ago. If you can help it, stick with current sales. Keeping this in mind, you should compare homes that have been sold within the past three months. If the property is in an area where there have been no recent home sales, you

Depreciation- the reduction in the value of the home, due to damage, age or obsolesce (is outdated).

To check current depreciation in your area, refer to www.fhfa.gov. This is a reliable web site maintained by the Federal Housing Finance Agency (FHFA).

If a particular locale is not listed in the FHFA website, you can use the closest significant locale. If you worry that these areas may not be comparable, check with the local real estate agents in the area. They can tell you whether home prices are rising or falling. Consult your Power Team!

UNDERSTANDING KEY CONCEPTS

After Repair Value (ARV): This is what you can expect to sell the property for once it's fixed up, according to the comps that are already in that condition **and** have sold.

Repair Cost Estimate (RCE): Estimated to cost to fix up the property.

Assignment Fee: Your fee for assigning your deal to another investor.

Maximum Allowable Offer (MAO): The most you can pay for a property without sacrificing your minimum profit.

may have to look back a year or more at comps. So, you must adjust for depreciation. Following, is an example of a comparison between a prospective purchase and a property that sold two years before.

Depreciation

Depreciation was first mentioned in Chapter One. I explained that over time, all structures will eventually depreciate even when they are properly managed, well-maintained and attractive.

In this Chapter, you should consider depreciation in a different perspective. As previously mentioned, on occasion, you may have to compare a prospective investment to a home sold a couple years ago. Although this is not the best way to compare properties, sometimes, you may be forced to do so. So, you must know how to calculate depreciation. Consider the following example:

Depreciation Example: Let us assume the home you wish to consider a comparable sold two years ago for \$250,000. Assuming a market depreciation of 6% last year (year 2), and 5% the prior year (year 1), we can calculate what that home's value is in today's market.

By considering depreciation percentages for the last two years, you can fairly accurately compute the changing value of the home. You can now consider this a usable comparable. In the current market, this home would be worth about \$223,250. **NOTE:** The same would be done for Appreciation, if that were the case. The market conditions decide what to do here. We can cover this in depth when we get together.

Square Footage

The second thing to look at when considering the comps is the square footage. Your comps must be relatively equivalent in square footage. Slightly larger and slightly smaller properties can provide a decent comparison. Try to stay within 10% to either side of your property's square footage. For example, if the square footage of your prospective purchase is 1,800 sq ft, you might compare it with a home as small as 1,620 sq ft, or as large as 1,980 sq ft. The size difference is okay, provided the same number of bedrooms is



Let's break it down!

	Value
Year 1: ($\$250,000 \times 5\% = \$12,500$)	
	$\$250,000 - \$12,500 = \underline{\$237,500}$
Year 2: ($\$237,500 \times 6\% = \$14,250$)	
	$\$237,500 - \$14,250 = \underline{\underline{\$223,250}}$

comparable. You just make adjustments to get your value.

Number of Bedrooms

Consider the number of bedrooms when searching for comps. The number of bedrooms should be consistent. When looking to buy a one bedroom home, it does not make sense to compare to a three-bedroom home. You must compare room to room. You would make adjustments to get the proper value. Having an appraiser that you can call to help you, until you get good at this, will be priceless.

Property Age

The age of a property is an important consideration when considering properties. Try to stick to properties that are about five years older and five years newer than your prospect property (never extend beyond 10 years in either direction, unless you have no choice). Remaining within these parameters will help to ensure similar style trends in technology and construction.

Distance

Since homes can vary greatly from one neighborhood to another, it is important to try to stay within a one mile radius of your prospective property, if at all possible. Although it is sometimes tempting to try to compare to properties further away, you may not achieve valid comps. Crossing a major freeway, a river or a set of railroad tracks can greatly change what you are comparing to. Neighborhoods differ greatly so, to be safe, use comps that are closer!



Property Extras

A final thing to consider when calculating the after repair value (ARV) is to compare homes that have the same details or extras. The style of the home is important. For example, you would not want to compare a ranch-style home with a condo. A second detail is the lot size.



This is the total amount of land belonging to the home. Returning to the previous example, lot size definitely matters. Obviously, a condo (even if it includes a yard) will likely not have the same lot size as a ranch-style home. If a property has 1 full acre, and another has a $\frac{1}{4}$ acre, you would have to adjust to get the true value of the smaller lot size property.

Low, Moderate or Middle-Upper Income?

The next few sections require you to know the income-level in which a prospective property resides. To determine what level of income the property is located, you must begin with the national median home price. At the time of this writing, the US national median home price is \$174,100. If a prospective property is 70% or less than the median home price, the property is in a low-income area. If a property is 70-110% of the national median home price, it is located in a moderate-income area. If the property is more than 110% of the national median home price, the property is in either a middle or upper-income area. (**NOTE:** This is a guide only, an area may differ from the norm.)

Investor Profit Percentage (IP%)

The IP% accounts for all the costs the buyer will ultimately absorb. Holding costs, closing costs, utility costs, and realtor costs on the property. This percentage will vary, depending on the area in which the property is located.

The figures listed to the right can be used in any U.S. market. You will notice that there is not just a set percentage for each income level property, but rather a range. This is because a townhouse in New York City will *definitely* cost more than an equivalent townhouse in Phoenix. Depending on your market, make any necessary adjustments, within the given range.

What is the Repair Cost Estimate (RCE)?

When considering the cost to repair a property, you will need to acknowledge what kinds of repairs are needed and in what type of neighborhood the property is located. When considering a property that is in a low or moderate-income neighborhood, the RCE can be close to the same. When estimating the RCE for a property that

<u>How to Determine Income-Level</u>	
Lower Income	70% or less
Moderate Income	70%-110%
Middle-Upper Income	110%+
<p>Note: Check for the current national median home price. It can change frequently.</p>	

Small Rehab: paint, carpet, fixtures, etc.

Medium Rehab: a brand new kitchen or bathroom(s).

Large Rehab: large projects, such as roofing or siding, in addition to what is included in the small and medium rehabilitations.

Total Rehab: complete rehabilitation of the property. Water or fire damage is a good example.

	<u>IP%</u>
Lower Income	35%-50% below retail
Moderate Income	25%-40% below retail
Middle Income	20%-30% below retail
Upper Income	15%-30% below retail

is in a middle or upper-income area, the cost can be nearly doubled. Keep in mind, practically all properties require some level of rehab, even if it is just a coat of paint or clean-up, because you want it to look great to sell it. When considering a Repair Cost Estimate (RCE), you need to figure whether the work is just cosmetic, major foundation repairs or if it needs to be totally rehabbed. The type of neighborhood in which the property resides may sometimes decide repair costs as well. For example, in an expensive neighborhood, major rehab may be required, whereas it may not have been nearly as expensive had the property been located in a different neighborhood.

Assignment Fee

The assignment fee is the dollar value you assign to yourself. Depending on the area in which you purchase, fees usually vary. If the property is in a lower-income neighborhood, \$2,000-\$10,000 is common. If the property is in a middle-upper income area, the common fee is

<u>RCE for Low-Moderate Income</u>	
Small Rehab	\$5,000-\$15,000
Medium Rehab	\$15,000-\$50,000
Large Rehab	\$50,000-\$75,000
Total Rehab	\$75,000+

\$10,000-\$50,000. This will be decided by what type of a deal that you negotiated with the seller, and the profit to be made by your investor buyer. You will always need to leave the “Lions Share” of the profit for your investor, since they will be doing the heavy lifting on the deal.

Maximum Allowable Offer (MAO)

This is what buying properties the smart way is all about. It comes down to the amount of money you can afford to pay without sacrificing your pre-determined profit

amount. It’s all about the numbers, and if the numbers don’t fit your needs, rest assured, another deal will come about. Everything we have just discussed in this session will bring you to a purchase price you can be confident in. Now, let’s put it all together!

Example: Low Income Area

After Repair Value	\$48,000		
Investor Profit %	\$16,800	—————>	(35%)
Repair Cost Estimate	\$35,000	—————>	(Total Rehab)
Assignment Fee	\$3,000	—————>	(Lower %)
Maximum Allowable Offer	<u>(-\$6,800)</u>		



In the example of a home in a high-income area, first subtract 25% of the ARV as the IP%. In this home, damage was severe. It resulted in massive rehab. Based on our information, a total rehab for a home in this high-income area will cost about \$70,000. After calculating a \$10,000 assignment fee, the MAO for this home is \$313,750.

Example: Middle Income Area

After Repair Value	\$142,000		
Investor Profit %	\$35,500	—————>	(25%)
Repair Cost Estimate	\$11,000	—————>	(Foundation)
Assignment Fee	\$5,000	—————>	(Lower %)
Maximum Allowable Offer	<u>\$ 90,500</u>		

In calculating the MAO for this lower-income home, you first subtract \$16,800 (35%) from the ARV to cover the IP%. Because this home was nearly a total loss, you will need to spend \$35,000 in rehab. After you subtract an additional \$3,000 in assignment fees, you can see that when all things considered, the seller would actually owe you \$6,800 for buying their property. Regardless, you still might decide to offer the seller a nominal price, like \$1,000, and find a cash buyer that will settle for \$10k profit!



Example: High Income Area

After Repair Value	\$525,000		
Investor Profit %	\$131,250	—————>	(25%)
Repair Cost Estimate	\$70,000	—————>	(Total Rehab)
Assignment Fee	\$10,000	—————>	(Mid %)
Maximum Allowable Offer	<u>\$313,750</u>		



Considering the information, you can see that 25% of the ARV is subtracted for the IP%. Given the \$11,000 to repair the foundation of the home and your \$5,000 assignment fee, the MAO for this home is \$90,500.

In Summary

Don't worry about trying to memorize this all at once. Use this as a reference guide to refer to when necessary. What you will find is that, as you grow in your investing career, this will become second nature to you. You will run through evaluating properties using these formulas without even thinking about it. I have seen many new investors that were starting from the beginning become pros at reciting these formulas over a very short period. Take the time to write down any questions you may have, and we will cover them when we get together.

Notes and Questions:

Exercise 8.1

Think About It



11. What must be factored in when considering the After Repair Value (ARV)?

12. How could you calculate depreciation/appreciation when comparing a current property with a home that sold two years ago? Explain and/or show an example.

Take Action!



Run the numbers on the home of a family member/friend, or your own. Pretend that it is for sale and you are a potential buyer. Considering the ARV, RCE, IP%, Assignment fee, and accurate comparables, what might your Maximum Allowable Offer be? Feel free to provide your figures below or on the back of this page.