HOW TO INVEST IN REAL ESTATE

WITH NO MONEY DOWN

… and minimum risk!

By:
Milt Tanzer

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Appendix:

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Introduction

You've no doubt seen the "infomercials" or attended a seminar or bought a book or course on "How To Get Rich In Real Estate With No Money Down". Unfortunately, most of the "no money down" promoters have gotten rich by selling books, courses and tapes on how to do it. A few years ago, a "get rich quick" guru boldly stated, "Put me in a strange city with only $100 and I'll own a million dollars worth of real estate in one week or less".... and he probably was able to do it. Unfortunately we didn't see what happened to his investments after he owned them for a few months or year.

<u>You</u> CAN find investment properties that can be bought with no money down. There are lots of them out there, if you know where and how to look for them and how to negotiate the deal.

The real question is not "Can you buy property with no money down" but, "Can you **afford** to buy a property with no money down"? That's something many of the "no money down" promoters fail to tell you. It is, however, something you will learn here, and *must* learn before you try it.

I spent several years on the real estate investment seminar circuit. When the market became flooded with no money down seminars, they all dropped out. (By then, many of them had made a killing selling books, seminars and tapes). I also had a thirty-minute infomercial running on TV stations nationwide. I've been part of that program and I know how they operate. Now a new batch of investment gurus have enter the market, doing the same thing. My approach was different, however. I devoted my efforts and experience in showing investors how to become wealthy in real estate with the least amount of risk possible. The others have come and gone, but <u>Real Estate Investments And How To Make Them</u> has been highly successful since 1982, with several fully revised editions.

Don't get me wrong, there were some No Money Down promoters who did a fair job of getting you on the right track...but others were just in it for the money. You can make a lot of money by investing in real estate with limited cash. I say "limited" because, no matter what others say, you still need some money, even in a no money down purchase. I've learned the right way and about a quarter of a million readers of my book and investment course participants have either made a lot of money or at least know the right way to do it once they get started. You can even make a bundle by investing in real estate with no money down. **But you have to**

know how to avoid getting into financial trouble. That's what this book is all about.

Our Real Estate Investments and How to Make Them course and software program (www.investmentre.com) offers a complete beginning to end program that even professional real estate investors use as a guide. This No Money Down ebook contains full details on the subject that is not covered in the main book.

One final point: Buying a property with "no money down" generally is not easy. It takes work, perseverance and a thorough knowledge of what you are doing… and that is where we are going to start. This course furnishes you with the knowledge to get it right…the rest is up to you. The rewards make it all worthwhile. As you wade through this material you will no doubt be somewhat confused or overwhelmed with the information. Don't let that bother you. By the time you finish reading, the pieces will all fit together and you will understand how important each section is to your financial success in real estate investing. Once you discover the wealth of information here and how important it is, you will be able to use this book as a reference manual to get ideas you may need for a specific problem you run into when trying to purchase a property. What is important is that you stick with it from beginning to end so you are at least aware of the various factors and situations that result in a successful and profitable real estate investment portfolio.

So, if you are ready, turn the page and take a trip through the world of real estate investing when you have little or no money to invest.

Chapter One
The Importance of Attitude, Perseverance and Flexibility

Wouldn't it be great if you could just drive down the street of a high quality neighborhood, see a for sale by owner sign on the property and decide this is the house you want to buy. You knock on the door and discuss the property with the owner. The owner says, "Yep, I need to sell so I have it priced $25,000 below fair market value. In fact, I want out so badly, I'll even carry a mortgage with no money down". And this was the very first house you looked at.

OK, back to the real world. That will never happen…at least with the first home you look at or probably ever. Forget about what you may have heard from the promoters of "get rich quick and easily with no investment". In this e-book, we are going to discuss how you can and no doubt will get wealthy, but forget the "quick" and "easily" part of that last sentence. In the introduction I mentioned that you CAN buy properties with no money down. The question is, "Can you afford to buy a property with no money down"? As you progress through this program, you'll discover how the real professionals in the business do what you want to do. The difference between them and the no money down promoters, is they approach a potential acquisition knowing exactly what to expect, not just on the day of closing, but after they own it and are faced with 100 or 110 percent mortgages, operating expenses and no incoming coming in on the property.

To be successful in this type of real estate investing, you need to accept three basic personal philosophies:
Attitude, Perseverance and Flexibility. If you still believe you can, without much effort, locate, buy and sell a property at a profit, you will not doubt either make a huge financial mistake or get discouraged and drop the whole idea of investing in real estate.

Let's begin with Attitude. You'll need to accept the fact that, although you can locate and buy real estate with little or now cash down, it probably will not come easy. If you do find a large selections of "bargain" priced property in a certain area, you'd better check it out carefully. Find out what those sellers know that you don't know. More on this later. You need to have the attitude that "I spent the whole day…or week looking at properties and did not find one that meets the standards in this book". Your response must be, "That's alright, and I'll find one tomorrow or the next day. I'd rather wait until the right one comes along than make a mistake that could put me in deep financial trouble".

Let me digress a little and tell you about an investor I worked with a few years ago. It was a young couple and she was expecting their first child. He has inherited a few thousand dollars and decided to venture into a real estate investment. He wanted a rental apartment building. I feel partly responsible for what happened because in my "Real Estate Investments and How to Make Them" course I talk about making the maximum use of leverage by buying the largest property you can with the cash you have available. It is, however, tempered with how comfortable you are with a highly leveraged or financed property and in knowing what you are doing. (Exactly what you will learn here).

He fell in love with a 32-unit apartment complex that was over ninety percent leveraged. We prepared a property analysis, and it would make financial sense, even with that large of a mortgage. I had shown him smaller properties, eight to sixteen units in size, but he wanted the big one. I even mentioned that this particular property was not in the best area of town, but that didn't bother him either.

About a month after closing, he began to have financial trouble. I was on the phone with him daily trying to help him, but he was doing it his way. He had a couple of tenants who were throwing "pot" parties at night and disturbing the rest of the tenants in the building…and still he did nothing. I suggested he would be wise to hire a management company to run the property. It would cut into his income, but at least there would be some knowledgeable management there. Unfortunately, the management company he hired was even worse. All they did was collect a monthly management fee for doing virtually nothing but collecting rents and paying bills. Oh, they also talked him into spending more money to improve the property.

Unfortunately, they did nothing to solve the real problem…the undesirable tenants. It wasn't long before the decent tenants started moving out, leaving him with a huge monthly debt and not enough income to cover it. He finally ended up losing the property.

Back on our subject, this is the reason you need to accept the attitude that it is better to wait for the right property than it is to jump into one that will put you in financial difficulty.

This brings up the second of the three philosophies: *Perseverance:*

If you are not willing to wait and continue searching until the "right" property comes along, then do yourself a favor and wait until your rich uncle dies and leaves you enough money to make a reasonable down payment on an investment property.

Let me inject a thought here: In this book, we are concentrating on how to buy a real estate investment with little or no money down out of your pocket. Generally, this is the position many investors are in when they want to buy that *first* property. Once you have that first one up and running…and appreciating in value through fixing it up or flipping it, you now have some cash to work with on the second one. Each property you purchase after that first one becomes easier and easier, because you now have some cash equity to work with. In Chapter 24, we discuss the practice of "pyramiding" and how you can use that initial property investment and build it into a lifetime estate, without ever adding any money.

The important thing to realize that the first property you buy is the most difficult. Not only is it the one that is extremely highly financed, but also you are just beginning the investment process and may not be too sure of what you are doing or how to do it. That's what you will learn as you wade through this book.

So, don't be discouraged if it takes you a week or a month to locate that first property. You are better off continuing to look until you are comfortable with your selection than to try to get out of one you should not have purchased to begin with… Perseverance is the key to sound real estate investing. I'd hate to estimate how many investment property I usually show, even a professional investor, before he or she decides, "This is the one I want". They already know the rule of perseverance with the attitude, "The right one will come along sooner or later if I just keep looking. I may lose one or two during the search, but that's alright. Another better one may be just around the corner."

Perhaps I should qualify that last statement a little. I've worked with investors who were so hung up on the idea that "a better one will come along if I just wait" that they never invested at all…and that's an even bigger mistake than buying a property that may not be entirely perfect in their minds.

The final philosophy you need to accept is Flexibility. You may have an idea in your mind that you will look at only homes priced at under $100,000 but they have to be in a neighborhood where home are all priced at $150,000 or higher. Chances are good you'll never find one. Maybe you are hung up on a home, but the only thing that is available, in your price range and terms of purchase you require, is a condominium or town-home in a maintained community. If the numbers make sense, and you do your homework, it may be a good place to start your real estate investment program.

Important Point: Real estate investors buy "money making machines", nothing more and nothing less. I've had investors make the statement, "No, that's not acceptable. I wouldn't want to live there". Of course not, we're looking at a $100,000 house and they live in one valued at $250,000. You need to look at it from the perspective of a tenant. How does it compare with other, comparable apartments or homes in the area? Not everyone can afford a quarter of a million dollar home. But they still need a place to live that is affordable, clean and in a decent neighborhood. That's what you can offer. As you progress through this book, you will learn how to analyze the property, the neighborhood and the market.

Never lose sight of the fact that you are buying a money making machine. One good enough to attract tenants, whether it is a home, a store, a warehouse or whatever and will bring in enough income to make your investment grow and get you started toward creating a sizable financial estate for yourself. Later we'll discuss the fact that you are only going to keep this property for a certain length of time anyway.

You need flexibility to accept whatever type of investment property is available that meets you requirements at the time you are ready to buy. The worse mistake you can make is becoming discouraged or in flexible that you never buy anything.

So, now that you are convinced (you are convinced, aren't you?) that you need to get started in a real estate investment even though your cash is limited or non-existent and the property you'd really like to own is also non-existent, it's time to go property hunting.

Chapter Two
What to Look For in a Property

Throughout this book we will assume that you are trying to buy an investment real estate property with no money investment on your part (or very little, at best). Keep in mind that current market conditions and availability of product may effect you choices.

Single Family Homes: The most common type of "first" investment for most investors is a single-family house. There is generally considerably more of a selection and all areas and price ranges. So, what price range are you in? It's kind of a vicious circle…it's whatever is available at the time you are looking, and that makes financial sense. Single-family homes are the easiest to manage and understand. Chances are you own one now that you are living in, so you know what to expect as far a expenses, potential rents, etc.

We need to stop here, for a minute, and discuss income an expenses. In Chapter 7 we'll discuss how to analyze a property to insure it makes financial sense for you. You already know that, unless you intend to fix up a property (or not even bother fixing it up) and flip it or sell it, you need to create some income in order to offset the expenses. (Again, we'll cover this subject in detail later).

When looking at the property, you need to consider how much rent you could get, if you leased the home, and if it will be enough to cover the expenses and mortgage principal and interest payments.

Single-family homes are the best place to begin your search. You have several ways to do it:

1. Drive the neighborhoods that are of interest to you. Look for FSBOs (For Sale By Owner) signs. Look for signs of poor maintenance on the home and grounds. This is often a sign of an owner having some kind of problems. You may even contact the owner of an obviously run down home, even if there is no for sale sign on the property. He or she may be willing to sell.

Hint: Don't be afraid to talk with property owners. This is what stops many would be investors from buying. They just can't face talking to a stranger about selling their home. When you find someone who needs to sell, they will usually be more than happy to talk to anyone who may want to buy. Their first question to you will probably be, "Are you a real estate broker"? You'll win a lot of points by telling them you are not. You are not there looking for a listing. You are very interested in purchasing their home.

Help: We furnish you with a set of checklists with this program. You can print them out and use them to remind you what to look for when considering a property and what questions you need to ask the seller. You should always take these lists with you when looking at a property or talking to a seller. It also makes you look a little more professional and serious about buying a home.

2. The second possible source of homes for sale is the homes for sale section of the classified ads in your local newspaper. You'll need to call the seller and arrange to see the property. You can generally obtain an address and selling price over the phone. (Real estate brokers are taught NOT to give this information over the phone because a potential buyer can then drive by the home and, without seeing it on the inside, decide it is overpriced.)

The first question you will probably again be asked when you call is, "Are you a real estate broker"? They have no doubt already been bombarded by thirty brokers calling trying to get a listing.
Your goal, however, is to find out four things (all of which are covered in detail later)

A. What is the neighborhood like? It is in a good neighborhood?
B. What does the home look like? If it is in good condition, and comparable with other homes in the area, chances are you will not be able to make a deal with the seller. This should not stop you from trying, however. You know the price (the seller told you that when you called him). You've also done your homework, so you know what homes are selling for in the area. If there are some real estate broker signs on other properties, call them and try to get as much information as you can, especially price, terms, number of bedrooms etc. Use your checklist to cover the main items.
C. What are current market conditions? Are there a lot of homes on the market? If so, you may have a shot at this one, assuming the owner needs to sell.
D. Since you want to rent it, if you buy, how much rent can you expect to get. What are other rentals going for in the area? (It may be difficult finding a house being rented, but they are usually a few).

The more you know about these four areas of necessary information, the better equipped you will be to make a sound investment decision.

3. The Internet. There are a lot of individuals who will take out a web page through their ISP (Internet Service Provider) and list their home on that page. It not only gives them a wide exposure of potential buyers but also is more confidential than a sign on the property where every broker in town and every nosey neighbor is calling them. And, it's usually free. The Internet ad will also give you details on the property, a photo, and the owner's name and address.

You can search for homes on the Internet by typing key words in whatever search engine you use (MSN, Google, Yahoo, AOL, etc.). You'll need to narrow your search, however. If you just type in Homes for Sale, you'll no doubt get several hundred thousand possible websites. That's right, several hundred thousand. So, narrow your search down to a city and state. You'll still have more websites than you care to chase down. You will, however, run into some sites that specialize in listing FSBOs. When you reach their home page they will often allow you to pinpoint a city, state and even area within the city for your search. You can usually put is a price range as well. It's easy to stay at home and browse potential home listings and select only the ones that are of interest. Included with this course is a page of about 80 FSBO websites you can search for available properties.

4. Bulletin Boards: Quite often, local supermarkets have a bulletin board available to put your haves and wants. Put a little 3X5 card on the board stating that you are in the market to purchase a home in the area. Give the price range and your phone number. You may also add a line that says, "I'm a serious buyer, not a broker". I hate to pick on brokers this way (I've been one for thirty years), but sometimes we are our own worst enemies by driving sellers crazy trying to get listings.
5. Bank Foreclosures: Although we cover this subject later, it also fits in here. Contact local banks and request a list of residential property foreclosures they are holding. These are properties they have taken back, usually through mortgage payment default on the part of the homeowner. In Chapter 8, we'll cover how to negotiate with lenders. Sometimes you can get a great deal.

Point of Interest: Several times during this book I'll remind you to two very important points about banks and REO or real estate owned. Point number one: Banks, generally, do not want to own real estate. In fact, most major bank buildings (with their name is eight foot high lighted logos) do not own the buildings they are in. They are "signature tenants" who lease enough space from the building owner(s) and are important enough tenants that they get their name spread across the top of the building.
Anyway, banks usually do not want to own real estate. They make their money by lending it out at a higher rate of interest that they pay their depositors. Point number two: When they have to foreclose on a property, not only are they not collecting payments on that loan, but they are forced into managing an empty house, until it can be sold. Most banks are not in the property management business. This often makes them quite willing to negotiate with a potential buyer…sometimes for less than the amount of their mortgage.

Important Point: While we're at it, let me throw in one additional point about negotiating with the bank. This point will also be repeated when we talk about getting financing.
Don't be afraid to talk to the bank loan officer, or even the president. Most of us feel that bankers live in the big ivory tower and are unapproachable. While we dress in a sport shirt and slacks, bankers are dressed in dress suits, white shirts and ties and sit in a big, wood paneled office with furniture better than what we have in our homes. Don't let this bother you. Banks are a business just like any other business. They have a product or service to sell, money…and they must sell it to stay solvent. If you can help them with a problem they have, such as owning a rundown foreclosed house, they will be more than willing to listen to you and even negotiate.

Condominiums: Condos generally offer you a lower price product if you are keeping your initial purchase as inexpensive as possible. Since the condo property is jointly owned by all of the tenants, grounds, common areas, pool, clubroom etc, your chance of locating a "fixer upper" is going to be limited only to the interior of the condo apartment. It may need painting, upgrading, etc. In most cases, you will be looking for an owner who has to sell, not one who has let his or her unit deteriorate. You will be relying of the sellers need for a quick sale in order to give you the best negotiating power. This investment will probably work best as a "quick flip" investment where you close on the property and immediately locate another buyer at the fair market value price.

Caution: Before you purchase a condominium for investment purposes, check with the condo association and the condo docs. Make sure they do not have a clause forbidding a unit to be leased out to someone other than the owner. Many condos will allow only a six-month occupancy by someone other than the owner. If you intend to keep the condo for a year or more before selling it, you need to know if you can lease it. I had someone come up to me at one of my real estate investment seminars and flatly told me that condominiums made a poor investment. When I asked her why, she informed me that she bought a unit in a fairly new building and the condo association would not let her rent it. To make matters worse, I discovered she also paid well over fair market value for the apartment, so selling it for a profit, or even what she paid for it, was impossible. She failed to find out these things before she bought.

Condominiums can make an excellent investment provided you do your homework first and know what you are allowed to do or not do with your investment. My wife has sold several expensive condos to a client who keeps them and rents them out. The client has no intention of selling. They are just long-term investments, waiting for appreciation to build their equity.

Duplexes and Four Unit Complexes: You do not have to limit your search to single family residences. You can often find a two or four unit complex that will meet your needs. Again, the seller, for whatever reason needs to sell and that is always the key to no money down purchases.

Multiple unit dwellings have a couple of major advantages over single-family homes. First, if a tenant moves out of the home, you are 100% vacant…no income coming in. If a tenant moves out of a four unit building, you are only 25% vacant. You still have three quarters of your income coming in.

Second, your "per-unit" maintenance costs are much less than in a single family home. For example, you generally have less lawn to care for. Setback requirements on multi-family dwellings are usually considerably less than what is required on a single family home. It is much easier to create enough income in, say a four unit building, to cover expenses and mortgage payments than it is in a home. Suppose you can rent a home for $1200 a month, but you can only get $650 a month for an apartment. You have four apartments paying $650 a month each or $2,600 a month. You can see the difference. The four-unit property may be more expensive than the home, but on a price per square foot basis, it will probably come out less. You also have the same opportunity to find a run down property and fix it up, that you do in a single-family home.

Multi-Family Dwellings: You don't have to settle for a one, two or four unit rental apartment property if a larger one meets the requirements you need to purchase. I don't suggest you going overboard, like the investor I mentioned earlier with the 32-unit apartment building. By the time you finish reading this book, you won't make those mistakes.

Stores, Office Buildings, Warehouses and Industrial Buildings: So far, we have discussed only houses and apartment buildings because they are the easiest to understand and there are usually more available from which to choose. These are other types of real estate investments available that may be of interest to you.

Stores: A store could be a single freestanding store or a small strip shopping center with two or more storefronts. If the building is a freestanding, single tenant building, you may want to think twice about buying it. Stores, unless they are in an outstanding traffic area and in demand, are not as easy to rent if your tenant vacates.

Tip: Stay away from single purpose buildings. What do I mean by "single purpose" buildings. One example is an Ihop restaurant building. Most of them have a tall, "A" frame roof with blue tile. The store may be vacated by Ihop, but you still know what was in there by the shape of the building. Trying to re-rent it to another tenant will be extremely difficult unless major structural changes are made…and the cost cannot be justified. The exception would be if the building happened to be located on a major thoroughfare with a high traffic count and easy access in and out of the building parking lot.

When considering a store, stability of your tenant is important. Not everyone is looking for a store, so your market is limited, unlike an apartment or home where everyone needs a place to live. You also need to know who pays for what as far as expenses are concerned. More on this in the next section on office buildings.

The two case studies at the end of this book take you, step by step, through two transactions I put together using about 40 of the techniques found in this book. Once you finish reading the book, the case studies give you an excellent way to reinforce what you have learned when put to practical use.

Office Buildings: A small office building may make a good investment, if the tenant is a solid one on a lease. As with stores, finding an office building you can buy with little or no cash will be difficult. You also need to review any leases to see what is your responsibility…taxes, insurance, water, electric, janitorial, interior maintenance, exterior maintenance and major repairs or replacement such as the roof if it starts to leak.

On the plus side, if you can locate an office building, with a stable tenant on a lease, and can buy the building at the right price and terms, it could be a good investment.

Warehouses and Industrial Buildings: Unless you find an exceptional bargain, you will probably not be interested in this type of investment for a first investment. The best type of tenant in an industrial building is a AAA tenant, and you probably will not find one in the no money down situation. Warehouses, on the other hand are usually troubled be frequent tenant turnover. You will spend a lot of time trying to keep your warehouse rented. Leases, with small buildings, are rarely considered by a potential tenant. If they do sign a lease, unless they are a well-known and established company, they will still walk out at any time they feel the need, leaving you with an empty building.

Tip: Forget about legally pursuing any tenant to try and collect past due rent. It's not worth the time and expense and you probably will never collect anyway. Your best defense is careful screening of tenants and stay on top of rent collections.   Once a tenant gets behind on rent, they will seldom ever catch up. Don't wait until a tenant is three or four months behind on rent to try and collect. Many landlords send out a statement stating the rent is due on the first of the month and delinquent after the tenth of the month. If not paid on time, a ten percent late fee will be added to the payment due. This statement can be altered any way you wish, but it gives a tenant the incentive to pay rent on time. All of your bills are due the first of each month, so you need that rent money to stay current with your obligations.

What to Avoid When Looking for Your Investment Property:
Single purpose buildings that are hard or impossible to re-rent was mentioned above
Furnished apartments: Because you can move in with a suitcase and have an apartment, furnished apartments promote transient tenants, even if they sign a lease. They may pack up their suitcase and leave in the middle of the night. What is worse, you may not realize they are gone until their rent check fails to show up at the beginning of the month. In the meantime, you've lost some valuable time in which you could have been looking for another tenant.

Tips: If the building you are considering is already furnished, don't pass it up. You may have tenants who will live out their lease. Most of them do. If you keep the property for any length of time, you may want to consider junking the furniture and renting the units unfurnished as the furniture becomes shabby. As a practical matter, furniture in a rental apartment has very little value. Remember that when the seller tries to tack on a sizable amount to the purchase price for furniture. Your rent will be a little less on unfurnished units, but your tenants will be more stable.

Falling in Love With Your Property: **One** of the two biggest mistakes investors make is falling in love with their investment property. Remember we mentioned that a real estate investment is nothing more than a moneymaking machine. Love and money, at least in this situation, do not go together. What difference does it make if you really like your property? You won't want to sell it when it is time to do so. You'll be losing site of the reason you purchased it and that was to build wealth for yourself. We'll discuss ways of getting around this problem when we discuss financing.

Falling in Love With Your Tenants: (Not literally) I've seen many examples where a property owner has become so involved with a tenant's problems that he or she begins to make concessions. One owner never increased a tenant's rent for over ten years because she said she couldn't afford to pay any more rent. I know of an office building owner who has had tenants in some of the suites that have paid only $350 a month rent for the past twelve years. The current rent on the same offices is now $850 a month. The reason the rates for these tenants has remained the same is because "they always pay their rent on time". Of course they pay their rent on time. They are getting it at a sixty percent discount over current rents that they would have to pay anywhere else. They don't want to ruin a good thing.
Then there was the apartment owner of one building I looked at that told me the tenant in Apartment number 5 has not paid rent for three months. When asked why he explained "Mr. Smith lost his job so I am letting him stay without charge until he finds one. He promises he'll get caught up then". You and I both know this will never happen. Oh, and Mr. Smith was sitting

in the backyard sunning himself the day I was there. Maybe he was applying for a job on his cell phone.

I'm not suggesting a hard-nosed approach to tenants. Empathy is important. But if you take your tenants' problems too personally and begin to make concessions, it won't be long before you will be the one with financial problems.

An Important Reminder: You purchased this e-book to learn how to remove most of the risk when buying real estate with little or no money down, something most of the get rich quick without cash gurus fail to explain to you. What you have read so far, and through parts of this book may sound negative. They were put in here to insure you do not make any financial mistakes when you venture into a no money down purchase. They are examples of what others learned the hard and expensive way, so you won't make the same mistakes. The remainder of the book covers the beginning to end process of being successful in real estate investing regardless of how much cash you have to invest. We will now begin to pull all of the pieces together to make real estate investing a fun and extremely profitable adventure for you.

Chapter Three
How to Locate a Suitable Property

Legwork, Time and Attitude:
This may sound a little like the way we started, but now we are going to look for the right seller. As I mentioned before, it will take some legwork, time and a positive attitude.

Motivated Sellers – Who are they?
In order to be able to negotiate the best possible deal with a seller, he or she must be motivated to sell their property. We discussed some of the indications that a seller may be a motivated one, such as a run down appearance of the property in an otherwise good neighborhood. Now let's see what factors will motivate someone to sell.

Out of State Owner: The owner lives in another state and is not aware of what has happened to his or her property. One of my case studies in the back of this book involves just such an investor. He was not aware there was a problem with his property until the monthly rent checks began to dwindle in number. By then, the property was a total disaster. He was definitely a motivated seller. He could no longer make mortgage payments and the lender was getting close to starting foreclosure proceedings. This seller was more than willing to negotiate with me.

Owner Transferred: Quite often a company will transfer an employee to another city or state and leave it up to the employee to dispose of his present home. If some time goes by with no live buyer or offer to purchase contract, the seller starts getting desperate. He is in need of the cash out of his present home to buy another one in his new location. He has become a motivated seller.

Death in the Family: This may be a morbid subject, but quite often the death of one partner forces the quick sale of a home because the remaining spouse wants out. Why? There are four main reasons:

1. They are no longer comfortable living in the house that held so many memories
2. They can no longer afford the home
3. They no longer need a large home
4. They want to move closer to a support group, such as their children

Whatever the reason, they too have become motivated sellers\

Foreclosure: Due to various circumstances, usually the loss of income, the owner can no longer make mortgage payments and the bank is getting ready to foreclose on the home. We already discussed the importance of meeting with the bank loan officer if you are a buyer. It is equally important for the homeowner to meet with the bank and try to work out a solution agreeable to both parties and give the homeowner some time to work out his or her financial problems. Banks will usually listen and try to work with the homeowner. Again, remember, they probably do not want the property. In Chapter 22, we discuss how to get out of financial trouble, in the event you do everything the opposite of what you learn here. One solution to the above problem is to offer the bank a deed in lieu of foreclosure. Why? The homeowner voluntarily deeds the home over to the bank and in return the bank agrees not to proceed with foreclosure proceedings. This not only saves the homeowner the embarrassment of having a bank foreclosure known to everyone, but more important, it saves him from certain bankruptcy with would destroy his credit for the next seven years. You have the opportunity to save him from this situation by negotiating a takeover of the property with the bank.

Retiring: The homeowner is retiring and the couple want to be free to travel without the concern for caring for a home. Quite often, a retiring couple wants to move closer to their family. Although this group is not as highly motivated to sell quickly as the others we mention in this section, they may still listen to a reasonable offer.

Health Related: Perhaps the homeowner has decided he or she is sick and tired of shoveling snow and freezing weather in the winter. They are continually plagued with colds, flue and just plain miserable health. They plan to move to Florida. They could be very motivated sellers.

Divorce: Now here are a couple of motivated sellers. The court has ordered the home be sold so the assets can be divided between the two. They must sell, not only to satisfy the court but also to resolve one of the last remaining items to finalize their divorce.

Partnership Disputes: One of the ways of locating investment funds we'll discuss in Chapter 12 is through partnership agreements. We'll point out the pros and cons of this form of ownership when you get there. Unfortunately, many partnerships result in disputes. Quite often partners tend to disagree. One may claim he is doing all of the work and the other is collecting half the profits. Perhaps one claims that he is putting in all the money but his partner does nothing for his half of the profits. Whatever the reason, some of the best-priced properties I listed for sale were a result of a partnership dispute. These sellers are motivated to sell in order to dissolve their partnership.

Talk to Banks and Other Lenders: Although we briefly mentioned this before, contact the banks to see what properties they may have for sale that will fit your needs.

As you become involved in searching for “no money down” properties, you’ll discover additional places to locate motivated sellers.

We are about finished with the preliminary legwork we need to do before physically entering into the purchase of a property we want to attempt to buy. I say “attempt to buy” because we are not going to rush into something just because it looks nice, it seems to be under priced, or the seller tells us he has two other people ready to make an offer so we need to act quickly.

We already know what kind of property we may be able to find and what makes a motivated seller now we need to check out the area.

Chapter Four
How to Analyze the Area

The first thing we did when we started looking for a property was to look for an area of the city we thought would have possibilities, both quality wise and price wise. We found a small house that needs quite a bit of work, but the other homes on the street are very attractive and well kept. Since we are interested in this location, we need to know more about the area itself, beyond the immediate block on which the home is located. We do this before we talk to the owner. There is no point in wasting his time or our time negotiating with the owner if we discover later that the city sewage treatment plant backs up to the home. (Fortunately it is on the south side of the property and the prevailing winds are usually out of the north)! You'll still want to look for another property.

Drive the Neighborhood: Take a drive around the entire area. You may want to extend your tour several blocks or more from the home. Observe what the entire neighborhood is like. Are there signs of deterioration throughout the area? Pay attention to traffic, schools (in case you want to sell to someone with children), shopping, police and fire protection, any major plans the city, county or state may be planning that could effect the neighborhood, for better or worse.

As an example, we had a state prison locate within a mile of a nice upper-middle class neighborhood. Needless to say the residents were not happy about it. Chances are, you can contact your local governmental agencies to see what is planned for the area you are considering. It is a matter of public record and available to anyone. It's best to find out before you buy a property and then have trouble selling it later.

Condition of Other Properties in the Area: Check out individual homes for signs of general neglect. If a lot of them are in poor condition, you may want to reconsider.

Example: We listed a group of eleven small apartment complexes (all two to four units in size) on a four block long street of similar buildings. We had control of the fourth block on the street. We found a buyer for all but two of the buildings and he began to fix them up. They were in horrible condition but only cosmetically. The two remaining buildings just did not sell and they were at the extreme end of the fourth block on a cul-de-sac. I ended up buying the two remaining buildings (The first of the two case studies in the back of this book.) We called them our "slums" because that's what they were when we took over.

Between our buyer and myself, we had control of the entire fourth block on the street of all apartment buildings. We set to work renovating them and

turning them into very attractive buildings with fresh paint, clean and newly decorated interiors and all new landscaping. Unfortunately, we could not get the owners of the first three blocks of buildings to go along with our renovation plans. Those three blocks of buildings remained “slums”. To make matters worse, the most convenient way to enter into the street and get to our buildings was past the first three blocks of “slums”. When we did find a decent tenant, it wasn’t long before he would move out. Since the lawn sprinkler system was on the meter of apartment number one in each of my two buildings, I made a deal with the tenants in each building that I would pay their entire water bill each month if they would be certain to turn on the sprinklers every day to keep the new lawn watered. They never did water the lawns and it was not long before the grass was dead.
My tenant profile began to suffer as my buildings were quickly going back to the state they were in when I purchased them. Fortunately I was able to locate a buyer who thrived on distressed properties and was able to sell them. (Story continued in the Case Study at the end of this book).

Checking the Area in General: Now that you are satisfied with the area immediately surrounding the property you want to purchase, take one final look at the total area. You may have already done so. Observe the type of properties in the area. Look for signs that the area is going downhill. Are there boarded up or rundown buildings. They may not immediately effect you property now, but they could be a sign of what is happening to the area. If the neighborhood and surrounding area look good, there is one final thing we should do before to try to buy the home.

What about “for rent” signs on a lot of the buildings you may see? Quite often a building owner will keep a “for rent” sign on a property at all times. He or she wants to have a continual stream of potential renters lined up in case he or she has a vacancy. It is not necessarily a sign that there are a lot of vacant units in the building. If you are a night owl and really want to find out how many vacant apartments are in the area, drive it at 2:00 A.M. some morning at see how many cars are in the parking lot. If the lot is full, there is a good indication that the building is also fully rented. Keep in mind that some tenants will have two automobiles. Usually there are assigned spaces for each tenant plus guest spaces. If you are looking at a single family home or duplex, this early morning trip is not necessary. You can also get a good idea of the quality of tenants who occupy the units by the automobiles in the parking lot. If the lot is filled with junk cars you may want to keep looking for another building.

Once you are satisfied that the area is a good one, it’s time to get serious about trying to buy the house you saw. By now, you have a good idea of what prices are in the area, by calling other for sale signs and asking and you know the area.

Rule of Thumb #1: NEVER buy the best looking house on the street. You have no chance to upgrade it and sell for a profit.

Exception to Rule #1: If you can purchase the house a well below market value and it needs no upgrading, you have the better of two worlds. Grab it…assuming you can live with the terms of the sale (We'll get into that subject in the next chapter).

Rule of Thumb #2: Buy the worst looking home on the street so you have a good chance of upgrading it and selling for a profit.

Exception to Rule #2: Make sure the needed upgrading is cosmetic and not structural. If the building shows large cracks in the foundation or walls, it is a sign that the building may have major structural damage. Note: Minor settling cracks are normal and can be patched. If you have a question about any potential major structural problems, have an inspection made by a licensed house inspector. Since this will cost you some money, have it done after you reach a tentative agreement to buy the house. Make the inspection a contingency in your offer so you can back out without a penalty if the building needs major repairs.

Hint: Take Pictures. If you look at more than one property, or even just one, you may forget what you saw. Take a camera, preferably a digital camera so you can download the photos into your computer immediately. It will help you remember details of what you saw that impressed you or detracted from the desirability of the property.

Warning: When you meet with the seller, do not ask to take pictures of the inside. The seller's first thought is that you are casing the place for a robbery. You'll have to make mental notes of what you like and dislike about the inside of the home.

You are now well on your way of working out your investment real estate purchase. Now is not the time to change your mind and forget the whole thing. You've already done the hardest part of the job…research the market, the area and found a home that could be a winner. This is where the investment process begins to take shape and you can have some fun. Before we meet the seller, we want to research one more thing…the economy.

Chapter Five
How to Analyze the Market

The final study you should make, before meeting with the seller to discuss a purchase, is to analyze the current and potential market conditions. No, you do not have to become a knowledgeable economist to do this. What you do need to do is get a feel for were your current market trends might be heading. Checking vacancy rates in the area was one part of the process. Are most of the rental properties pretty much fully leased or are there a sizable amount of vacancies. Your local news media and chamber of commerce often has this information available. Here are some of the facts you should know before making a purchase decision.

1. Area vacancies: How is the rental market for the type of property you are considering? If area vacancies are ten percent or more area wide or city wide, you may want to think twice.
2. What is the economic trend. If there are a lot of vacancies, what is the reason for them?

    a. Overbuilt rentals for the area. We've seen this happen, especially in office space when every builder started putting up large office buildings and there was suddenly a fifty percent vacancy in office properties.
    b. A Market turndown. If the economy is in a down cycle, this could create a lack of renters. This was also part of the cause for the high office building vacancies in the early seventies. The economy slowed down and businesses were pulling back rather than expanding. Not only did new office space suffer from lack of prospective tenants but also existing space was being vacated by businesses that could no longer afford the space.
    c. Poor economic news can cause a turndown in the economy. We saw what happed to the market when several large corporate entities were discovered covering up actual loses.

There is an interest thought here. I firmly believe that we are a victim our own circumstance. In other words, we are our own worst enemy. If a major economist tells us the economy is going to slump, sure enough the market plunges the next day. If, however, the economist tells us the economic outlook is great, the market soars the next day. In truth, we always manage to pull ourselves up and turn things around. September 11 was proof of that. That one event could have destroyed our country through a mental as well as physical defeat. The terrorists expected this to happen. Instead of being defeated we, as a nation, became stronger than ever. I loved an ad, or public service announcement that ran on TV recently. It showed a block long line of row houses. The announcer said, "Terrorists hoped they would change the look of America". The screen changed to the same row of homes with a huge American Flag flying from poles on each building. The announcer continued, "They were right!"

In any event, getting back on the subject, historically we experience slow downs in the economy. The reason you want to take a close look at economic trends before you buy is to try and determine two things.
First, is the economy in a down turning mode or going up?
Second, if it is down, what is the outlook for a quick turn-a-round?

You have an advantage in buying when the market is slow. Motivated sellers are often more plentiful and prices are more negotiable.
Taking a little time to research the market is an important step in being reasonably assured we are not in a long term slump.

d. We're back to legwork again. Drive various areas of the city, especially those comparable to the one you are considering. Take notes on "for rent" signs on properties. Call several of them to see what is available, how many are available and what the rental is. Again, you can get a feel for the market conditions by seeing how many property owners have vacancies and if they are offering any rental concessions in order to get tenants.

Tip: Don't be fooled by rental signs on the property. This was mentioned earlier. Quite often rental signs are left on a property to keep a flow of potential tenants on the books.

Practical Point: I do not recommend the practice of leaving a for rent sign on the property at all times.
First, it gives the indication that you always have a vacancy and you cannot get the place rented. Frequent visitors to the area will stay away from your building thinking there is something wrong with it.
Second, as a practical matter, someone looking for a place to rent wants it now or in the near future. Keeping a list of names of potential tenants is generally worthless unless you have a vacancy coming up in the next week or two, in which case you would have discussed it with them already.
Depending on how strong the rental market is, I'd put a rental sign on a property no more than a couple of weeks before the unit becomes available…a little sooner if the market is slow.

e. Keeping Current: It is important to stay current on what is happening, especially in your city, that can affect your rentals. Is a large industry moving into town…or leaving town? Is a major change expected in the area, such as a new Interstate highway, municipal improvements that will increase the flow of traffic to the area, such as a major sports stadium? Changes, such as that will affect retailers but not apartment building owners, unless it will be a spring or fall training site for the national team. These people will be looking for short term rentals.

The more you can learn about what is going on in your area, city, county and state, the more likely you are to maintain a high vacancy level in your rentals. You don't have to make a full time career out of economic research. Just keep your eyes and ears open and you'll learn a lot.

Someone who gives motivational lectures to try and teach how to avoid stress suggests: "Don't read the morning paper or watch the news on television. It's a good way to start the day with stress. Don't worry, if something earth-shaking is going on, some is bound to tell you about it anyway."

All right, we've done about all of the research we can to find out if we are in a reasonably stable rental market. The next step in the process is to financially analyze the property to see under what price, terms and conditions it will make financial sense to purchase it. I'm ready, if you are. We'll want to take a close look at this house and see how we can buy it in a way that we can make some money and use it as a building block to bigger and better investments. In order to do this, we need to meet with the seller first and find out just how motivated he is and how we can structure a deal that gives both the seller and us a win-win situation. Let's meet the seller!

Chapter Six
How to Find a Motivated Seller

The first step in trying to buy the house is to discuss the needs of the seller…not our needs. What are the seller's reasons for selling and how motivated is he to move the house. Where do we start?

Make an appointment to meet with the seller. Tell him you saw his sign on the property or ad in the paper and would like to meet with him to discuss the possible purchase of his home. Again, he'll want to be certain you are not another real estate broker looking for a listing. And…unless the seller is highly experienced in selling houses (which is rarely the case), he'll gladly invite you to meet with him. He wants to sell and he feels you may want to buy. He cannot afford to pass up a potential buyer.

Empathy: You've heard it before and will hear it again from time to time. DO NOT meet with a seller and tell him or her what YOU want. It's the best way to turn a seller off and they will not listen to anything you have to say from that point on. Put yourself if the seller's shoes. If you just lost your job, or your spouse passed away or whatever the reason, the last thing you'd want to hear is "I can take this place off your hands. I buy homes like this all the time. I,I,I…"
The seller's first thought is, "Who cares how wonderful you think you are…what about me and my problem"?

Get to know the seller: Begin you conversation with the seller by talking about him. What is his reason for selling. How long has he lived in the house. Ask any questions you can think of that relate to the seller, his motivation for selling and what he is looking for. Without telling him how you can solve his problem, you will learn a lot about how motivated he is to sell.

Get the seller to know you: Just as important, get the seller to know more about you so that he feels comfortable being with you and does not think you are just another looker who has nothing better to do than visit FSBOs. When you read the second No Money Down study in the back of the book, you'll see how this technique was one of the keys to my successful purchase of a twelve-unit apartment complex. The seller felt I was trustworthy and serious about working with him and would do what I promised I would do. Make no mistake, showing you are honest, sincere and trustworthy go a long way in negotiating a favorable purchase from the seller. This is especially true when you expect him to make concessions or carry financing for you.

What are the seller's intentions: Once we feel the seller is comfortable with us and we have openly discussed things in general with him, it's time to get down to business. Now we need to know what the seller's intentions may be. Why is he selling. How soon does he need to move. What does he intend to do with the proceeds from the sale.

Note: That last question is a difficult one to throw on an initial meeting with the seller. His first thought is "It's none of your business what I'm going to do with the money". This is the reason for spending time getting to know the seller and getting him to know you. During the initial conversations, you will get some idea of what his plans are, "I'm moving up near the kids now that my wife is gone."
The natural question you can inject, without appearing to be prying into his personal affairs is, "Oh, are you going to buy a home up there". This is a non-personal question. He will no doubt answer something like, "No, my kids have a spare wing with a bedroom and bath and they want me to live with them," or "No, I don't need all this space. I'm going to buy a small condo".
You can judge how far you can go before you appear to be prying into his personal life.

Quite often, I've made two or three visits to the seller before I felt he was comfortable with me and my intentions. The exception is if you are in a hot real estate market and the home or building you want to buy is a real steal. If you wait until the third visit to get down to negotiating, it may be too late. Hopefully, you can get a good idea of how motivated a seller is on the initial visit. Just remember to use Empathy. Look at if from his or her point of view…not yours.

Gathering the Details:
You have now reached the point that brought you in contact with the seller in the first place. You want to learn everything you can about the property and how cooperative the seller will be with such things as price, terms, closing date, etc. You have a checklist with this program to remind you what questions to ask.

Example: You want to know about financing. This is the key to a successful no money down purchase. Ask such questions as:

1. Is there an assumable mortgage on your property?
2. What is the approximate remaining balance?
3. What is the interest rate
4. How many years remain?
5. Does it have a balloon clause?
6. What are the monthly principal and interest payments?

Your checklist covers all of the major questions you need answered in order to make a knowledgeable offer to purchase.

Don't panic. You'll will be guided throughout the entire process. Between your knowledge and the checklists you will have, there should be no questions unanswered by the time you leave the seller to prepare a contract.

You'll want to find out what the seller's asking price is, but this is not the time to ask if he'll take less. Most sellers will give you a flat out "NO" and you're finished with that seller. He probably will not want to talk to you again. A more knowledgeable seller may say, "Make and offer and I'll consider it". At least you leave the door open for future negotiations. It's best, however, to find out what he is asking for the home and leave the negotiations until you return with a formal offer to purchase. This topic is covered in Chapter 13.

The seller, at your request, will also show you around his home so you can see what basic condition it is in and how many rooms, size, etc. are there. You'll have a checklist with you to remember what to look at and what questions to ask.

Important Point: You have spent some time with a seller and he has gotten to know a little about you. Keep in mind that this is the first time you two have met. Until a short time ago, he didn't know who you were. Now he is being asked to show you around his house. For all he knows, you could be a burglar, casing the place. If possible, it's a good idea to have a business card prepared with your name, company and phone number. It will give the seller some security in knowing whom you are and how to reach you. In any event, be sure to leave your name and phone number just to give him some security.

As you prepare to leave, thank him for the time and information and tell him you need to go home and do your homework. Make sure you tell him you'll be in touch with him within twenty-four hours with your decision.

Hint: Notice I said you'll be back with him within twenty-four hours. If you say I'll get in touch with you in a day or two or just, "I'll get back with you" the seller will assume he's seen the last of you and you will never call him. Using "twenty-four hours" rather than "tomorrow" sounds like a lot shorter time period.

This whole process may sound confusing and complicated. Ninety-nine percent of the "no money down" gurus leave these first topics out completely. You bought this program to learn how to buy real estate with little or no money down …and minimum risk. So far, we have covered a lot of the "minimum risk" part of investing.

Now comes the fun part. You return to your home or office and make some financial sense out of all the information you have gathered. Next, we'll see how to analyze the property to see if it makes financial sense.

Chapter Seven
How to Analyze the Property

We'll begin by reviewing the checklist of information we gathered on our tour of the area and our meeting with the seller. Below are screen shots of the two forms we filled out during our preliminary visit.

This two-page form is in the appendix to this ebook.

Here is what we know about the property:

1. The seller "is asking" $110,000 for the property "as is". This means he will not do any of the repairs or upgrading that will be needed to put the house back in salable condition.
2. Notice he said "he's asking $110,000". We can assume he will probably accept less otherwise he would have said, "That price is firm" or "That is the least I will take".
3. There is a mortgage balance of $85,000 on the home. The original amount of the loan was $90,000 and was for thirty years at 7.5 percent fixed interest rate. Mortgage principal and interest payments are $629 per month.
4. The mortgage, according to the seller, is assumable at the present rate and terms. (We'll want to verify this with the lender just in case. Our offer purchase contract will include a clause requiring the bank to verify that the mortgage is assumable under the terms and conditions spelled out in the contract.
5. We made an estimate of what it will cost to repair, renovate and clean up the house to make it salable. Here is what we decided. There are two columns of figures. First we estimated what it would cost to have all of the work done for us. The second column estimates what it will cost if we do the work ourselves…which we intend to do.

An itemized list of cost appears on the next page.

Estimated Cost of Repairs and Renovation

Repair or Replacement Item	Cost to Have it Done	Cost to Do it Ourselves
Exterior Painting	$ 2,200	$ 150
Interior Painting	1,500	125
Repairs	1,900	475
Landscaping	600	200
Driveway Resurfacing	200	50
Replace Refrigerator	800	800
Total Cost of Renovation	**$ 7,200**	**$ 1.900**

We will save $5,300 dollars by doing it ourselves. Why show the cost of having everything done ($7,200) if we intend to do it all ourselves? We will use that $7,200 amount twice in our negotiations. The first time will be to show the seller how much it will cost to bring the property back to salable condition. Later, when we discuss our purchase intention with the lender, we'll use that number again.

6. During our visit we also obtained information about the house itself. Size: 2 bedroom, 2 bath with a den, large living room and dining area off the kitchen. It has a two car attached garage. The home was built in 1982. The lot size is 65 X 100

Tip: If you are really interested in more details, you can go you're your local tax appraiser's office and research the records on that property. It will show you the assessed valuation, a history of owners, when each bought the property and how much they paid for it. The staff at the tax assessor's office will show you how to access the public records to obtain this information… if you have a mad desire to spend a couple of hours doing it. What will you gain by having this information? Not much. Some buyers want to know how much the present seller paid for the property and how long he or she has owned it. If our seller paid $98,000 for the property five years ago, it looks as if he will make a sizable profit on the $110,000 asking price.

Don't be fooled by that thought. He may have paid only $98,000 for the home, but it has appreciated during the past five years. It is still the best priced home on the street, even after making the necessary repairs. We also do not know what repairs and replacements he has done since he purchased it. Generally, knowing what a seller paid for a property several years ago is not a valid bargaining factor.

7. We also learned what his normal expenses are on the home. His real estate taxes for the last year, were $1,875. His homeowner insurance policy was $1,225. His water/sewer/trash removal bill averages $42.00 a month. His electric bills, in the winter average $110 a month. In the summer, with the air conditioning running, they average $165 a month. Heating costs in the winter average $125 per month. He takes care of his own lawn.
8. His total average monthly expense for taxes and insurance is $325.
9. His average utility costs, annualized, is about $200 per month. We separate this because we would expect a tenant to pay his or her own utility bills.
10. We also know, through our area market survey, that the home should rent for $1,200 per month.

Tip: If you are buying an investment property that is already leased, do not rely on the rent the seller tells you he is collecting. You will want to see a copy of each lease to verify what he is telling you is true. You also want to know if he gave any rent concessions in order to get a tenant on a lease. For example, he may have written a one-year lease at $1,200 a month rent, but also gave the tenant one free month's rent in order to get him to sign up. If you figure $1,200 per month X 12 months and divide that number by the thirteen months the tenant will actually live there, the tenant is paying an average rent of only $1,108 per month rent. That could make a big difference if you want to raise his rent next year, when he is already paying almost $100 a month less than the lease states.
Before closing, you will want to carry this verification of rent one-step further. The seller should be asked to send a letter to each tenant verifying the amount of rent, term of lease, any incentives he received to move in, etc. You can plan on the tenant telling you the truth, knowing you will want to make changes in his rent when the lease comes due.

11. Finally, we estimate it will cost about $2,000 in closing costs to purchase the property.

Next, we need to financially analyze the property to see if will make sense to us. We'll hope to buy the property at a price of $105,000 or $5,000 less than the asking price. (When we get to Chapter 13 on negotiating with the seller, you'll see that we offered $100,000 or 10% less than the asking price. This gives us some room to negotiate and hopefully end up at the $105,000 figure. But, we still have to determine if this price will work for us. Here is how it will look:

Purchase Price:	$105,000
Assumable Mortgage	85.000
Cash to Mortgage:	$ 20,000
Plus: Closing Costs	2,000
Total Cash Required:	$ 22,000

Not much of a "no money down" transaction so far. Let's continue

How do we solve the $22,000 cash down requirement. Remember, our seller is planning on moving closer to his children and living in a small condo. During our discussion, we asked him what he intended to do with the cash he received from the closing. He said he intended to put it in a savings account for additional "spending money" each month when he needed it.

We asked him if he'd carry a second mortgage. The idea did not appeal to him, but he did not give us a flat out NO.

So let's see how we can use this information to create our no money down transaction. If we ask the seller to carry a $22,000 mortgage (which includes our $2,000 closing costs) we already know he will not think the idea is too favorable. It's not a win-win situation. We're the only winners.

Let's carry it to the next step. He will earn about four or five percent interest if he puts that money in a savings account. What if we offer him nine percent interest on the $22,000. We'll also offer him $107,000 for the property, which will be the $105,000 for the house and $2,000 for the closing cost we want him to pay for us.

How does this compare with the saving account?
He will earn $990 a year interest in the savings account or about $82.50 a month
If we offer him a $22,000 mortgage at 9%, his annual interest will be $1,980 a year or $165 a month. This will sound much better to the seller.

We'll amortize that $22,000 mortgage at 9% interest over a fifteen-year term. Monthly payments will be $223, including principal and interest, which means, unlike a savings account, his principal balance is also being reduced each month. He can always put the excess mortgage payment back in a savings account if he wishes to keep that cash reserve.

Alright, we have a bunch of numbers and you are probably somewhat confused. What we really want to know is, will the property carry itself if we can buy it under the terms outlined above and rent it out at **$1200** a month. Here is how it stands:

First Mortgage Payment:	$ 629
Seller's Mortgage Payment	223
Taxes and Insurance	262
Total Monthly Expense:	**$1,114**

We will expect the tenant to pay his or her own utility bills and take care of the lawn.

Assuming we can convince the seller to accept our terms and price, the property should just about break-even. For a single family home, 100 percent financed, this is good. Not all properties will work out that well.

Keep in mind that, we will have a total investment in the property of about $107,000 plus our estimated $1,900 in repairs and renovations, or about $109,000. We will also have a property ready to re-sell at the current market value of $135,000 to $145,000 or more depending on how our house stacks up against the competition.

Most important, what will the seller gain?

1. The sale of his home at $105,000 or only $5,000 less than his full asking price. We cannot count the added $2,000 we tacked on in order to cover our closing costs.
2. A second mortgage, secured by the home he is selling, paying him twice the interest he would receive if he put the money in a savings account.

When we discuss negotiating a contract with the seller, we will cover some of the objections he may have, such as the fact that we are putting none of our own money in the purchase, and how to overcome those objections.

What did we gain?

1. The first leg of what will be a sound, profitable financial future in real estate investing. Remember, that first property is the most difficult one to acquire when your funds are limited.
2. A property that will cover it's expenses through a tenant rental, if the market is slow or we want to hold on to the property for awhile.
3. A chance to make a quick $25,000 or $30,000 if we choose to flip it or resell right away.

Caution: Our example worked out well. Not all properties will fit our requirements. This is where you need to keep a positive attitude and keep looking if the one you really liked will not make financial sense or the seller will not negotiate a price and terms you can live with. Whatever you do, avoid going ahead with a purchase that you know is not going to be financially sound for you. There are other properties out there, if you look long and hard enough. Keep in mind, that once you get that first property closed and resold, you'll have some cash to work with. The pyramiding of your initial investment will become easier and more profitable with each transaction. I've had several investors come back to me, after taking my real estate investment course, and tell me how in just a few short years they were able to use these techniques to build a modest initial investment into a million dollar equity estate without adding any additional cash of their own.

Next we will spend some time discussing how to use creative financing to make your deal financially sound. I'll warn you, before you turn the page that is chapter has three quirks:

1. It is probably the most important chapter in the book
2. It is the longest chapter in the book
3. It is the most "boring" chapter in the book.

Kind of makes you anxious to turn the page, doesn't it. I'll try to make it as interesting as possible, but we'll be talking about numbers and mortgages and how to make them work for you in your purchase. So, bear with me as we venture into the exciting world of real estate financing.

At the end of this ebook are screen shots of a completed property analysis. These forms are part of the Real Estate Investments and How to Make Them program (www.investmentre.com).
The software program, that does all of the calculations for you, is just one of several software programs in the course designed to make investment decision easy and reduce the risk of making a bad investment decision. Plug in a few numbers and click on the "calculate" button on each page to totally analyze a property. It's easy to try different combinations of income, expenses, financing, etc. and quickly recalculate the entire analysis

Chapter Eight
What You Need to Know About Financing

First of all, let's pick up the previous example and use it throughout our financing. I'd like you to meet Charlie Smith from Akron, Ohio. He is about to venture into his first No Money Down purchase of the home we've been discussing.

Case Study: Charlie Smith
First of all, let's follow Charlie Smith through a typical purchase transaction. He is trying to purchase his first investment property with no money down. He does have a little money, if needed, but he really wants to use little or none of it if possible. Charlie was able to locate a home on Oak Street. The house was quite rundown, but the neighborhood was good. He was going to buy the worse looking house on an otherwise well kept street…rule number one when looking for this type of purchase. His survey of the market indicated that comparable homes in the area have been selling in the area of $115,000 to $140,000.

In order to create a "no money down" transaction, he will have to purchase the house at $105,000 plus find another $4,000 to cover closing costs and the estimate that was made to do the renovations need, which he will do himself to save money.

Total cost of the house will be $109,000, including his costs. In the previous chapter we assumed the home would be purchased at $105,000 and assume the existing $85,000 mortgage. This would leave $20,000 that we hoped the seller would carry in the form of a second mortgage plus an additional $2,000 to cover the closing costs. This still left the remaining $2,000 in estimated repairs. Charlie is going to see how close he can come to making the purchase a true "no money down" one, by getting that remaining $2,000 covered as well.

Alternative #1: Assume Existing $85,000 1st Mortgage - Seller carry a $24,000 second mortgage.

First mortgage monthly payments -	$ 915
2nd Mortgage: 25 yrs @7% interest	- 170
Total Monthly Payments:	$1,085

Our biggest problem will be getting the seller to carry the $24,000 second mortgage at 7% interest and a 25 year term. (Charlie's chances are remote the seller will agree to that)

Alternative #2: Assume the first mortgage but offer the seller a more realistic second mortgage:

9% interest for a 10 year term.

Problem: Monthly payments on that mortgage will be $304 per month.

Add that to the $915 per month first mortgage and his total monthly payments are at $1,219. If he needs to rent it out for a year or two at the going rent of $1200 a month, his monthly payments exceed what he can collect in rent and we haven't added taxes, ,insurance and maintenance costs to that amount.

Alternative #3: Let's leave the terms on the second mortgage at 7% but amortize it over 25 years. The seller, we already know, will not carry it for that long a time, but we'll offer to pay the remaining balance off in just ten years, not twenty-five. That reduces our second mortgage payment to $201 a month or a total monthly payment of $1,116. Charlie can live with this.

Tip: All we changed between Alternate #2 and #3 was the length of term of the mortgage from ten to twenty five years and we reduced the monthly payments from $302 a month to $201. In case you are curious as to where the $101 a month comes from, let's break down the mortgages.

Looking at a $24,000 mortgage at 7% interest, we can *estimate* how much interest we will pay. To do this, multiply the $24,000 mortgage amount by the interest rate: 7% or .007. The result is $1,680 for the year or $140 per month. Keep in mind that this is just a rough estimate. A mortgage interest to principal payment changes each month. (If you are really interested in going into complete details on financing, as well as taking a complete course on real estate investing, look up our website at www.investmentre.com.)

Now that we have an idea of how much interest we are paying each month, we can subtract that from the two examples we used above:

Monthly payments on the ten year mortgage will be $302 per month, minus the $140 interest = $162. We will be paying down the mortgage by $162 the first month and that amount will increase each month as the remaining balance is reduced.

Now, look at the 25 year mortgage at $201 per month. That first month we will be paying down the mortgage only $61. What we accomplish by extending the term of a mortgage is to reduce the monthly payments by reducing the amount we pay down the mortgage each month.

That sounds good, but how can we possibly get the seller to accept a 25-year payoff on the second mortgage? We probably can't. What we can do is offer to pay off the remaining balance on that $24,000 mortgage in ten years. We will still owe $13,441 on it at the end of ten years. How does Charlie pay that off?

First of all, he is not going to hold the property that long. He will probably keep it for a year or two and sell it.

Let's assume, for some reason, he does decide to keep the property for ten years. During that ten year period the property will appreciate in value. We'll assume it only appreciates three percent per year. This means that in ten years, his $109,000 investment will be worth about $139,000. (We already know that homes in the area are worth as much as $145,000 *right now*).

At the same time, the first mortgage that Charlie assumed is now paid down to about $67,607. Add that to the remaining balance due on the second mortgage of $13,441 and he owes a total of $54,166 on the house. Subtracting that from the $139,000 estimated market value means he has almost $58,000 equity in the property. If, for some reason, he still does not sell the property, he can refinance it for at least enough to get rid of the second mortgage.

Hint: We assumed the property he purchased was only worth $109,000 based on his purchase price plus closing costs and renovations. Once he did all of this work, the house was really worth about $145,000. He should have sold back then rather than holding it for ten years.

Alternative #4. What do we do if the seller tells Mr. Smith, "There is no way I'm going to accept a second mortgage at only 7% interest. I want 12 percent, because I really wanted all cash. I also will not accept a longer mortgage than ten years. I'm already 68 years old. I may not live any longer than ten years". (By the way, I heard this exact same argument before when I was putting together seller financing.) Now what do we do? If we give the seller what he wants, Charlie's second mortgage payments will be $344 a month. Adding that to the first mortgage payment of $761 brings his total payment up to about $1200. This is probably the maximum rent he can collect and he'll still have building operating expenses to pay on top of that.

Let's try a "wraparound" mortgage. This is sometimes called an "all inclusive deed of trust".

What we will do it give the seller a $109,000 mortgage rather than just the $24,000 second. We'll offer him a 9 % mortgage. Your first question is probably, "If he wanted 12% and turned down 10%, why would he accept only 9 %"?

Here is how it works. With a $24,000 second mortgage, based on his terms, he would receive 12% interest. Under the wraparound mortgage, he will be collecting 9 % interest on the entire amount of both mortgages, the $24,000 second plus the $85,000 existing first mortgage. He will be responsible to continue paying the first mortgage payment to the bank, but they are only collecting only 7.5 % interest on the $85,000 loan while the seller is collecting 9 % or 1.5 % profit to him on the $85,000 first mortgage. In other words, he is making 1 1/2 % profit on the bank's $85,000 loan.
Let's examine how this works:
Seller Wraparound Mortgage: $109,000, 9 % interest, 16 Year Term (The sixteen years coincides with the remaining term on the existing first mortgage.
Seller's actual dollar investment in the wraparound mortgage is $24,000 ($109,000 - $85,000)
Monthly payment to be received by the seller - $915 out of which he has to continue to pay the first mortgage payment of $629. This nets him $286 a month on his actual $24,000 investment. Working that out on a financial calculator, he is receiving the equivalent of 12.27% interest on his $24,000 investment.
At the same time, Charlie will have a total monthly mortgage payment of $915, which he can live with. Here's what the transaction looks like:

Mortgage	Amount	Interest	Term	Monthly Pmt.
Wraparound mortgage:	$109,000	9 %	16 years	$ 915
Bank Mortgage:	85,000	7.5 %	16 years	-629
Seller Portion of Mtg.	24,000	12.27 %	16 years	$ 286

What's in it for the Seller:
He gets his property sold at a price that is acceptable to him
Even though he has to carry a second mortgage, he is making over 12% interest on it.
The mortgage is secured by a personally signed note and uses the real estate as collateral to back up the note.
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What’s in it for the Buyer:
He is able to structure the purchase of the house in a way that it makes financial sense with lower mortgage payments than any of the other methods he tried.
He purchased a home at well below market value.
Chances are he will re-sell the home for a sizable profit in a short time period
He was actually able to purchase a house with no money down…a great start on his investment career.

Caution #1: Each situation must be analyzed carefully. Not all wraparound mortgages will work out this well. As a rule of thumb, the larger the first mortgage is in proportion to the second mortgage the better the chances are it will work. Also, the lower the interest rate the first mortgage bears, the better it will work. Paper is cheap. Work out each one and try different variables. If it does not work out, you’ll need to try a different financing method.

Caution #2: Banks are not thrilled with the wraparound concept. It decreases their security in the property, even though they still remain in first position on the financing chain. Quite often, a wraparound is done without the bank’s knowledge. You need to be certain the bank cannot call their mortgage (demand it be paid off) if they discover there is an underlying mortgage on the property. Since the seller continues to make the first mortgage payment, the bank usually never knows the seller is carrying a second mortgage as part of a wraparound.

Caution #3: This brings up the third point. The seller is legally still on the first mortgage and making the monthly payments in a timely manner. This could be a problem if Charlie sends the seller the full monthly payment of $915 and expects the seller to pay the bank their $629 share each month. If the seller decides to skip a payment or disappear altogether, Charlie may not find out for several months, when the bank begins foreclosure proceedings.

Tip: When using the wraparound mortgage concept, set up an account with a local bank to handle the monthly mortgage payments. The bank will receive your check and, in turn, mail the amount due the first mortgage holder and a second check to the seller. This way you know that payments are being made on both mortgages.

A final word: Wraparound mortgages are not the easiest to structure. I use this approach to financing when all others have failed to give the necessary results to make the transaction work.

More financing alternatives:

Our discussion of "wraparound mortgages" probably left your head swimming. "Why does it have to be so complicated?" It's doesn't. We reviewed the most complicated one first because it was a method of solving a problem we faced in the first three alternatives. Let's look at some other methods of financing, some of which are dictated by the lender.

Alternative #5. Interest only mortgages:
In our previous example, we discussed how shortening the term of the mortgage can greatly increase the monthly payments because the amount we are paying down the principal balance is greater. The other extreme to this situation is to obtain an interest only mortgage. Keep in mind that this alternative does not reduce the mortgage balance, even though you are making regular monthly payments. Most lenders will allow this only if a homeowner is in financial trouble and needs a break in the payment amount for a few months. Most lenders will work with a property owner if the property owner can justify how he or she is working themselves out of their present situation and will be able to continue with full payments in the near future.

Alternative #6. Adjustable rate mortgages:
Adjustable rate mortgages were popular a few years ago when lenders were facing an ever increasing rise in the interest rates they had to pay their depositors. They realized they were locked in on long term loans at a low interest rate while trying to compete in high interest rate bonds, CDs and savings accounts. They solved this problem by establishing adjustable rate mortgages. This gave the lender the option of adjusting the interest rate on a mortgage, usually on an annual or semi-annual basis to combat ever increasing interest being paid to depositors.

Caution: Watch the terms of an adjustable rate mortgage.
If you are considering financing that has an adjustable rate clause, be sure you understand the limits of the potential increases the loan will allow. Be sure you know how much the bank is allowed to increase the interest rate each year and that there is a maximum "cap" on the total increases allowed. For example, the mortgage my be written to allow the lender to increase the interest rate a maximum of two percent per year with a maximum increase of six percent over the term of the loan.

Alternative #7. Graduated Payment Mortgage:
This financing alternative is ideal for someone who just cannot afford current interest rates, usually for first time homebuyers. The bank will offer them a graduated payment mortgage. The loan will be written at a low, initial interest rate to keep payments down. Each adjustment period, the

rate will be increased, along with the monthly payments. This gives the homebuyer time to realize increased income so increased mortgage payments will be affordable.

Alternative #8 – Land Leases

We need to begin with some basics on depreciation for tax purposes, in case you do not already know this. IRS allows you to depreciate the improvements on your investment real estate property over what they consider to be the useful life of those improvements. Improvements consist of buildings, swimming pools, etc. as opposed to the land on which the real estate is sitting. IRS says that land does not depreciate.

Come tax time, you can reduce the taxable profits produced by the real estate by the amount of depreciation you were allowed to take. For the right investor, this could even result in negative taxable cash flow or taxable loss that can be used to offset any taxable profits you may have made on another property. You can learn all about depreciation and tax shelters in our complete real estate investment program at www.investmentre.com.

Based on that concept, you can sell the land under your buildings to the seller of the house you want to buy or to someone who wants a carefree investment. In effect, a land lease is nothing more than another type of mortgage. Now 100% of what you own is depreciable improvements for tax purposes. This sounds complicated, and is not a common way to structure financing, but it may be a last ditch effort to convince a seller to accept part of the financing when more conventional methods are rejected by him.

Some Cautions: #1. You must have a way of recapturing the land (buying it back) whenever you wish. You also want to be able to buy it back without paying a penalty for paying it off before a maturity date that is written into the lease.

Caution #2. Your land lease, unlike the land leases that were created years ago, should be limited to no longer than the remaining term of the mortgage. If the mortgage will be paid off in ten years, the land lease will also come due in ten years. As a practical matter, most buyers will shy away from a property if the word “land lease” is in the transaction. That’s because they do not understand how it can be a great financing tool.

One more point about land leases. Earlier we discussed how to reduce monthly mortgage payments by increasing the term, which in turn reduces the amount we pay down the mortgage each year. A land lease is a “lease” . You make monthly payments on it, but they are lease payments. There is no principal reduction…ever. If you start out with the $24,000 mortgage we have been using, in ten years the remaining balance on that land lease will still be $24,000. You can also see why this is not the most popular form of financing.

Caution #3. Be careful of increases written into a land lease. In our examples here, we talk about a ten year term. A knowledgeable seller will allow you to recapture the land (buy it back) whenever you wish, with a catch. You must buy it back at the current market value and not the value that was set when you created the lease. If, for example, you pay back the $24,000 lease in ten years and the property has appreciated three percent per year, the value or buyback price of that land lease will be $30,395 or $6,395 more than it was when you started. Ideally, you want to negotiate a land lease that contains no increases.

<u>Alternate #9.</u> Combination of more than one financing technique.
As you will see in this book, it is common to combine more than one technique in order to get the financing work for both you and the seller. As you review the case studies at the end of this book, you'll discover how I combined financing alternatives with many other factors in order to create my no money down transactions and have them make financial sense to both the seller and me.

<u>Alternate #10</u>. Sale/Leaseback
What can you do it you want to own the investment property but the seller still wants to be involved in it, especially if it's making money? Try a sale/leaseback. In this case, you purchase the property from the seller, but lease it back to him. What have you gained? The best of both worlds.

1. You now own the property and the financial and appreciation benefits if offers.
2. You avoid the day to day overseeing and management of the building

What does the seller gain?

1. He gets what he wants, the profits from the operation of the investment
2. He no longer owns the property so he probably was able to obtain his equity out of it when you bought it, unless he carried all of the financing himself.

<u>Alternate #11</u>. The best alternative of all…Seller Financing
Whenever possible, get the seller to carry the financing. Why? There are several reasons:

1. The seller will be easier to negotiate with than the bank that has set rules of what they can and cannot offer and approve.
2. There will be no closing points and other bank charges with seller financing.

3. You can probably work out a plan that is favorable to both of you. The seller is not locked into a fixed amount he or she will loan. Banks, on the other hand, frown on 100% financing.

Alternate #12. Refinancing.
If the seller insists on getting his cash out of the transaction and his present mortgage has a low remaining balance, it may be necessary to refinance the property in order to get cash at the closing.
Example: Let's assume the remaining balance on the example we've been using is only $50,000.
This would mean we'd have to get the seller to carry a second mortgage in the amount of $59,000 (the remaining $55,000 difference between the mortgage balance and the $105,000 purchase price plus the $4.000 in closing costs and renovation expenses). He's not about to do that if he needs cash from the transaction to buy another home or take a six month cruise.

Remember, the value of the house will be about $145,000 after it's renovated. Even if the bank only appraises it at $100,000 (they won't include your closing costs and renovation costs in the present value estimate), they should be willing to loan up to eighty percent on it or $80,000. If you want to make it your primary residence for awhile, the bank will probably loan up to 90 to 95 percent of the market value. Banks may offer a 95% mortgage on two conditions:

1. You financially qualify for the mortgage payments
2. You intend to make the home your primary residence.

I've known investors who do just that. Every few years they buy another home for investment, but sell the one they are in and move into the new one just to obtain a 95% mortgage. It's sounds to me like a real hassle, but it's a way to get the financing you need, it may be worthwhile.
In any event, even the lower percentage mortgage will help you put the transaction together.
This will give the seller the cash he wants. He will probably be willing to pick up the difference between what the bank will lend and the purchase price of the property.

<u>Sources of Mortgage Funds</u>
So far we have discussed taking over assumable mortgages and getting the seller to carry all or part of the financing. There are many sources of real estate financing available to you.

Tip: Getting accepted for a mortgage
If Charlie walks into a bank and tells them "I want to buy the house at 123 Elm Street. You have the current mortgage on the property, but it represents only about fifty percent of the current value of the house. I need a much larger one". Initially, the loan officer may say, "Sure, that's no

problem. We'll re-appraise it and let you know how much we are willing to loan." Then he hits Charlie with two questions that end the discussion.

1. How much cash do you intend to put down?
2. We'll need a credit report on you.

Chances are he'll never ask the second question after Charlie tells him he is buying the property with no cash down. What does he do now?
When you review the case studies at the end of the book, you learn how I was able to negotiate some favorable terms with a lender by explaining to him what that asset, that the bank was carrying the mortgage on, looked like today (with photos) and how the present owner was in financial trouble.

If you cannot get cooperation out of the present lender, find another lender. In Chapter 10, we'll discuss alternate sources of mortgage financing.

Before we leave this chapter, we should look at some of the clauses that are frequently written in a mortgage that you need to be aware of before you accept the mortgage:

1. The term remaining on the loan and if it contains a balloon clause. As we discussed earlier, a balloon mortgage requires the entire remaining balance of the loan be paid off on a certain date, regardless of how long the remaining term may be.
2. One more point about a balloon mortgage. We discussed how our property will appreciate over time and how we are increasing our equity through mortgage principal payments during the term of the loan. In our example, we used ten years as the balloon period. Always obtain as long a time frame as possible before the balloon is due. Unless you expect a rich uncle to die and leave you a fortune in a few month, never accept a balloon mortgage that is due in one or two years. You need time to increase your equity position in order to afford the payoff when it is due, which is usually done by refinancing the property to eliminate the balloon clause. A balloon mortgage will have "This Is A Balloon Mortgage", or similar wording, stamped across the face of the mortgage and/or note.

Tip: By the way, you do know that a mortgage consists of two parts, don't you? The first is the mortgage, which describes the real estate property being financed. The second document is the mortgage "note" which is a promise to pay the loan off in accordance with the terms and conditions written into the document.

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3. Beware of pre-payment penalties written into a mortgage. Quite often a lender will charge a stiff penalty if the mortgage is paid off ahead of the maturity date.

4. No pre-payment allowed: This is the opposite of number 3 above. When the mortgage market is soft (not many borrowers), lenders may refuse to allow a mortgage be paid off ahead of time. Since the lender needs to keep mortgages out in order to pay depositors their interest rate, they want to make it difficult to pre-pay a mortgage. This practice has some legal consequences that have caused lenders to question the use of this approach to financing.
5. Be sure the mortgage is assumable. Lenders frequently disallow the assumption of a mortgage. A new buyer must refinance in order to obtain a mortgage. This allows the lender to adjust the interest rate upwards, if the market warrants a higher rate.
6. Mortgages that are assumable usually bear the statement requiring the potential borrower to be qualified and accepted by the lender before he or she can assume a mortgage.
7. Many mortgages are written so that, even though they are assumable, they are subject to revised interest rates and terms based on current market conditions.
8. Mortgage Insurance: Most lenders require you have mortgage insurance on the property. This protects their interest in the even something happens, such as you die and no one is left to make mortgage payments. This is usually true if you have LESS than twenty percent equity in the property. What they usually do not tell you is that, once your home will appraise for more than enough to cover the loan plus twenty percent, you can request the mortgage insurance policy be cancelled. Since the bank is charging you $40 or $50 per month or more for that policy, they hope it stays in force for the full twenty-five or thirty years of the loan.
9. Watch out for escrow account balances: Most banks require you to pay an additional amount, above your mortgage payment, to cover the cost of real estate taxes and property insurance. They want the security of knowing these two items are covered when the annual renewal notices come in. What they don't bother to tell you is that you do not have to maintain an account with considerably more money than the expected tax and insurance bills. I've seen some escrow accounts large enough to cover two years taxes and insurance. This could amount to several thousands of your dollars sitting in a bank account unnecessarily…and that money draws no interest. You can request those excess funds be refunded to you. They will want to keep enough excess to cover an anticipated increase in taxes or insurance when the next bill comes in.
10. The opposite of the last item can also happen. If there is not enough money in the escrow account to cover the tax and insurance bills when they arrive, the lender will just send you a nice little statement that your account is short $1,800. Please send us a check right away. This can also be a problem for people on a limited budget.

11. Most lenders will frown on a buyer adding additional financing to the primary loan, through a second mortgage etc. Usually they do not do anything about it, because they probably don't know about the added financing, unless the borrower tells them, as Charlie did in the above example. The fact that the lender is still in the primary position (they get paid first if the property ends up in foreclosure) they still like to know that the owner has some of his own money tied up in the property and there is some additional value left above and beyond the amount of their mortgage.
12. Finally, when you are ready to enter into a contract to purchase the house, and assume the existing mortgage, have the seller contact the lender (you probably cannot do it) and request an "estopple" letter giving the exact mortgage balance as of the closing date, plus the terms and conditions of an assumption. The assumption (or payoff amount if you are obtaining new financing) will vary from day to day, but it will give you an approximate amount you will be assuming.

    Why is this important? You do not want to get to the closing and discover you suddenly need an additional $1,000 because the mortgage balance was less than you were quoted by the seller. Or, some other contingency was in the mortgage documents that you were not aware of and the property is now a questionable investment. These are the things you want to know before you are committed to buy.

    Tip: Whenever you are assuming a mortgage, be sure to spell out the exact terms and conditions under which you are buying the property. Also, make sure you have a way out of the agreement if these mortgage terms and conditions are not close enough to what you can live and it makes the investment questionable. The last thing you want to do is be locked into buying a property that had some terms in the mortgage that will put you in financial trouble the minute you close on the property.

Congratulations! You made it through the most complicated and dull section of the book. You can refer back to this chapter whenever you need a refresher on the various methods of financing and how they work.
Next we will discuss the importance of using leverage, or other people's money, to create our financial estate in real estate investing.

Chapter Nine
How to Use Leverage to Create Wealth

Although this book is based on buying investment real estate with little or no money down, it's important to understand how important the use of leverage, or other people's money, is in obtaining the maximum growth potential of real estate.

Suppose you have $10,000 to invest (Don't worry about the numbers. If you only have $1,000 or you have $100,000 to invest, just add or subtract "zeros" from the end of each number.) You have three possible choices for this investment. You can purchase a $10,000 property with all cash or a $20,000 property (if you can find them). Your third choice is to use the $10,000 to purchase a $100,000 property. We'll assume each of the properties will produce a ten percent return or cash flow on your $10,000 or $1,000 a year profit after operating expenses and mortgage payments but before taxes. We'll also assume that each of the investment properties will appreciate at the rate of four percent per year. In chapter 23 we'll discuss property appreciation and why it is almost a sure thing in real estate.
Here is how the three compare:

	$10,000 Property	$20,000 Property	$100,000 Property
Purchase Price:	$10,000	$20,000	$100,000
Less: Mortgage:	-0-	10,000	90,000
Cash Invested:	$10,000	$10,000	$ 10,000
Gross Spendable Income	$ 1,000	$ 1,000	$ 1,000
Mortgage Principal Pmt.	-0-	100	450
+ Appreciation (4%)	400	800	4,000
TOTAL RETURN	**$ 1,400**	**$ 1,900**	**$ 5,450**

You can see the difference the use of leverage can make in how much your investment will earn. What we are doing is earning four percent per year appreciation on the total value of the property, regardless of how much of our own cash we put into it. In other words, we receive a four percent appreciation rate on the $10,000 all cash investment or $400.
In the $100,000 property, we only have the same $10,000 invested but are earning four percent appreciation on the $100,000 total value of the property or $4,000. Using leverage is the key to creating wealth in real estate.

Caution: You need to do your homework and be sure that:

1. A highly leveraged property will be able to safely carry itself. In other words you don't have to feed it more out of pocket to keep it going.
2. You can sleep nights knowing the size of the mortgage you have on your investment.

I know, you were already told that, but it's important.
Once you get that first property under your belt, each subsequent one will become easier, more profitable and less risky. It's better to take a calculated risk than to not invest at all. Not getting into a "real" investment, that has a chance to appreciate with the economy, will insure you will have future financial problems, unless you are already a multi-millionaire.

Securing Your Financial Future – or… ”Why Am I Reading This Complicated Book”

This topic of "Securing Your Financial Future" is normally discussed in the beginning of our real estate investment seminars and in the beginning of our real estate investment course. I had a reason for putting it in the middle of this book. So far, you have waded through some confusing and probably disarranged information. You probably wonder if it's worth trying to understand all that is being presented. Even more confusing at this point is how can you possible use this information. All you want is a way to get rich quick without spending any money. Unfortunately, despite some of the no money down gurus, this is easier said than done. So what can you do about it? It appears you have a couple of choices you can make.

1. You can forget the whole thing, put this book on a bookshelf …along with all of the other investment books you have probably purchased and continue doing things they way you have been.
2. Accept the fact that this book's purpose is to get you started down the road to an investment program that will insure your future financial security…and you'll read that several times throughout this book because it is vitally important to you. How important? Keep reading.

I want to digress a little, just to emphasize the importance of what you are learning here. Granted, some of you are probably just beginning to consider a real estate investment program and maybe have little or no cash to invest. Perhaps you are already involved in real estate investing and love to acquire new holdings with little or no cash of your own. Either way, you should know why the majority of people in this country fail to secure their financial future.

During the Kennedy administration, a survey was conducted to determine how many people, over the age of 65, really needed social security payments to survive. The findings were shocking. Of the 19 million people living in the United States in the 1960s, 95% of them were non-wealthy. This sounds unbelievable in our land of opportunity but 28 percent of the people were still working in order to survive, and with huge corporations beginning to get into financial trouble, many individuals with "secure" retirement funds are discovering the money just isn't there when they need it. Even more shocking is that 22 percent of those over 65 years of age were on charity and 45 percent were dependent on relatives for survival.

Only 5 percent of our retired age population in the 1960s was financially independent. It's doubtful those number have changed much in the last 40 years. What did the 95 percent do wrong? Most of them earned a good income during their working years… and like most of us, there were taught to save part of their income for their retirement. They put their money in bank savings accounts, credit unions, CDs, money markets and cash value life insurance policies that guaranteed them failure. Why? Because these are all fixed investments. "Fixed" because they guarantee investors a fixed rate of return on their invested capital, regardless of how much the bank is able to make on that money. And while they were earning two to five percent on their various savings, IRS was getting a portion of each dollar of interest they earned, on most of these fixed investments, leaving them with maybe a three percent return on their investment, after taxes. Then, inflation takes over. In this book we use a three or four percent inflation factor when we discuss how much real estate will appreciate. Some years this may exceed that amount and others it will remain flat and not appreciate. Over the long haul, however, it does continue to appreciate, equal to or more than inflation or the cost of living. In the previous example we saw how this can affect our investment profits.

The Wall Street Journal ran an article about a middle-income couple living in San Diego who dreamed of an early retirement to a Caribbean Island. They were saving on a regular basis in "fixed" investments that were earning only 3 to 6 percent per year. Suddenly, they realized their retirement dream was being shattered by taxes and inflation.

Through professional financial advice, they learned how to build an inflation proof future. They cashed in their bonds, took some of their excess cash savings and used the cash value in their life insurance policies, replacing them with less expensive term policies. With these funds they invested in real estate. Today they estimate that they will be able to retire in ten years, with a monthly income of $2,000—a much better return than their original "fixed income" figure. Until they revised their investment program, taxes and inflation would have destroyed their retirement.

We all understand the tax bite Uncle Sam takes from our income each year, but most people don't think about the affects of inflation until it's too late. You are one of the smart ones. You already realize how important it is to inflation proof your life savings and have started down that road today.

So, as you read the somewhat boring parts of this book, keep in mind that you are learning the professional's techniques for securing your financial future. That makes the program worthwhile learning. Alright, continuing with the topic at hand:

The Importance of Using Leverage
At the beginning of this chapter you saw how the use of leverage is the key to creating a substantial estate. You had the opportunity of using your $10,000 buy a property with all cash, no mortgage or using the $10,000 as a ten percent down payment on a $100,000 property. The size of your cash investment remained the same. The difference is that instead of gaining the appreciation benefits on a $10,000 property, you own a $100,000 property that is appreciating. You are using other people's money to make money for yourself. In our example, the other people's money (the $90,000 mortgage) gave you an additional paper profit for the year of $3,600. This figure does not include your $10,000 investment in the property. In other words you made $3,600 on someone else's money. Not bad!

Now you need to decide how far you want to carry this. Your initial property, when your investment capital is non-existent is the most difficult, because you are 100 percent leveraged or financed. Once you build some equity in that property, either through appreciation or through buying at below market value, fixing it up and reselling for a profit, you are on your way. From that point on, you'll be able to use the profit from that first investment for the second property, etc.

The question is, how comfortable are you with 100 percent financed properties? You may not have a choice initially but you can reduce your amount of leverage with each subsequent investment you make, but keeping in mind that the use of leverage is the way you make the most money.

Paying off the Mortgage: This brings us to the question, "When should I expect to get the mortgage paid off"? Most of us were raised with the idea that mortgages were a necessary evil. It was the only way we could buy real estate. The sooner we could pay off that mortgage, the better.

This philosophy may hold true for your home but it is NOT acceptable to real estate held for investment purposes. It completely defeats the purpose of the wealth building program. So, in answer to the question, you should never hold a property long enough to pay off the mortgage. We'll cover this topic in more detail in chapter 23.

Multiple Mortgages: Carrying the previous comment even further, many would be investors cringe when I suggest "Let's see if we can put a second mortgage on the property." Even scarier is: "Since there are already two mortgages on this property, we need to put on a third".

Let's take a closer look at multiple mortgages, the good and the evil. As with the notion that paying off a mortgage is a must. The common belief about having more than one mortgage on a property is compounding the evil of having a mortgage at all.

Multiple mortgages can serve a very useful purpose. In our Charlie Smith example, we used a seller financed second mortgage to get the deal to work. If we would have tried to obtain a new first mortgage for the full purpose price of the property, we would never have succeeded.

The Very Basic Truth About Mortgages:]
You already know that having a mortgage on an investment property is a must to gain the maximum appreciation potential. Here are a few more points of interest:

1. It does not matter how many mortgages you have on a property, one, two, three or whatever. It is still a mortgage on the property totaling "x" number of dollars. You can have a $100,000 mortgage on the property or a first mortgage of $50,000 and a second mortgage of $50,000. It still is $100,000 in mortgage(s).
2. Multiple mortgages can serve a useful purpose, such as our transaction with Charlie Smith. It was the only way to put the transaction together.
3. Multiple mortgages can give you flexibility. Again, referring back to Charlie Smith, we had an $85,000 first mortgage and a $24,000 second mortgage. The first mortgage payment was $915 per month and the second was $170 per month. Suppose you suddenly receive $24,000 in cash from your rich uncle Harry. In order to improve your "cash flow" on the home you are leasing, you decided to pay off the $24,000 mortgage. Your monthly mortgage payments are now $170 a month less. If, however, you had one $104,000 mortgage on the property and paid it down by $24,000, your monthly payments will remain the same. All you accomplish is reducing the remaining term by a few years and that doesn't help your cash flow position. In fact, you will not keep the property long enough to pay off that first mortgage, even if the term is shorter.
4. Quite often, you need that extra financing help. Forget going to a bank and renegotiating the entire mortgage in order to increase the

size. You are then subject to bank closing points, a new survey, an updated title insurance policy, and all kinds of expenses. Getting a second mortgage from the seller, or from an outside source is much easier and less costly. You can also negotiate the terms and conditions of the second mortgage, which you cannot due if you renegotiate the first mortgage. In fact, depending on the current market conditions, you may end up with a higher interest rate than you have now or less attractive terms.

Don't turn down a good real estate investment because you will have to add a second mortgage to make the financing work. Here's a little trick to help you decide if a second mortgage is the best alternative:

We'll use the same transaction for our example that we used in chapter seven. Assume you need a $100,000 mortgage. You have two choices. You can assume the existing first mortgage with a remaining balance of $85,000 at 7.5 percent interest with 25 years remaining. Monthly principal and interest payments are $629 per month. We need the seller to carry a second mortgage for the remaining $15,000. However, he wants 12% interest but will carry the loan for ten years. Monthly payments on that will be $215 per month. Total monthly payments for both mortgages will be $844.

The second alternative is to obtain a new first mortgage for the full $100,000 (assuming a lender will take it). The interest rate will be 9 percent for a 25 year term. The monthly payment will be $839 per month or about the same as the first alternative.

Which is the better deal and why?
Begin by determining the overall average interest rate between the two alternatives. The new first mortgage in Alternative #2 is a 9 percent mortgage.
New we need to compare it with Alternative #1. Here is how we do it.

Assumable 1st mortgage: $85,000 X .075 (7 ½% interest rate) =	$6,375
2nd Mortgage: $15,000 X .12 (12% interest rate) =	1,800
Total	$8,175

8,175 divided by #100,000 (total loan amount) = 8.75 or 8 3/4 percent. The two mortgages actually have an overall lower interest rate than the new $100,000 first mortgage, even though the seller insisted on a12 percent rate on the second mortgage.

This simple formula makes it easy to compare various mortgage combinations.

What about the fact that the payments in the first alternative (two mortgages) are greater than the new first mortgage payment will be? Remember, you are paying off the new first mortgage over a twenty-five year period. In the first alternative, only the $85,000 has a twenty-five year term. The second mortgage will be paid off in only ten years. Even though you will not keep the property until it is paid off (remember that discussion earlier), the amount you pay down the mortgage each month is much greater than it would be on a twenty-five year loan.

One more factor enters into this equation. By assuming the first mortgage and having the seller carry a second, you avoid the closing costs of a new mortgage. This fact alone can save you a sizable amount of money.

There is a lot more to mortgages and unique financing techniques that can be used creatively to structure a real estate transaction to greatly improve your profitability.

Chapter Ten
Where to Locate Cash

Next, we'll look at various places you can find cash for an investment. Even though you want to buy with virtually no cash out of your pocket, there may be times when you will have to have some cash to pay closing costs on the transaction, pay for renovations that need to be done, or just plain put in some cash to show good faith on the purchase. Here are some places you may be able to find cash.

1. Family and Friends: This could be a way to lose friends or alienate your family, but it could be a source of cash. You'll want to treat them like any other business partner by giving them a mortgage on the property being purchased or even part of the profits.
2. Banks: We already covered borrowing from a bank. You can forget about using them to increase an existing mortgage to give you 100% leverage. They tend to shy away from that type of deal.
3. Private Lenders: Quite often, private individuals will place ads in various periodicals offering mortgage money, even second mortgages. Be careful if you use this alternative. You don't want to end up with a loan shark that makes life impossible for you until you lose the property. Check them out carefully before signing up for a mortgage.
4. A New Financing Trend: Some lenders are now offering you a mortgage at up to 110% of the appraised value of a home. How can they do this? Notice I said, "appraised value". The appraised value on real estate is usually somewhat less than the actual market value of the property. If the home would sell for $150,000 but the appraised value is $110,000 the lender will offer a loan at 110% of the $110,000 appraised value or $121,000. This is still about 20% less than the fair market value of the property.
5. Mortgage Brokers were mentioned earlier. Although they will charge a modest fee for placing a mortgage for you, they have continual contacts, and a track record, with several lenders and can often get you a deal that you could not find on your own.
6. Mortgage Bankers: Mortgage bankers will tie up large sums of money (maybe millions of dollars) in mortgage commitments from one or more lenders. The are playing the odds that interest rates will increase and they will have locked in mortgage money at a rate lower than the current one. If they guess right, they will have mortgage money available at less than you can obtain at a bank on your own.
7. Credit Cards: You may have a large cash reserve available to you on one or more of you credit cards. One no money down guru suggests this may be a place to borrow money with no qualifying.

The problem is, you may be paying 18 to 24 percent for the use of that money. Better keep looking for another source of financing.

8. Sell off Part of Your Property: If you are buying an investment property that is on some acreage, or even a double lot, you may be able to sell off a portion of the extra land in order to generate the cash you need to purchase the property. If, of course, you buy a home and it sits in the middle of a double lot, this technique will not work.
9. Refinance Another Property: If you own another real estate property with a considerable amount of equity, it may pay to increase the size of the loan on that property to generate cash for the second property. Part of the software that is included in our www.investmentre.com course includes a program to automatically calculate if it makes financial sense to refinance one property to purchase another. Those funds, by the way, are usually tax free.
10. Refinancing of Your Home: In Number 9 above we discussed refinancing another property to obtain tax free cash for another investment. You need to carefully think twice before committing your home security to an increased mortgage. Most people consider this their "safe harbor" and do not want to risk it.
11. Borrow Against Life Insurance: If you have been making payments for a long time on a "cash value" type of life insurance policy, you have no doubt built up a sizable reserve account. You can borrow this money at a very low rate of interest. Chances are the insurance company is only paying you one to three percent interest for the use of the money you have invested in that policy. Keep in mind that if you borrow against your cash value policy, you reduce the benefit that will be paid if something happens to you. Most experts in the field suggest purchasing lower cost term policies rather than cash value policies. They do not build up a low interest paying residual, but the offer what you purchased the policy for: an instant estate if something happens to you.
12. Borrow Against Stocks: If you still have a stock portfolio with a considerable amount of value, you can borrow against that stock. In fact you can borrow more against the stock to buy real estate than you can to buy more stock. It is a good source of instant cash. Just be sure to leave sufficient value in the stock so that if it goes down you will not have to come up with enough cash to cover the loss.
13. Personal Loans from Your Bank: If you have a good credit rating and track record with your local bank, you may be able to borrow on a personal loan basis. Remember, this is like a mortgage, it must be paid back and must be considered when calculating your monthly payments to cover the debt service (loans). You can use a line of credit, if you have one established with the bank.

14. Add Closing Costs into the Mortgage: Get the seller or the lender to include your closing costs in the mortgage. We did this with the Charlie Smith case study. This reduces your cash requirements.
15. Give a seller something in lieu of cash. Perhaps he admires a boat you have that you were planning on selling. You can barter with anything you have of value that you want to use and he would like to have. It may be a car, stocks, etc.
16. Using Security Deposits and Advance Rents: When you buy a property that is rented already, such as a small apartment building, you will receive credit for advanced rents and security deposits that have been collected. This reduces the amount of cash you need to close.

Caution: Remember that these advanced rents and security deposits really belong to the tenant and not you. They will reduce your cash outlay at closing, but when the tenant is using his or her advanced rent for the month this means you will be collecting that much less rent money for the month. When a tenant moves out, you will have to return all or part of the security deposit. In other words, you may have the use of those funds at closing, but you will have to reimburse them to the tenant at a future date.

17. Trade Equity in Another Property: If you own another property, you may be willing to trade your equity in that property for equity in the property you want to purchase.
18. Sell a Mortgage at a Discount: If you own a mortgage, you can find a buyer who will purchase it from you and give you the cash you need. The mortgage buyer will expect to purchase the mortgage at a discount. For example, he or she will offer you $10,000 for a $15,000 mortgage. This greatly increases his or her actual interest rate over the rate that appears on the mortgage note.
19. In short, use your imagination if you are short of cash. You just may locate a wealth of valuable sources of funds you never thought about. You never know what a seller is willing to take, other than cash, if you don't ask. The answer will often surprise you.
20. What do you do if the seller changes his mind and does not want to carry a mortgage on the property after it has been signed and agreed to carry it. One possible solution is to find someone to buy the mortgage from him. Suppose the seller wants to sell the $22,000 note he was going to hold. A buyer is located that buys mortgages, including second mortgages. There is one catch. The buyer will not pay the full $22,000 for it. He will buy only at a discount…say 25%. He is willing to pay the seller $16,500 for the mortgage. The seller may be willing to accept this amount just to get cash out of the deal.

What does the mortgage buyer get? He gets a $22,000 mortgage at 9 percent interest. But he only has $16,000 invested. He will still be collecting the original $223 a month payments for fifteen years. This means his actual interest rate is 14.9 percent. It is usually easy to locate someone who will like this type of investment.

21. If you had a real estate broker involved in the transaction, he or she will have earned a professional fee for services. The seller is expected to pay this out of his cash proceeds at closing. There is nothing saying the broker cannot take all or part of that commission in the form of a mortgage.

The first house I purchased was stretching our budget a little thin. We had been working with a real estate broker to locate the home we wanted. It turned out to be a new home, just under construction, due to be completed in about three months. This was ideal because we would not be moving down to Florida for about three months anyway. The problem was this. I was going to be about $6,000 short of having enough cash for the down payment and closing costs. After some negotiation, the real estate broker agreed to take $2,000 of the amount I needed in the form of a second mortgage and the builder agreed to carry the $4,000 balance as a personal note. (No mortgage was involved).

One more point of interest. We also agreed to do a lot of the finishing work ourselves, which reduced the cost of the home by a few thousand dollars. You'll use this method of getting a price reduction without taking the actual amount of repairs out of your own pocket.

Chapter Eleven
How to Walk Away from a "Nothing Down" Closing And Put Cash in Your Pocket.

How would you like to buy a property with no money down, go to the closing and walk away with some cash? Before you get too excited, we need to qualify that with real world facts.

Fact #1. Don't expect a lender to finance a property for more than the contract price. In fact, they will use the contract price, or the appraised value, whichever is less and loan a certain percentage of that amount.

Solution to #1: Don't expect the lender to over finance the property. Get the largest loan you can from the lender and get the seller or an outside lender to give you the additional financing.

Fact #2: What reason would the seller have for loaning you the money?

Solution to #2: He or she has two logical reasons. First, he is a motivated seller. He wants or needs to liquidate the property. Second, if he is carrying any form of second mortgage, it is in his best interest to help you improve the value of the home. In other words, he takes back a second mortgage and you agree, in writing, to spend those funds to do the necessary renovations that will bring the property up to fair market value. In chapter 14 we discuss 'win-win' situations in which both you, as a buyer, and the seller come out winners. This is one example.

Fact #3: A private lender has no interest in your renovating a property. Why would he lend you money?

Solution to #3: How about greed! If he can make more profit by loaning money to you than he can in other investments, why not do it. His loan will be secured by a note and second mortgage on the property. Perhaps you can afford to pay him ten or twelve percent interest for the money and the best he can do elsewhere is six to eight percent.

Fact #4: This is not FREE money. It has to be paid back to the lender, with interest.

Solution to #4: This is why you need to financially analyze a property to see if you can afford to make payments on this money. Always take the time to prepare a financial analysis of any property you are considering. This is standard practice with any knowledgeable investor. If you are using our Investment Property Profile form (IPP) that comes with our real estate investor program, it only takes a couple of minutes to do a complete analysis and you can quickly change any of the figures to try various

approaches to determine how it makes the most financial sense to you. Everything is calculated for you at the touch of a button in the program. A work copy of the two-page analysis form is in the appendix at the end of this ebook.
Even if you have to do it all by hand with a financial calculator, do it!

Get the Seller to Refinance: Here is a way the seller can get the cash he wants and you get the property. This is a possible solution to the problem where the seller will not carry a second mortgage to cover the cash you need to close. Chances are you are trying to buy, not only with little or no money down, but you cannot qualify for a mortgage from conventional sources. Have the seller refinance his own property. For example, he currently has an $85,000 mortgage on the property and the house will have a market value of about $145,000 once renovated. The bank will perform an appraisal and let's assume they appraise it at $130,000 in its present condition. They will then apply a multiplier to that figure, let's say 80 percent. They may be willing to refinance the property for $104,000. This will give the seller the cash he needs and lets you purchase the property at the price you want. You'll want to make sure the revised interest rate does not make the investment unworkable. You also need to be certain the new mortgage is assumable. The seller will be facing closing costs on the new mortgage, but since they already have the mortgage, this amount should be considerable less than if you start out with a new mortgage at a different bank. The seller may even be able to negotiate no closing points or at least closing points only on the increased portion of the mortgage over the present one. In our example, the seller will be able to walk away from the closing with some cash in hand.

When you review the case studies at the end of the book, the first study involves how I was able to negotiate refinancing with a lender and actually put about $20,000 in my pocket by doing no more than refinancing the properties, which I later sold for an additional profit…and all with no cash investment on my own. That case study also shows you how I convinced the lender to allow me to purchase the property with no money down in the first place.

Important Point: Most of this book discusses structuring the transaction so that it will financially carry itself, if it is 100 percent financed. If you are able to buy a property, spend a month renovating it, and immediately sell it for a profit, that's probably what you will do. We wanted to cover the possibility that, in the event you do not want to or cannot sell the property right away, you are financially able to keep it profitable until you do sell.

Chapter Twelve
How Should You Take Title and Various Ways of Structuring a Purchase

Assuming you are a private investor, you will no doubt take title to the property as an individual ownership. But, since you may need added cash to avoid putting your own funds into the transaction, here are other ways of taking title and the pros and cons of each. We will only cover five of them in this book. These are the three methods you may consider as a small investor.

Disclaimer: The information in this chapter, as well as other chapters dealing with legal, accounting or governmental regulations is accurate to the best of our knowledge but not warranted. You need to seek the appropriate professional counsel where these subjects are involved. This book is intended to be a guide and not the final answer to these questions.

Lease/Option: A lease option gives you the right to purchase a property at a certain price and terms on or before a certain date. In the meantime, you take over the operation of the property on a lease basis. You are leasing the house or investment property from the seller. You are not obligated to a formal contract where you must close or lose your deposit. Generally, you must put up some option money to get a seller to take his property off the market while you decide to close on the transaction or to pass. If you decide not to buy, the seller keeps the option money. If you do close on the property, the option money becomes part of the down payment. Why would you want to option it rather than an outright contract to buy? First, it gives you the opportunity of handling rentals and taking care of renovations. It gives you control of the property without being obligated to the total ownership cost and obligation. Perhaps you need time to close on another property in order to afford this one…and you are not sure it will close. If it doesn't, you are not obligated to buy this one.

Tip: If you have negotiated a good price and terms on a property, you may want to consider selling your option to another investor. You can run a blind ad offering a "below market" price on a home in an excellent neighborhood. Must sell! This type of ad will draw some response. Notice I suggested a "blind" ad. You don't really want the seller to know you are shopping his contract with you at a higher price.

Oh, did I mention that you will be offering to sell your option at a price somewhat higher than you are paying? You have an option to purchase the house for $105,000. Current market value of comparable homes in the area is selling in the $145,000 price range. You can explain to a potential buyer of your option that you estimate it will cost about $2,000 to fix the place up and get it up to the $145,000 value. You are willing to sell your option for $125,000. You will make about $20,000 without doing anything and the buyer will do the same or better, depending on the market when he decides to sell.

Lease/Purchase: A lease purchase obligates you to close on the transaction within a certain time frame. It is not an option. It is a firm commitment to buy. Again, the purpose is to give you time to handle rentals and renovation, without taking over the full liability of ownership.
One advantage to both of these alternatives is that you are able to tie up a property for a couple of months or longer at today's price. The seller may want a price adjustment if you wait for some time to close.

Individual Corporation: This method requires you to set up a corporation with you as the President and probably the sole officer other than a spouse who will be Secretary/Treasurer. There may be certain liability and tax benefits to a corporate structure.

Pros: For certain investors there could be tax benefits in corporate ownership. It also can take away personal liability, if the property is held corporately.
Cons: You are now dealing with a corporation that must follow a different set of guidelines than you would as a private owner. There is also a possibility of double taxation, both as a corporation and as an individual who takes money out of the corporation. Seek legal and/or tax counsel for details.

Partnerships: This is a way of obtaining additional funding. You find a partner with some money who wants to enter into a joint venture partnership with you. He puts up the money and you do the work and have the marketing expertise to structure a profitable investment for the both of you.

Pros: It is a way of finding cash to consummate the purchase
Cons: You now have a partner in the ownership of the property. Partners have a tendency to disagree. If they do, and decide to dissolve the partnership agreement, you have two choices:

1. Buy out the partner, which requires mutual agreement of the fair market value of his or her interest.
2. Sell the property and divide the proceeds.

Important Point: A partnership does not have to be a 50/50 arrangement. You can negotiate any equity share that you both agree on when preparing the partnership agreement. For example, you are doing all of the work locating and purchasing the property, renovation, and management of the asset and eventually selling it. The partner merely put in some cash, probably a small percentage of the overall investment in the property, which is probably the total cost of the property. The partner should not expect to be an equal partner in the transaction. There is a better way.

Limited Partnerships: A limited partnership is exactly what the term implies. You take on one or more partners in the purchase of your property. These partners are limited partners because they have no say in the operation of the property. You would serve as the General Partner and be responsible for the entire operation of the investment. This means you will put the transaction together, negotiate the purchase, manage the property and determine when it is to be sold.

Pros: This puts you in full charge of the operation and you do not have to worry about a conflict with a partner. You are the controlling factor. The limited partner or partner's involvement is only to the extent of their cash investment in the property.
If there is a disagreement with a limited partner, he or she can be replaced. If a partner wants out of the transaction, he or she can sell their share of the partnership at whatever price they are willing to accept and a buyer is willing to pay
As the general partner, you can also collect a management fee for your management services.

Cons: As the General Partner, the total asset is your responsibility. If, for some reason, you get into financial trouble with the property, you are the only one a lender will look to…not the limited partners. If the property is liquidated, the limited partners get paid first out of the proceeds.
You will have to make periodic financial reports to the limited partners.

Tip: There are legal documents that must be prepared to create a limited partnership. If you are purchasing a single, small property it probably will not be worth the expense of using a limited partnership structure.

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Chapter Thirteen
How to Negotiate With the Seller

We have reached the point that we want to sit down with the seller and discuss the possible purchase of his home. We've done our homework. We know the neighborhood, as much as we could find out about the area in general, and have done a thorough check of the house.

We know the seller is asking $110,000 for the home. There is an assumable mortgage on the property in the approximate amount of $85,000 at 7.5% with monthly principal and interest payments of $629. We also estimated that it will cost us about $2,000 to make the necessary repairs and renovations in order to bring the property back to full market value. This is providing we do the work ourselves. If we have the work done for us, we are looking at about $7,200 in cost. We also estimate that our closing costs will be another $22,000.

We would like to purchase the home for $100,000 but figure it will cost us $105,000 after negotiating with the seller.

Tip: We could offer $90,000 for the house and hope to meet in the middle during the negotiations. This would give us the $100,000 price we would like to pay. As a practical matter, if our offer is too low to be considered reasonable by the seller, he will refuse to negotiate at all. I've seen sellers tear up an offer in front of the potential buyer and tell him, "You are so far off a reasonable offer, and I won't even counter offer it". The sad part about this happening is that the buyer has just lost any chance of re-negotiating the contract with that seller.

Practical Point: If you know the seller is in deep financial trouble and about to lose the house, the $90,000 offer might sound good to him. After closing costs and paying off the existing first mortgage, the seller will about break even. He will have lost any equity he may have had in the property. That is still far better than letting the bank foreclose on the house or being forced into bankruptcy. In either of those scenarios, he not only loses his house but his credit rating is destroyed for at least seven years. This can be discussed with him if you are tying to get the lowball offer accepted. It is also one more reason you need to spend enough time with the seller so he trusts you enough to give you a complete picture of his motivation to sell. The more you know, the better the offer you can make that will benefit both of you.

Once you begin the negotiation process, you need to follow a simple rule that has worked most of the time for me.

“Make your entire presentation, and how you came to the conclusion you reach as far as price and terms of the purchase…and then hand the seller your offer to purchase contract and STOP TALKING!”

The seller needs time to think about the offer and what you told him your reasoning was for the terms in the offer. It’s a known fact that the first person to talk after that dreaded silent period, usually LOSES. We presented an offer on a several million-dollar apartment complex and put this law into use. After making our entire presentation verbally, we handed the seller the contract and sat and waited… and waited…and waited for him to speak first. My associate was timing that silence that seemed to drag on for fifteen or twenty minutes. When the seller finally spoke, only two minutes had passed.

The important point is to give the seller time to think about your offer. I’ve seen a buyer (or his agent) never quit talking. This does not give the seller time to consider the offer.
According to the Bible, Sampson killed ten thousand Philistines with the jawbone of an ass. There has probably been that many real estate transactions killed the same way!

When making the presentation to the seller, you already know two things:

1. What he will readily accept and what he will not like
2. Just how far you can go in the negotiation process before you have to re-evaluate the contract to see if it still makes sense with the terms and conditions the seller is willing to accept.

Here is an example:
You offer $90,000 for the home and plan on assuming the $85,000 mortgage. You want the seller to carry the remaining $5,000 plus your closing costs of $2,000, plus your estimated $2,000 in repair costs in the form of a second mortgage. You’d like the seller to carry the $9,000 mortgage for 20 years at 7.5% interest, than same interest rate of the first mortgage. Before meeting with the seller, you determine the limits that are acceptable to you without going home and re-evaluating the entire transaction.

You are willing to pay $105,000 maximum for the property. You are willing to pay the repair costs of $2,000 out of your own pocket, but still want the seller to carry a mortgage for the remaining $2,000. If the seller refuses to carry the mortgage for 20 years, you’ll allow it to balloon in ten (five to seven years at the least). You can also renegotiate the 7.5% interest rate up as high as ten percent, if this is a point of rejection with the seller. As a practical matter, you usually have to pay a higher percentage rate for second mortgage money because it is not a “risk free” as a first mortgage. If the property gets into financial trouble, the second mortgage is third in line to be satisfied. First comes any delinquent real estate taxes, second the first mortgage payoff and then the second mortgage. Finally, you would like another concession or two.

You want to be able to close on the property in sixty days and no sooner. This gives you time to renovate the property either find a tenant or resell the property before you have to close.

Let's discuss the first part of that final concession. You may want to begin renovation before the closing. This, to some, is very risky. You are spending your money…and time, renovating someone else's property. If the closing does not take place, you are out cost. Why do it? You are in control here. You have a firm contract, agreed to by both parties. You are reasonably sure the property will close as scheduled. The seller is still paying all other expenses, (mortgage payments, taxes, etc.) while you get the property ready to sell or lease. All you will be out is a couple of thousand dollars in repair costs if you decide not to close.

If you close first, you will be making mortgage payments and other expenses before the property is in any condition to sell or rent.

Will the seller go along with letting you in to make repairs. Unless he has to move out of house to let you do it, what does he have to lose? If it does not close, you paid to fix it up for him. It's a win-win situation for both you and the seller.

We need to get back to the contract negotiation. When presenting the offer, outline all of the points that you know the seller will accept without a problem. Get him nodding his head "yes" before hitting him with the areas that will be difficult to negotiate or accept as is. Once you have covered everything, it is time to follow the advice of giving him the contract to review and stop your presentation. Give him time to think.

In other parts of this book, we discuss how to overcome some of the objections the seller will have when reviewing the offer. If he wants ten percent interest in the second mortgage instead of 7.5 percent, request extending the term of the mortgage so your payments will remain the same even at the higher interest rate. In the twelve-unit apartment complex case study at the end of this book, you'll see how I ended up with a forty-year mortgage, using this principle.

If the seller objects to the long term, offer to balloon it in just ten years. By then you'll be out of that property and into something bigger anyway.

You can often offer to pay more for a property in order to get better terms and vice-versa.

What do you do if the seller absolutely refuses to carry a second mortgage under any condition? He wants all of his cash out at closing. In chapter ten we discussed other possibilities: Locate a private lender to carry the mortgage and find someone who will buy the seller's mortgage at a discount.

Before you resort to this method, make sure the seller understands that the mortgage can be a secured investment paying an excellent return. It will be far better than any type of fixed investment he can make at his local bank. In our example, you can point out that the $22,000 mortgage will give him a 9 percent interest rate for the term of the loan and monthly payments of $223. If you agree to have the fifteen-year mortgage and balloon in ten years, he will collect $26,760 over the ten-year period and will still have $10,775 coming to him when the mortgage balloons in ten years. You are showing him how he can earn a total of 37,535 on his $22,000 mortgage. Quite often this approach will sell him on the idea.

Most of our examples offer one thing…flexibility

We can give here if we get a concession there, such as paying more for the property in exchange for better terms. The goal is to give the seller some choices so you are not locked into a "take my offer as is or we have no deal". You are sure to lose if you take that approach. If the seller really wants to, or needs to, sell there is always room for negotiation

Chapter Fourteen
How to Create a Win-Win Situation with a Seller

The first thirteen chapters in this book have all been geared to one goal: Locate a motivated seller who owns a property that you can buy at a below market value and give the seller what he needs and wants in the process. Finding the right property is of no value if the seller feels you are taking him for a ride and taking advantage of his need to sell (which you are, of course, but this is where "empathy" comes in again). Unless you can show the seller how he or she will benefit from the transaction, along with you, you probably will never get the cooperation you need to put a transaction together.

I've had sellers who were so bull headed that they would refuse to negotiate with me, even in a win-win situation. One particular seller owned a $2,000,000 office building that was in financial trouble. It was a beautiful new building but was only about sixty percent occupied. He needed at least seventy-five percent occupancy to break even. We tried to negotiate with him at a price that was even more than current fair market value, but he insisted he would only take a price equal to what the property would be worth if 95 percent occupied. We finally gave up and went on to another property. Less than a month later, that seller lost the building through foreclosure by the lender. Where his logic was in refusing to negotiate with us, I will never know. I'm sure he was not better off doing what he did.

You'll face some sellers who, even though they claim to be motivated or even desperate to sell, will not budge from their original lofty idea of what their property is worth. When you locate someone like that, just politely explain that you don't feel you can work something the will be satisfactory to him. Thank him for the time, leave him your card and tell him that, if he changes his mind in the future, please give you a call. This way you did not make an enemy and he just may give you a call when he finds out your were right.
I had one seller that I made my farewell speech to and before I made it to the door he stopped me and said, "Maybe I was too hasty. Let's sit down and talk some more". Occasionally that approach works if he thinks he is losing a possible sale by not moving from his original demands.

Again, it has to be a "win-win" situation for both parties. And remember, it's a two way street. You cannot expect to get everything your way. If you are totally unreasonable in your demands, you are wasting both yours and the seller's time. Look for another property. This is the paramount reason you need to do your homework before meeting with the seller. Know what is reasonable to expect. Know the limits you can accept to put the transaction together. Finally, know the seller's motivation to sell and how you can truthfully help solve his problem

Chapter Fifteen
How to Negotiate With a Lender

The first rule you must believe, and this was pointed out in Chapter Eight when we discussed financing, is that bank loan officers are in a business like anyone else. Their business is to loan out money at a higher rate of interest than they pay their depositors. It's their business, like selling shoes or fast food, only they "sell" money. The point is, do not be intimidated by the gorgeous fifteen story, all glass bank building with marble floors and plush furnishings with their name in ten-foot high neon on the top of the building. Chance are they are just leasing space in someone else building. They rent a large enough space that they are considered a "signature tenant" and therefore get their name splashed in bright lights on the outside of the building.

Sit down with the loan office and explain exactly what you are doing, what you need from them, and ask how they can help you.

Here is what you need to take with you to the bank:

1. Your personal financial statement, which may not be too good, but that's alright if you have other credentials to offer.
2. Complete details on the property you want to purchase including:
   Address of the property
   Property details
   If the property is being held to produce income, have a financial analysis of the investment (such as the Investment Property Profile analysis that is included in our real estate investment course) to give to the loan officer. You want to prove that the property will carry itself and that you know what you are doing. These forms will help you along those lines.
3. A list of any improvements you intend to make on the property and what you expect them to cost. (That's not your cost to do it yourself, but the cost to have the work done for you.)
4. A list of any assets you may own, such as you personal residence and include the market value and the remaining balance on the mortgage. This gives you some assets with value to declare.
5. If you are trying to assume a seller mortgage held by that bank, explain why the seller needs to sell and how you are trying to help him. You should do this with the seller's approval, of course. You don't want to let the bank think the seller is in financial trouble. As a practical matter, the bank will already know if he is behind on mortgage payments.
6. Photos of the property. When you read the first case study at the end of the book, you will see how I used photos of the property I wanted to buy with no money down to convince the lender to let me

assume the mortgage. I used them to paint a very gloomy picture of what was happening with the property and it needed to be corrected before the buildings were totally valueless. A slight over exaggeration perhaps, but it worked. This is the reason I took photos of the worse views I could find. Even the unshakable loan officer was shocked. They rarely ever look at properties they have financed, once the mortgage is placed.

The more information you can furnish a lender, the better your chances are of obtaining the financing you need. You'll find that you cannot use the bluffing technique discussed earlier where you start to walk out. You may be out the front door before you realize no one is trying to stop you to reconsider your offer.

Don't expect to get a yes or no on the spot. Chances are your offer will have to be taken before the bank's loan committee for review. If they have just met, it may take a week or more to get a response.

The good new is, there are many other sources of financing that we covered earlier, that you can turn to if you get nowhere with the present lender. Also, don't forget letting the seller refinance the property if you cannot get any cooperation from the bank.

Chapter Sixteen
Understand Closing Costs and Closing Statements

Before the day of closing, or a couple of days before, you should receive a closing statement outlining how much cash you will need at the closing, unless you were able to successfully negotiate a no cash down transaction.

Here is a typical closing statement as it might look if you were to purchase the house we have been using in our examples at a price of $105,000, assuming the first mortgage of $85,000 and the seller carrying a second mortgage in the amount of $22,000.

First we'll take a look at the closing statement and they we'll explain what each of the items is on the statement.

BUYER CLOSING STATEMENT
ESTIMATED COSTS

Item	Charge Buyer	Credit Buyer
1. Sales Price	105,000.00	
2. Earnest Money Deposit	___________	
3. 1st Mortgage Amount		84,625.00
4. New 1st Mortgage Costs	___________	
5. New 2st Mortgage Amount		22.000.00
6. New 2nd Mortgage Costs	_____________	
7. Appraisal Fee	250.00	
8. Real Estate Taxes paid in advance	245.00	
9. Credit Report	50.00	
10. Settlement Fees (Attorney)	_____________	
11. Title Insurance Cost	675.00	
12. Document Preparation Fee	75.00	
13. Recording Fees	22.00	
14. Inspection Fees (roof, termite, etc	150.00	
15. Survey	125.00	
16. Homeowner Insurance	635.00	
17. Mortgage Insurance	275.00	
18. Other ____________________	_____________	____________
19. Total Charges (Include Sale Price	107,502.00	
20. Total Credits		106,625.00
21. Estimated Cash Due At Closing		877.00

(Total Charges – Total Credits)

22. Totals (Both columns should add up to the same amt.)	107,427.00	107.427.00

Some of the charges shown may not be applicable in a given area. Others may be added that are not included here. Check with your attorney or closing agent

In most areas you can expect buyer-closing costs to average about 6% of the selling price.

Line-by-Line Explanation of the Closing Statement:

1. Selling Price: The price you agreed to pay
2. Earnest Money Deposit: Any money you put down in advance will be credited to your at closing. In our example, you did not make a deposit.
3. 1st Mortgage Amount: The mortgage you are assuming is credited to you which reduces the amount you need to put down.
4. New 1st Mortgage Costs: You would be charged closing costs if you were obtaining a new first mortgage.
5. New 2nd Mortgage Amount: a credit to you
6. New 2nd Mortgage Costs: If you had to pay to place the mortgage
7. Appraisal Fee: Required by the bank to verify the value for loan purposes.
8. Real Estate taxes paid in advance: The bank will no doubt require an escrow account (the seller probably already has one) to cover the cost of taxes and insurance when those bills arrive. The bank wants to know there is money available to pay them. You will owe the amount they require to have in advance. The seller owes taxes until the day of closing. You will continue to pay from that date on. The tax bill probably arrives in November. The bank will require you to have November and December's payments already in the escrow account so the tax bill can be paid when received in November in order to take advantage of the discount your county probably allows for paying your real estate taxes ahead of the January deadline.
9. Credit Report: You can expect the bank to run a credit check on you, are your expense.
10. Settlement Fees (Attorney) If you hire an attorney to represent you at closing, his or her fees will be charged here.
11. Title Insurance Cost: You will be required to pay for a title policy that will be the property of the bank. They want their loan protected from any title problems that could arise. You will also want to have a title policy to protect your interests.

Tip: Request the title company issue a simultaneous issue on the second title policy. Assuming each title policy will cost about $600, you could be charged $1,200 for both yours and the bank's policy. Most title companies will issue a second policy on the same property for a minimal amount. We show an added $75.00 for the second policy on our statement.

12. We did not include an attorney fee above because we assumed the title company who wrote the title policies will also handle our closings for us, included in the cost of the two policies.
13. Document Preparation Fee: The charge made for preparing all of the paperwork to close the transaction.
14. Inspection Reports: You will want to have a professional inspection of the property, as part of the requirements in your purchase contract, to insure there are no hidden, major problems with the house that you were unable to see yourself, such as a cracking foundation.
15. Survey: The lender will require a current survey of the property to insure there are no problems that have occurred since the last survey was made, such as a neighbor's fence that encroaches onto your property.
16. Homeowner Insurance: You will have to reimburse the seller for the unused portion of the homeowner insurance policy that he has probably paid in advance.
17. Mortgage Insurance: The policy the lender requires to protect their interest in the property in the event something happens to you. We mentioned earlier, that when you can prove, through a new appraisal, that you have in excess of 20 percent equity in the property, the lender should be willing to cancel the policy. This will save you a considerable monthly cost.
18. Other: Any other credits or charges not already listed
19. Total Charges, including the sales price: This is what you owe
20. Total Credits: This is what you are credited. In this case, the two mortgages you are assuming.
21. Estimated Cash Due At Closing: How much you must pay at closing. We came within $877.00 of having a true no money down transaction. You would be given a finalized closing statement a day or two before the closing so you can be prepared of how much money you need to take to the closing.
22. Totals: Both columns should balance with one another.

Tip: Any funds you take, must be in the form of a bank cashier's check. Personal checks are not acceptable at a closing, unless it is a small amount due to a last minute error correction on the closing statement.

One Additional Tip: You'll notice that the mortgage you are assuming is $84,625. All of your calculations were based on an $85,000 mortgage. In this case, the amount is only $375 off. You'll need that much more to close. This is another reason you want the closing statement in advance. You need to know, well in advance of the closing, if any mortgage you are assuming is considerably less than you planned. This could create a real problem, cash wise. In some cases, you may require the seller to carry the difference between the amount he gave you and the actual amount of the mortgage balance the day you close.

It looks a little complicated, but most of the items you will find on a closing statement are easy to understand.

Chapter Seventeen: What to Expect at the Closing

The first thing you can expect is that a guy by the name of Murphy will show up at the closing. He has some kind of law that requires him to show up when you least expect it and try to foul thing up. Generally, if you did your homework and the closing agents did theirs, Murphy will not have much to do. It could be a little thing, like a minor financial error in the closing statement that they did not catch until you reached the day of closing. By the way, it does not matter if you are the buyer or the seller, the mistake will rarely ever be in your favor.

Perhaps a more difficult situation will arise, such as the seller ends up in the hospital, undergoing surgery, the day he should be at the closing…and the hospital is 2,300 miles away. In a case like that, the closing will probably have to be delayed unless the seller gave someone the power of attorney to act on his behalf.

At the closing, you should receive all of the keys, and garage door opener to the house. Also, any documents pertaining to the house, such as blueprints, surveys, service contracts, warranty policies that may still be in effect, etc.

Most closings will go smoothly provided the closing agents have done their jobs. If a minor problem arises, such as the one mentioned first, it can easily be resolved at the closing table. We mentioned earlier, that is you discover, because of an error on the closing statement, you owe an additional couple of hundred dollars, they will generally accept a personal check for that amount, assuming you came to the closing with a cashier's check for the main amount. Of course, buying with no money down makes a difference. If you only owe the added amount on a zero due closing statement, they may want to require a cashier's check or close the transaction in escrow until your personal check clears the bank.

Why could there be an error in the closing statement? Besides a simple error in addition or subtraction, the pro-rations of certain costs could have been incorrect. For example, because of circumstances the closing is delayed a day. This means that all of the pro-rated figures for mortgage interest due as of the day of closing, tax and insurance pro-rations, etc. are all wrong and must be changed. Again this is rarely a serious problem and it can usually be corrected at the closing table.

It will be a good feeling to leave the closing knowing you have a start toward securing your financial future in real estate investing. You've completed the most difficult part of investing in real estate. That is learning the right, low risk way of doing it and making the effort to acquire that first property. From now on, you will be a pro and be able to negotiate on other properties with more confidence than you probably had with this one.

Now that you own your new real estate investment, you need to decide what you intend to do with it, other than make money. Perhaps that should be rephrased to "How are you going to use this property to make the most money possible"?

We are about to find out.

Chapter Eighteen
You Own It, Now What Do You Do?

You should have made a tentative decision during the negotiation phase of buying the home, what you intend to do with it once you own it. You, as you recall, have three choices:

1. You can renovate it, if that is what it needs and turn around and resell it at a profit. You need to sit down, as we did earlier, and see how much you can earn by flipping the property as soon as the renovations are completed. This is where you will need your tax advisor to see what tax ramifications you will have if you sell it. In chapter 21, we cover tax free exchanges and the basics of how you can defer paying tax on your profits on the sale of a property that is held as a real estate investment.
2. You can "flip" the property immediately after the closing, without doing any of the renovations first. Chances are it will sell for somewhat less, but if you managed to negotiate a well below market value price on your purchase, it may pay to let someone else worry about the renovation and managing the asset.

   Earlier we mentioned that you have the right to sell an option contract if you entered into an option to purchase the property. There is nothing wrong with selling your purchase contract, at a profit of course, before you close. The buyer you found can take title immediately after you do in a simultaneous closing. If the seller is carrying a second mortgage, he may be concerned if he knows you are turning the property over to someone he does know. This is the reason you wanted to be sure to have a fully assumable second mortgage prepared.

3. You may want to keep the asset for some time to give the income a chance to stabilize and the market value to increase to give you a higher selling price.

   If you can find a tenant for the house, it may pay you to rent it out for a year and get the feel for handling a rental income property. If you purchased a multiple unit building or a store, warehouse or office property you will need to prepare a financial analysis on a regular basis whenever there is a change in income, expenses or whatever, to insure that the investment stays on track. In the next chapter we'll discuss when and why you should sell your property, if you did not flip it shortly and closing on it.

   If you do enter into a lease with a tenant, you need to have a firm lease that spells out all of the terms and conditions of the rental.

Most office supply stores have form leases for both houses and apartments that you can purchase. These stock leases cover most of the clauses you need to protect you.

Eventually, you will want to keep your investment property(s) for a certain length of time, to gain the maximum wealth building potential out of each of them. If you are serious about becoming totally involved in real estate investing, you need to look at www.investmentre.com to learn the professional's techniques and secrets to being successful in the field. It is the standard for over a quarter of a million investors worldwide and reports I receive give glowing reports on all of the money they have made using the techniques found in our investment real estate course and software program.

Whatever route you choose to take in your real estate investment career, fast turnover or building an investment portfolio, real estate offers you the finest way to do it. It has proven to be the best wealth building vehicle, of comparable risk, on the market.

Chapter Nineteen
When and Why You Need to Sell Your Property

Before we get into the best reason to sell, here are some other common reasons you may want to sell your property.

1. You are having problems with the property. If you did your homework before you bought, this reason should not be a factor. The only exception would be a drastic market turndown where everyone is suffering, regardless of how they invested their money.
2. You need some instant cash. Selling under those conditions is both difficult and costly. A better approach may be to refinance the property, if you can, and get tax free cash out if it that way. Selling under distress circumstances will bring in the real bargain hunters who want to steal your property (kind of the approach you took when you bought it).
3. You also might be facing the same type of problems the seller had when you bought the house. You may have to move to another city or state due to your business. In any event, there are various reasons investors must liquidate a property before the ideal time arrives to sell.

All of that aside, we want to explore the primary reason the vast majority of investment property owners sell their property.
You've decided to keep your property and rent it out. There are several things you need to do that are fully explained in our investment course.

1. You need to stay on top of market conditions. Make sure you are keeping your rents at market rates. I've seen landlords who feel sorry for a tenant and never increase their rent. If you intend to run a non-profit organization, that's great. If, however, you are tying to build your own financial estate, you need to remind yourself that you own a money making machine and not a support center. This does not mean you need to be a cruel, hard nosed landlord you use to see in old movies. You need to use empathy (you've heard that used before in the book, right). The difficult part is to understand that tenants have problems too and you can sympathize with them, but if you start giving rent concessions, they will eventually need to console you when your investment starts to lose money.
2. Along these lines, you will want to increase rents whenever a lease is due for renewal. This, of course, has to be tempered with the current market. If rental are in demand, increase rents. If the market is soft with a high area vacancy rate, you may have to forgo any increases for a few months until the market strengthens. The nice thing about real estate as opposed to the stock market, is you have

some control over your asset. When was the last time you called the CEO of General Motors and told them they need to do something differently?

3. How much of a rental increase should you get? Again, it depends on the market. You need to keep your rents in line with the competition in the area with comparable rental units. Generally, in a good market, a ten percent increase each year is not unreasonable, as long as the economy is strong. As a practical matter, a home renter or an office tenant cannot afford to move and go through all of the trouble it take in the hopes of finding something as good in order to save a few dollars a month. If, for example, a tenant is paying $1,000 a month rental and refuses to pay $1,100 next year, he must pack, move, change mailing addresses on everything, change over his phone service, electric and water service, voter registration, driver's license, etc. All for $100 a month savings and he may not find anything better for less money.
4. Keep track of expenses. Your mortgage payments will probably be fixed, but taxes, homeowner insurance, repair costs, utility bills, etc. keep in increasing. This is the reason you need to prepare an annual financial analysis on your property.

Now that we have covered some of the basics thing you need to do if you keep the property, the next consideration is:

When Should You Sell?

If you want a simple rule of thumb, you should sell when your equity is about double what you originally invested. The problem is, you did not put any money into the property to begin with, so what is double Zero equity? The answer is this: You did put money into the property. Through renovation you created instant equity value by bringing the home up to fair market value. In our continuing example, the home is now worth $145,000 and you paid $112,000 including your cost in renovation. So, in theory, your investment property started out with equity of $35,000.

Let's carry our rule of thumb out a few years, using $35,000 as our equity going into the property.
Here is how our investment looks the first year:

Market Value :	$145,000
Mortgage(s):	112,000 (rounded)
Equity	$ 33,000
Less: out of pocket	
Renovation costs:	2,000
Equity Year 1:	$ 35,000
Rental Income/ Yr.:	$ 14,400

Less Expenses:	4,200
Less Mortgage Pmts.	10,224
Profit (loss):	<$ 24>

The property will lose an estimated $24.00 the first year. That's good. It is usually difficult to get a single family home rental that will come close to breaking even the first year. You are banking on future rental increases to get the investment into a positive cash flow position.

Now let's see how it looks at the end of five years, assuming we were able to increase rents only six percent per year and our taxes, insurance and other expenses will also increase by six percent.

Rental Income, Year 6	$15,264
Less Expenses:	4,452
Less Mortgage Pmts.	10,224
Profit:	$ 588

Still not much, but we didn't have anything to start with. Now we'll take a look at five years from now, but let's be very conservative with the expected appreciation rate. We'll only use three percent. In other words we reasonably expect our investment property to appreciate three percent per year for each of the next five years. That is less than the inflation rate. Assuming we increased rents by six percent per year, we are being ultra conservative in using only three percent appreciation. (The value of any income property is directly proportionate to the income it produces). We'll also show what the mortgage balances are at the end of five years.

Market Value End of Year 6	
Based on 4%/Yr. Appreciation	$166,911
Balance on Mortgages:	95,535
Equity:	$ 71,376

Our equity is now about double our initial equity in the property. It's time to get out of it and into another property. Why? You are no longer making maximum use of leverage (remember that)? You started out with $ 35,000 in equity and now have over $71,000. Your initial investment allowed you to purchase a $145,000 property with the $35,000 equity (that was the fair market value after renovations, not what you paid). You should now be able to purchase a property almost twice the market value of your first one, using the current equity you have after five years. Instead of owning a $145,000 property you could own a $290,000 property. Instead of getting three percent appreciation on $145,000 next year ($4,350) you could be earning three percent on a $290,000 asset ($8,700). That ratio keeps increasing each year.

With no additional cash investment, you could be earning an additional $4,350 a year in property appreciation or double what you will earn on your present investment. Not only that, but your cash flow increases with a larger property and your are paying down a larger mortgage, so your principal reduction keep increasing as you get into larger properties.

You have three ways of earning money on a real estate investment:

1. The cash flow or profit you are left with after paying operating expenses and making mortgage payments.
2. The amount your mortgages are paid down each month, thanks to the rent paid by your tenants.
3. The appreciation your property is realizing provided you keep up with the current market and increase your rents accordingly. Even a modest increase in rents and a modest increase in appreciation can, over a few years, increase your net worth by a considerable amount.

That one key factor alone is what professional investors practice to build multi-million dollar estates for themselves through real estate investing. You are now on the road to the same success.

In chapter twenty-three we'll discuss the practice of Pyramiding and you will discover the true secret to building wealth in real estate, beginning with one small investment and never adding another penny out of your pocket.

Chapter Twenty
The Importance of Record Keeping

Keeping accurate records is important to insure your financial success…and to keep IRS happy. You can begin by setting up a simple bookkeeping system using Quicken or one of the other popular computer programs. You can set up ledgers to account for each income and expense item you will incur in the operation of your property. These include:

<u>Income Received:</u>

Income from Rents
Income from Other sources, such as coin laundries
Common Area Maintenance (CAM) charges in office buildings

<u>Advance Rents and Security Deposits:</u>
Some states require you keep security deposits in a separate account and pay the tenant interest on that money while you are holding it. When a tenant moves out, you do a final inspection of the unit and determine how much, if any, of the security deposit you will keep to cover any damage done by the tenant. Normal wear and tear is not chargeable. Advance rents are yours to keep. The purpose is to have an extra months' rent paid in advance to cover the rental if a tenant fails to pay one month or moves out unexpectedly and without notice.

<u>Operating Expenses:</u>
Set up a separate ledger sheet for each of the operating expenses you have in the operation of the property. These can include taxes, insurance, payroll, water, electric, trash removal, repairs and maintenance, etc. A full list is included with the forms and checklists at the end of the book. It is important to review these expenses items on a regular basis to insure none of them are suddenly getting out of line and, if so, why. It is used to pay the final rent payment if a tenant lives out the full term of the lease.

<u>Mortgage Payments:</u>
You will have mortgage amortizations schedules when you close on the property. Set up ledger pages for each mortgage showing a monthly breakdown of total mortgage payment, interest deducted and principal payment. You, or your account, will need this information at tax time. If also keep you abreast of how far your mortgage principal balances are being reduced.

You will want a section set up for your costs in the property. This includes your acquisition costs, renovation costs and closing costs.

Although it is probably not necessary as part of your accounting records, you need to set up a record of how much value the repairs you made have. You may have only spend $2,000 out of your pocket, but having the work done for you would have cost $7,200. When the time comes to sell, this will be important, both to the IRS as well as a potential buyer. You can show the buyer how much money you spent renovating the property. (You are not lying. Your time and labor was worth something, too.) You'll also need a section to show the annual taxable depreciation you took.

During the initial period of time, right after you purchased the property you may have had carrying costs to keep the property at a breakeven level. This will show up in your profit and loss statement for the end of the year reporting.

Setting up a simple bookkeeping system is not difficult with the software that is available today. A few minutes a month is all that it takes to keep your records current and be able to know where you stand at all times.

Chapter Twenty-One
How to Avoid Taxes on the Sale of Your Property

We should begin by clearing up two misconceptions about getting out of one investment property and into another without paying taxes on your profits.

First of all, the title to this chapter is really incorrect. You cannot "avoid" paying taxes. You are merely "deferring" taxes. Sooner or later, IRS will probably still get their share. I say 'probably' because a little later in that chapter, we'll suggest a way that you can really avoid paying capital gains tax on your profit.

The second misconception is that, like your home, you can sell your investment real estate property and avoid paying taxes by purchasing another one. This rule does not hold true for real estate held for investment purposes. The rules have been relaxed in the past few years when the 1031 exchange rule was revised. The old 1031 rule allowed you to exchange (not sell) your present property in trade for another provided:

1. the property you were acquiring was of greater value than the one you were getting out of.
2. The greater value meant you could not take any cash out of the exchange, you had to acquire a mortgage as large or larger than the one you were getting out of (referred to as 'net loan relief', and you could not take anything else in lieu of cash, such as a car, boat, stocks, etc.
3. The exchange had to be simultaneous. In other words, you had to acquire the new property at the same time you traded out of the present one.

As you can guess, tax deferred exchanges were very difficult to structure.

In 1984, the IRS relaxed the rules to make them easier to understand and easier to create a tax free exchange. According to tax code 1031a3A as amended by the 1984 code section 77a, you can now sell your property provided you:

1. Identify the property you intend to "buy" in the exchange within 45 days of the closing on your property, and
2. Close on the second property within 180 days of the previous closing or by the due date of your taxes in the year of the sale of your property, whichever occurs first.
3. You still have to qualify for the tests outlined earlier:

    The property you are acquiring is large than the one you are giving.

    You will receive no "net loan relief." You are actually acquiring additional indebtedness.

> You received no cash or "boot" in the transaction. "Boot" would be something of value in lieu of cash, such as a car or boat.

It sounds complicated but well worth the effort.

Tip: You need to consult your tax counsel if you intend to create a tax deferred exchange.

How Long Can You Defer Taxes?

As long as you keep exchanging from one property to another, and following the 1031 exchange rules, you can defer paying capital gains tax on your profit indefinitely.

What About Never Paying Tax I Mentioned?

According to present tax laws, when you die, your heirs will inherit your property at current market value and not at your original basis in the property.

What exactly does this mean? Suppose you purchase the $105,000 house and resell it at a $30,000 profit under 1031 tax rules. You do not have to pay taxes on that $30,000. There is actually a little more to it than that. If you hold onto the house for a few years, you will probably take the depreciation benefits allowed by law to reduce your taxable income. This depreciation amount is recaptured when you sell the property. In other words, you have to add that into the profit you made on the sale, so your taxable profit would be more than $30,000.

Instead, you exchange into the $290,000 property we used in the example in Chapter 19, When You Should Sell and Why.

During the next 25 years, you continue the same process, exchanging from one property to a larger one whenever you equity is double your original equity when you bought the current property. You now own a real estate property worth $1,000,000. Your equity had grown from the original Nothing Down amount to about a quarter of a million dollars.

When you die, you heirs will inherit the property at the current $1,000,000 value and other than inheritance tax on your estate (depending on how your will is set up), they have avoided paying capital gains tax on all the profit you made over the years.

Important: Again, work out full details with your tax counsel to insure you follow the rules, and be sure they have not changed.

What If You Don’t Want To Sell?

In the chapter on financing, we mentioned that you can refinance an existing investment property and take cash out of it tax free. IRS says you are just borrowing your own money in exchange for a mortgage, so it is not taxable…or something like that.

Why would you want to increase the debt on a property you already own and is very profitable. Increasing the mortgage will reduce your cash flow on the property won’t it? Yes, it will reduce the dollar amount of profit the property produces, but it will also reduce the equity you have in the property so the proportion between cash flow and equity could and should remain about the same. It the property was giving you a nine percent return on cash invested originally, it still should give you a nine percent cash return on your new equity after refinancing.

The advantage is you are again making better use of leverage to create wealth. Remember the rule that when your equity is double what you originally invested, it is time to make an adjustment. Well, refinancing is the other alternative to exchanging into a larger property.
There is another advantage to refinancing and using the cash to buy another investment property. Your real estate assets are now divided between to properties. All of you money is not tied up in only one property.

There is a disadvantage to doing this, however. Usually a larger property is easier to manage and the expenses on a per unit basis are less than on two smaller properties. You have to weigh the choices and see which alternative is best for you.

Caution: Always prepare a financial analysis on each property before you make a decision to change. If you feel I keep reminding you of that quite often, you’re right. It is probably the most important few minutes you will spend in your entire investment program. It is the best way to reasonably insure you are making a sound investment decision.

Included with our investment course is a program that lets you plug in a few figures, click a calculate button and it will determine if it makes sense to refinance an existing property and how much you must earn on that money to have it pay off doing it in the first place. It also gives you an estimate of what your property is worth today.

This brings up an interesting point. Don’t be guilty of the mistake many investors make when they are not aware of how to make the most of their real estate investments.

Suppose you have owned your property for five years. When you purchased it, you had $30,000 cash equity invested and the property was giving you a ten percent return on your invested capital or $3,000. Now, five years later, you have a cash flow of about $4,000 due to annual increases in the rent you are charging your tenants. Your first thought may be, I'm now earning over 13% on my $30,000 investment. ($3,000 divided by $30,000) Why would I want to do anything?

I hope, by now, you already know the answer to that question. In a previous example we showed how, with a minimum amount of annual appreciation of four percent per year, your equity in the property is now about $60,000. Your actual return on your $4,000 cash flow is only 6.7% ($4,000 divided by $60,000) and each year it will continue to drop as your equity continues to increase.
You have lost the primary wealth building potential of your investment.

How does this happen…in case you really want to know. We estimated a four percent annual appreciation rate, which means our cash flow will increase about four percent per year, but so will the market value of our property. Four percent on a $130,000 property is a lot larger amount than four percent on $3,000. At the same time, thanks to our tenants, our mortgage is also being paid down, so we now owe less on the property, which also increases our equity.

If, of course, you immediately flipped the property for a profit right after you purchased, this whole lecture did not apply to you. Sorry, but maybe next time…

Chapter Twenty-Two
What Do You Do If You Make a Mistake And the Investment Flops?

First and foremost, don't panic. Chances are this will not happen. Even if it does, it is not the end of the world. Stock investors who lost a fortune in 2002 had no control over their investments. At least you have some control and can make adjustments to help offset a downturn in the economy or lack of tenants. Cheer up; you could have your retirement fund in Enron or other major corporations who have "swindled" their employees out of their retirement security.

Alright, what do you do it you are in a bad market and are having trouble keeping your property on at least a break-even level? You can sell the property, but as a practical matter, no one will probably buy if the market is that bad and you are losing money. You need a buyer like you were when you purchased it, someone looking for a desperate seller.

The first step is to pull in expenses wherever you can. Some things you cannot change, such as taxes and property insurance. You can possibly reduce expenditures in other areas, such as lawn maintenance if you have someone in the family do it for you.

Caution: Do not cut maintenance expenses to the point that the property begins to look like a distressed property. If you do, you will start losing the tenants you already have and you'll have trouble attracting new ones.

You may have to give rent concessions, such at a free month's rent in order to get tenants. Try to give them the twelfth month free, not the first or second one. If you let them move in and not pay rent the first month, they will probably be gone overnight before the next month comes along and a rent payment is due.

Always try to get a security deposit to use as a fallback fund if a tenant skips. As a practical matter, if you have a home renting for $1,000 a month and you want first and last month's rent in advance plus an additional $1,000 as a security deposit, you are trying to collect $3,000 up front. Chances of anyone being able to come up with that much cash is remote. You'll have to compromise somewhere. Perhaps drop the security deposit or collect it a little each month until it is all paid.

It is important to stay on top of your rentals. Once a tenant gets a month behind on the rent, he or she will rarely if ever catch up. If you let the rent go for two months, you have made an even bigger mistake. You'll get all kinds of promises from tenants. You don't want promises, you want money. You can't call the power company or your homeowner insurance company and promise them you will pay they sooner or later. They will just turn off your power and cancel your insurance. What will make you even angrier is to see a new SUV parked in front of a tenant's apartment that doesn't have enough money to pay the rent. You'd better believe he hasn't missed a payment on his SUV or you would not see it parked in front of his apartment.

You, at times, need to be tough with your tenants. Do not let them have control of your income or you will be the one in financial trouble.

Alright, you've done everything you can to get the income up, but you are reaching the point of being behind on mortgage payments. What do you do now? The first thing you do is sit back and do nothing hoping the problem will go away. It won't! Make an appointment to talk to the lender as soon as you know you are going to have trouble making mortgage payments. Explain the situation you are in. If it's a general market condition, he or she will already be aware that a down market creates hardships on investors of all types. Try to negotiate a solution that you can live with. Perhaps a moratorium on mortgage payments for a few months to give the economy time to level out and come back. If you have an older mortgage, where a good portion of the payment is going toward principal reduction, suggest paying interest only on the mortgage for awhile.

Remember, we discussed earlier, banks do not generally want to own real estate. They are not equipped to manage it, both knowledge and staff wise. If the market is down, the bank is even less likely to be willing to foreclose on the property. Eventually, the market will turn around. Just hang in there until it does. If the bank is willing to cooperate, you have a big step in the right direction.

What do you do if the bank does not cooperate and you are facing foreclosure? Follow the advice you learned when talking with a seller who was facing the same problem. Offer the lender a deed in lieu of foreclosure. It will salvage your credit rating (in many cases) and you avoid bankruptcy.

Tip: Don't rush into this alternative. Even if you miss two or three mortgage payments, it will generally take the bank that long to start foreclosure proceedings. This gives you a little time to look at possible alternatives.

What alternative do you have? Can you cut back on other household expenses for awhile in order to generate some cash to at least cover the mortgage interest portion of the payment? Can you borrow against any other asset you may have, that we discussed earlier, such as cash value life insurance or stocks.

Point of Interest: We have been discussing the advantages of using leverage when investing in real estate. There is one advantage to a highly leveraged property that we have not discussed. Banks will not want to take back a property if the mortgage exceeds the value of the building. They would rather work with you to at least get some money back before resorting to losing a bundle on a distressed sale. We were all too young to remember the big stock market crash in the 1920s. Stock investors, who lost everything, were jumping out of buildings in desperation. Banks were doing everything they could do to avoid owning distressed real estate properties through foreclosure. The still ended up with millions of dollars in properties that were worth about half the amount of the mortgage that was on them.

Along came investors who still had money. They began buying up all of those distressed properties from the various banks. When the depression ended, and the economy turned around, it was these investors who became millionaires… and being a millionaire in the early 1930s was a dream few people ever thought would be possible.

In any event, don't give up. Use every possible idea you read about here and in other publications to look for ways to work out of a bad situation. There is usually one available to you.

That's enough discussion about something that will rarely happen, if you follow the guidelines we have discussed. Now let's take a look at the positive side of real estate investing. How to pyramid a single, one time investment into a lifetime estate capable of supporting you for the rest of your life.

Chapter Twenty-Three
The Secret to Pyramiding (not the ones in Egypt)

There are two factors that will make you rich in real estate, once you know how to use them to your advantage.

The first is time and the second is money. The more you have of one, the less you need of the other to become wealthy.

We will use the practice of pyramiding to create our estate. What exactly is pyramiding? It is the practice of doubling our money every so many years.

Here is a simple example of how pyramiding works. This story is about a young man who was trying to earn some spending money for his next year in college. He went to work for a wealthy estate owner as the gardener for a month during summer break. The homeowner offered to pay the young man a reasonable hourly income, but the boy had another offer to make.

"You pay me one penny for my first day's work. Tomorrow, you double my pay to two cents. On day three, double my previous day's two cents and pay me four cents, etc. for the thirty days I'll be working.

The homeowner though he had a real nut and agreed to the low salary the boy wanted. Every day, for thirty days, he doubled the boy's previous days pay. At the end of this chapter we'll show you how much the boy made (or would have made if the owner had not backed down).

Here is how pyramiding works in practice:
Suppose we started our investment program with a condominium we bought for $50,000 and put $10,000 down on the property. We took out a $40,000 mortgage on the property.

Let's lay some ground rules for our investment pyramid.

1. We will exchange our property at the end of every five years (or the beginning of year six).
2. We will assume real estate will appreciate an average of only four percent per year each year during the holding period of each property.
3. All numbers in our example will be rounded to the next lowest $1,000.
4. We will assume that the Net Operating Income of the property, the income it produces after all operating expenses but before mortgage payments, is ten percent on the equity of the property.
5. We will use our equity in the property at the end of each holding period as a 25% down payment on the next property.

6. We'll plan on a twenty year time frame to create our retirement nest egg.
7. We'll assume you are in a 28% tax bracket. (Uncle Sam gets 28% of all the taxable income your investment properties produce).

Before we continue with our example, it is important to accept the fact that real estate, over time, not only *does* appreciate but also *has to* appreciate. What makes me so sure of this?

First of all, past history proves the point.

Second, our population continues to grow at an ever increasing pace.

Third, God quit making land a long time ago. This is all we get. Each year more and more people need a place to live, work, play and shop. It's the simple law of supply and demand. The supply (land) is fixed. There is no more being manufactured. The demand (our population) is ever increasing. You figure it out.

Fourth, our country has a history of continued inflation. Automobiles use to cost several hundred dollars and now the cost tens of thousands. What use to be a ten cent loaf of bread is not $1.50. A house that once sold for $12,000 is now worth $112,000. If that isn't long term inflation, what is?

Fifth, we already know that inflation also keeps the rents we collect ever increasing. Since the value of our investment real estate is tied to the income the property generates and our rents continue to increase, the value of our investment property also increases in value.

Getting back to our example, now that you sincerely believe real estate appreciates, here is a chart showing how our twenty year investment program will progress based on the grounds rules we set earlier:

1.	Property No.	1	2	3	4	5
2.	Beginning Year	1	6	11	16	21
3.	Market Value	$50,000	$120,000	$320,000	$860,000	$2,300,000
4.	Mortgage	40,000	90,000	240.000	645,000	1.721,000
5.	Equity	$10,000	$ 30,000	$ 80,000	$215,000	$ 579,000
6.	End of 5th Yr. Equity	$23,000	$ 61,000	$ 164,000	$442,000	
7.	Plus Cumulative After-Tax Cash Flow for Reinvestment	7,000	19,000	51,000	137,000	
8.	Total Equity for Reinvestment in next Property	$ 30,000	$ 80,000	$215,000	$579,000	
9.	Market Value – Next Year	$120,000	$320,000	$860,000	$2,300,000	
10.	Net Spendable Income Year 1 Each Period	$ 1,000	$ 3,000	$ 8.000	$ 21,000	$57,000

With each of the properties appreciating only four percent per year each year, we were able to build an initial $10,000 investment into an estate worth $2,300,000 with an equity of $579,000 and producing a cash flow of $57,000 a year.

How to Pyramid One Penny Into a Fortune

Here is how the young man above faired with his pay for the thirty days of work he did.

Day	Amount	Day	Amount	Day	Amount
1	$ .01	11	$ 10.24	21	$ 10,485.76
2	.02	12	20.48	22	20.971.52
3	.04	13	40.96	23	41,942.04
4	.08	14	81.92	24	83,886.08
5	.16	15	163.84	25	167,772.16
6	.32	16	327.68	26	335,544.32
7	.64	17	655.36	27	671,088.64
8	$ 1.28	18	1,310.72	28	1,342,177.28
9	2.56	19	2,261.44	29	2,684,354.56
10	5.12	20	5,242.88	30	5,368,709.12

As you can see, the young man did quite well for himself starting with just one penny and doubling his investment every day. He understood the practice of pyramiding. You won't double your money on a daily basis, but your investment program will start with considerably more of a cash investment than one penny. This method of pyramiding is what has created hundreds of thousands of millionaires and multi-millionaires around the world. Care to joint them?

Now it's you turn. You have all of the tools you need to get started and build your wealth in real estate. The only things I cannot provide is the incentive to get you away from the TV set and do it. That's up to you.

Now it's your turn.   Your future financial security is a stake. Why not put this information to use right away.

APPENDIX

The remainder of this ebook contains several sets (about 10) of forms and checklists you can use to analyze potential investments and remind you of what to look at and what questions to ask. Here is what you'll find:

THIRTEEN STEPS TO A SUCCESSFUL NO MONEY DOWN PURCHASE

(Here's proof that "13" can be a lucky number)

This is kind of a review of what you have learned in this book

1. Know the Market - Comparable rents, area vacancy rates, what is being built or planned that will compete with your building. Take time to study other, comparable properties. Check with owners or property managers and find out how much rent they are charging (and getting). I add "and getting" because they may say they are renting apartments for $1000 a month. What they may not tell you is they are giving tenants their first months rent-free. So they are really collecting $12,000 for thirteen months not twelve or only $923 a month and not $1000. This may not seem very important until that tenant's lease come up for renewal and you want to increase rents five percent. There is no way you will get a five percent increase on the $1000 (or $50) he or she is suppose to be paying. The most you will get is five percent of what they are actually paying. That's five percent of $923 or $46. If several of your tenants are on the same discount program, that dollar amount can add up over the period of years you own the property. Since your property appreciation (and wealth building potential) is directly linked to the income a property produces, you will be losing some of your potential. In other words, learn the market before you buy and know what that owner and others may be giving in the way of rental concessions.

2. Know the Area in which the property is located. It is going uphill or downhill? Stay away from a down turning neighborhood. You can have a beautifully property, but if the neighborhood is going down hill, there is no way you will keep your property in top condition. You will not be able to attract the kind of tenants you want who will take pride in keeping your property in good condition.

3. Explore various ways of buying the property: Outright purchase, deferred closing, lease/option, profit sharing with the owner to get better terms, etc. After completing the financing chapter in the course, you will discover all kinds of ways of financing real estate. If one method does not work financially, try another. If one lending institution cannot offer you the terms you need, try another. Banks mortgage terms vary from day to day and from lender to lender. Keep checking with all of them until you find the right terms for you. Consider other financing sources, such as mortgage brokers. There are all kinds of ways to approach financing a property and negotiating a purchase. Once you know most of them, you can create your own near perfect investment opportunity that a seller

will accept.
4. Carefully and thoroughly financially examine the property both inside and out. Make a list of what needs to be done and a rough idea of what it will cost to do it. (You may be able to use this list to negotiate a better price with the seller). You don't want any surprises after closing. It's too late to do anything about them then. Having a building inspection done, prior to closing, is a must. That included structural, roof, termite, asbestos, radon gas, appliances, electrical and plumbing, etc. You have to pay for that inspection, but it could save you thousands of dollars later. Be sure you have a clause in your purchase contract requiring the seller to pay a percentage of the sales price toward any repairs that the inspection determines are needed. A second clause should spell out that you have a right to cancel the contract if the needed repairs exceed that the seller is obligated to pay and will not negotiate the difference.
5. Financially analyze the property, income and expense wise, both as it is today and what it should be able to generate in income once it is fixed up and leased. If the property is a "handyman" special, make sure you know what it will cost to turn the property around to put it back in good, rentable condition.
6. How long will it take to get the property renovated and leased? Renovating a rundown property and getting it released takes time. During that time, operating expenses and mortgage payments will continue. (So much for "no money down" buying that is highly promoted). In the first example of a no money down purchase, you read how mortgage payments were deferred to give me time to get the property renovated. Unfortunately, the power company, water department, insurance, real estate taxes, etc. still need to be paid during the renovation period.
7. What will it cost to get it to this point? Be sure to include finance charges, property expenses, renovation expenses, etc. Once you know what needs to be done, keep accurate records of what it will cost, how long it will take and what your carrying costs will be.
8. Negotiate a price and terms with the seller. Make the best (tentative) deal you can...remember he or she probably *wants out!* I say "tentative" because nothing is finalized at this time. You just need enough information to make a sound financial judgment.
9. Make a convincing presentation to the lender (like the one described earlier). Prepare yourself thoroughly before meeting with the seller. Know exactly what you want and to what extent you can vary from the "ideal" purchase.

Important Point: Do not be overly anxious to agree to a contract that is less than you wanted. Take time to re-evaluate the revised terms and conditions presented by the seller. If necessary, take the changed contract home with you and rework your figures based on the new terms. You will accomplish two things. First, and of primary importance, you will not sign a contract that obligates you to something you cannot afford. Secondly, if the seller is really motivated to sell, and thinks he might lose you, he may even bend a little on his terms when you meet with him again. Don't be afraid to explain how difficult it has been for you to justify what he wants. There have been times when I have actually left the seller saying, "I'm sorry, but unless we can do this, I just cannot justify buying". Unless there is a lineup of potential buyers waiting for the property, he will either stop you before you reach the door or call you a short time later, or maybe the next day. The usual response is, "Let's sit down and see if we can work something out". Again, don't jump into something you cannot afford.

10. Prepare a second financial analysis once you know what kind of terms you will be able to get from the seller and the lender. Make sure you can still see a profit and are able to carry the property until it becomes profitable. (Don't forget to add the cost of renovation and carrying costs in the total price of the property when determining what you will be able to make on the investment).

IMPORTANT: This is the most vital part of buying a "no money down" property. Just remember, "No Money Down" usually ISN'T! Buying a property with no money down is easy. "Feeding" it until is becomes profitable could be a problem, but we discuss ways of solving this here.

11. If the deal looks financially sound, and potentially profitable, finalize the purchase contract. **Caution**: Be sure to make it contingent upon getting the financing you need.

12. Begin to turn the property around as soon as you have a firm contract. Ask the seller if he or she minds if you start your improvements right away, before closing. Considering the position he or she is in, why would they refuse? You'd be welcome to spend your money fixing up their property. All you are risking is the money you spend, prior to closing. You gain a lot more: First, you get a jump on having the property in rentable condition as soon after closing as possible, maybe even before if you negotiated a delayed closing. Secondly, you give the seller and lender confidence that you are for real and not just trying to get something for nothing.

13. Keep continual control of your expenses and the income you are able to generate as you get leased up and improve your rental rates. Stay abreast of the market so you know what your competition is doing at all times. You are on your way to becoming a successful real estate investor.

CASE STUDIES

Here are the two case studies of actual transactions I put together. They were selected because each required some different and creative methods of getting them to work so both the seller and I were in a win-win situation.

As you read through each case study you will be reminded of some of the "theory" that was discussed in the book and how these techniques actually can work in the real world.

Case Study #1. The Handyman Special (referred to as our slums)

I found an out of state owner of two, three unit apartment buildings. The buildings were a run down mess. The lawn was dead, windows broken, in bad need of painting, and 50% vacant. (I could only imagine what the inside looked like). The neighborhood looked pretty good (and that's very important). I looked up the owner and contacted him. My first statement to him was, "Have you seen your two buildings on 14th Street recently?" He admitted he hadn't, but he had one of his tenants watching them for him. I explained the condition of the two properties and he stated that his rent checks from the manager were no longer enough to cover the mortgage payment, let alone expenses on the building. He knew there were problems. During our conversation he admitted he was two months behind on mortgage payments. He was about to be foreclosed on. That was all I needed to know.

I offered to get him out of the situation. First I made him realize he had two options at this point:

1. Let the lender foreclose on him

2. Declare bankruptcy to prevent the lender from coming back to him for any loses they incurred.

Either alternative would ruin his credit rating for as long as 10 years. I offered him a third alternative. If I could work out something with the bank, would he deed the properties over to me? He jumped at the opportunity. Now my work began. I got permission to look at the apartments on the inside to see if they "could be saved". (You need everything going for you in these situations). The work needed was mostly cosmetic. (Good news)

I took photographs of the vacant units *(the worst looking views I could find)* and of the outside. They vividly showed the run down condition of the two buildings. I prepared an estimate of what it would cost to have them brought back to good condition. (Important point: I intended to do most of the renovation myself, but the estimate I prepared was based on having someone else do the work. After all, my time is worth something, too). Next I prepared a financial statement on myself (which at the time did not justify my buying property with almost $100,000 in mortgages on it). Finally, I prepared an Investment Property Analysis based on what the property was capable of producing once it was fixed up and rented.

With these documents, I arranged to meet with the bank's loan officer. I made my presentation, explaining what I wanted to do and how much it was going to cost to do it. The first reaction was, "We're not going to let you buy those properties with no investment of your own". I expected that. They already knew that the present owner was delinquent on the mortgage payment, but they felt that was his problem and not theirs.

I took out the photos I had taken and spread them out in front of the loan officer with the statement, "Here are pictures I just took of the real estate *you own*. (At least they financially owned them). As you know, the owner is out of state and is not able to generate enough income to make mortgage payments. I'm sure you'll be owning them in the near future." (They rarely, if ever, see the properties they finance one the loan is placed. He had no idea they now had a sizable investment in a "slum"). Not only did the bank go along with the deal, but they also agreed to defer mortgage payments for three months to give me time to renovate and re-lease the units. That, of course, added three month payments on the end of the 15 year mortgage, but so what. You'll also learn here that you should not keep a property more than five to seven years anyway. (But that's another subject).

An Important Point: Banks generally DO NOT want to own real estate, especially distressed real estate. They are in the business to loan money at a higher rate of interest than they pay their depositors. The bank approved my taking over the property. (You can often get a lender to discount their mortgage if they want to get out of it badly enough. This works especially well with REO's or Real Estate Owned by the bank that they have already foreclosed on.

How did I do? I had them renovated and re-leased within a month (remember the lender gave me three). After several months, the properties were worth about $30,000 more than I paid for them. I sold them a year later at a sizable profit.

There are some important points to remember here:

1. I did my homework. I knew the property, the neighborhood, the rental market and what it would cost to bring the property up to full value.

2. I showed the lender how **he** would benefit.

3. I showed the owner how **he** could avoid certain financial disaster.

4. I *worked* at making the investment a profitable one.

5. I located a seller who was highly motivated to sell...or "give" me his property.

Buying real estate with no money down can be profitably done, but you need to understand how. Don’t jump into a situation, just because the seller will do anything to get out of it, or you’ll end up in the same position he or she is in.

Case Study #2
A 12 unit apartment building, already in good condition and fully rented.

In the first example of a no money down purchase, I found a very motivated seller. He was in financial trouble with his "rundown" property and about to lose it…and his credit rating in the process. That makes negotiations with him much easier.

This property was considerably more difficult to negotiate. The owner's motivation to sell was a different one. He was ready to retire and move to another area. He no longer wanted to own the property. The problem was, how much negotiating could you do with a property owner *who does not have to sell?* The first thing I realized was that he owned the property free and clear (no mortgage).

Again, I became thoroughly familiar with the property, neighborhood and market for rentals in that area. With a little negotiating on the price, the property could be bought right. Since he owned the property free and clear, he agreed to carry the mortgage himself (a big saving in closing costs, not to mention eliminating the need to qualify for a loan). How did I get him to carry a mortgage? I asked him what he intended to do with the cash he received when I bought his property. (Notice I said, "When I bought" and not "If I bought". I wanted to get him thinking we already had a deal). His answer to my question was, "I'm going to put it into a safe investment for my retirement". That was good news! With a little more prompting, I determined he was going to be satisfied with that cash in a fixed investment paying about six percent interest per year.

Now for the hard part. The seller insisted he wanted a "reasonable" down payment. He wasn't about to let take over with no investment of my own. (Sound familiar?) I needed to find some cash for a down payment…I didn't have any to invest.

First, solving the cash down problem:

Now it gets a little more complicated. I contacted an individual I knew who had a considerable amount of cash in "fixed" investments producing about 5% interest. I suggested he loan me the amount I needed for the down payment and I'd pay him 10% or double what he was currently earning. (I ran a financial analysis first before making the offer). Further, I would sell him the land under the building (a land lease) as collateral for his money.

Let's look at the reasoning behind the "land lease". When depreciating real estate for tax purposes, IRS says you can depreciate the building(s) but not the land. Land does not wear out. If you cannot depreciate the land, why own it? I know, that sound kind of frightening. Condominium developers quit creating land leases years ago because of the fear most buyers had that the landowner would take his land back whenever he wished. In my case, as an individual owner, I could control my own situation. The land lease was prepared allowing me to recapture (buy it back) any time I wanted with no pre-payment penalty. All I had to do is pay back the remaining balance with any accrued interest that may be owed. So, I now had the cash available for a down payment.

The term "land lease" may sound frightening, but it really is nothing more than another mortgage. If you study the financing section of "Real Estate Investments And How To Make Them", you'll also learn that financing is not only a good thing in real estate investing but it is the secret to creating wealth. Call it a mortgage, second mortgage or land lease; it is still just a mortgage. Actually having more than one mortgage is often better than having just one large mortgage. As we continue with our example, you will see how having "two mortgages" gave me flexibility when I sold the property.

To continue with our story:

Now, I needed to work with the seller. Remember, unlike our first example, he did not have to sell the property. After working out my Investment Property Profile property analysis form, I determined that I could afford to pay him seven percent interest over a 25-year term. His first comment was, "Seven percent interest is not enough. I want a minimum of nine percent". I had prepared my financial analysis based on the maximum mortgage payment I could afford to have the property make financial sense. I explained it to the seller and suggested, "Alright, I'll pay you nine percent interest, but we need to increase the term of the mortgage so my monthly payment remain the same". He agreed to the idea, and I ended up with a 44 year, fully amortized mortgage. Of course we both knew that neither of us expected to carry it full term. It could be paid off at any time without penalty.

I was able to close on the property, have it carry itself financially and ended up with a prime property with no investment of my own. One more point of interest. I sold the property four years later, for a sizable profit, and paid off the land lease. (Not everyone understands it was really a good thing to have). I negotiated the payoff with the holder of the land lease and was able to pay it off with a twenty-five percent discount. I just make some more money I hadn't planned on getting.

Not all transactions will work out this well, but again I did my homework. I knew the property, the seller motivation (hot buttons) and how much I could afford to pay for the property and financing. Then it was a matter of negotiating with the seller. The total process, although it seems complicated, was really quite simple. The important thing is to know your financial limits based on the property's income and expenses, and DO NOT EXCEED THEM. If you must, pass that property up and find another. The last thing you want to do is get yourself into financial trouble and lose the property along with your credit rating.

Take the no money down promotions of the "infomercials" with a grain of salt. Once you complete our investment course, you will know what makes financial sense for you.

You can make a lot of money with no money down purchases, provided you know what you are doing and thoroughly analyze each transaction before you get locked into it. Follow the thirteen steps above to insure success.

One final point: We pointed out during the course of the book what you need to do when tying to purchase a property with "no money down". Don't expect it to be easy. It takes work, perseverance and a thorough knowledge of what you are doing. You may want to take one more look at www.investmentre.com. This course, plus what you learned here, furnishes you with the knowledge to get it right…the rest is up to you. The rewards make it all worthwhile.

I'll see you at the top.

Apartment Survey Checklist

APARTMENTS
WHAT TO LOOK FOR IN LOCATION

Drive around the vicinity of the building you are considering and check the following:

- ☐ Other buildings in the area, your competition, what do they have to offer as far as amenities are concerned?
- ☐ Is your building one of the better looking or worst looking in the area? You can occasionally get a good deal on a building that is substandard. With a little cosmetic work you can bring it up to the neighborhood standard and improve your rent level and property value.
  NEVER buy in an area where you are buying the best looking property on the street. You will never be able to keep up your quality.
- ☐ What is the general profile of the area? Clean, well maintained or run down. Avoid areas that are obviously deteriorating.
- ☐ What type of tenants does the area draw? Working class, affluent, etc. Does your building "fit in"?
- ☐ What conveniences are close: Bus service, shopping, schools, churches, main traffic arteries.
- ☐ If your property is in a blue collar area, is it convenient to potential tenant's job sites?
- ☐ Look for special facilities that could be a source of tenants: hospitals, colleges, shopping malls, etc.
- ☐ Check area vacancies. You need to know where rentals are in demand. What are the rent levels in comparable apartments. Can you compete?
  REMEMBER: You are looking at the area as a place to own a Money Making Machine. Don't look at it as a place YOU would want to live.
- ☐ Don't be afraid to talk to other building managers or owners in order to learn as much as possible about the competition (Don't tell them why you are there, however).

Apartment Checklist 2 gives you pointers on checking out your building.

APARTMENT BUILDINGS
BUILDING SURVEY CHECKLIST

This checklist gives you details on what to examine when checking out the building

- ☐ How do your apartments compare in size and amenities with competitive apartments in the area. Be sure to compare "like" units.
- ☐ How do rents compare with the competition? Visit competitive building. Ask to see units and get rental comparisons.
- ☐ Examine your building for cracks in walls or ceilings or other signs of structural problems. Note: Hairline cracks are common and are not necessarily a problem. Have the building inspected if you have doubts.
- ☐ Check for roof leaks and signs of water damage

Hint: The best time to look at a property is during a rainstorm. It=s much easier to see leaks and also see how well the parking lot drains.

- ☐ What is the condition of the exterior? Is major painting needed? Does the driveway and parking lot need resealing? Are shrubs and trees well trimmed?
- ☐ Have a termite inspection made. This should be a contingency in your contract.
- ☐ Are all appliances and heating/AC in working condition?

Hint: There are companies that specialize in building inspections. This could be money well spent.

- ☐ Are there leaking faucets or toilets?
- ☐ What is the condition of the electrical system?
- ☐ How soundproof are >party= walls between units?
- ☐ Is parking adequate and up to code? Usually 1 1/2 spaces per apartment is the minimum acceptable.
- ☐ If work needs to be done, how much do you estimate it will cost?
- ☐ Does your contract specify how much of the repairs (dollar wise) the seller is responsible to pay?

BUYER'S CLOSING CHECKLIST

This checklist will help you remember important details:

- ☐ Change over water and house electric meters (before closing)
- ☐ Notification letters to tenants (from seller)
- ☐ Get Keys to the property
- ☐ Original leases signed over to the buyer
- ☐ List of current service people (lawn, pool, etc.)
- ☐ Get any plans, blueprints, surveys, etc. that the seller has
- ☐ Property Insurance Policy (if being assumed)
- ☐ Any service contracts in effect
- ☐ Any warranties in force (A/C, appliance, termite, etc.)
- ☐ Bill of sale on personal property
- ☐ No Lien affidavit from seller
- ☐ Copy of the mortgage
- ☐ Copies of all documents executed at the closing
- ☐ Title Insurance binder (policy will follow later)
- ☐ Send letters to tenants from buyer
- ☐ Personally meet tenants and introduce yourself
- ☐ Set up bookkeeping system and bank accounts.

TIPS FOR HOME BUYERS AND INVESTORS

What To Look For In A Home

Although this checklist was prepared for a home buyer who intends to live in the home, you may find some helpful tips here.

__ Goals and Objectives:
Why are you buying a home? What do you expect from it: A quiet place to live, room to "tinker" a yard for gardening, a pool, more room than you have now…less room than you have now, etc.. Make a list of what you consider to be the minimum acceptable features.

__ Next, make a second list of "I'd like to have it if…" and include features that would be nice, if you can afford them and if they are available.

__ Location: Location is of primary importance when buying a home. What is the neighborhood like? Is it the kind of place you want to raise your children or retire, depending on your situation.

__ Physical Characteristics: What type of home fits your needs and lifestyle: Split bedroom, large recreation or "great" room, number of bedrooms and baths. This is a "Must" list of things you really have to have.

__ Special Features: What special features do you want: Gourmet kitchen, ceiling fans, Lots of large closets, pool, patio, hot tub, fireplace, laundry room, basement, attic for storage, garage (one or two car), etc.

__ Decorating: You'll never find the perfect home. You hope to find one that comes close to meeting your esthetic desires. How much redecorating will be required, or will you be able to live with it "as is" for awhile? How about window treatments, carpet and tile. Are they acceptable as is? Many of these things can be changed a little at a time, if necessary. Will the home need repainting to make it livable?

__ The Exterior and Lot: Is the home on a reasonable size lot, or right next to the house next door. (Unless you are moving into a "zero lot line" community, it's nice to have some space between you and the neighbors). Does it offer some privacy? What is the condition of the landscaping and lawn? How about the driveway, patio and other paved areas. Are they relatively free from cracks and pot holes? How much exterior decorating will be required. Is the paint in good condition.

__ General Condition: You will have a formal inspection before closing to insure appliances, water heater and heating/AC system are in working condition. You can, however, check for major structural cracks in outside walls, floors that are uneven. __ __ Visiting the home when it's raining is the best way to check for signs of roof leaks. If you find major problems, look for another home.

__ What About The Neighbors: Try to get an idea of what kind of neighbors you will have. If you can hear screaming fights going on next door, you may want to reconsider. One attorney advises to check a cross reference phone book and get the names and addresses of the nearby neighbors. A quick check of the county records will tell you if any of them have a history of domestic violence, etc. (Use your judgement on this one).

BUYER CONTRACT CLAUSES

Include as many of these clauses in your contract as needed:

☐ Terms: Terms of any mortgage must be spelled out entirely
Include: Mortgage Balance, Remaining Term, Interest Rate, Balloon Amount and due date, if any, monthly P & I Payment, Terms of assumption, etc.

☐ Title: The Seller must furnish a >marketable title=, free and clear of any debt, except as noted and agreed to.

☐ Assumed Mortgage: Spell out the complete terms and conditions of any mortgage you are assuming and remedies if there are problems with it. Spell out the balance to be assumed. Include a clause that will require the seller to carry any deficiency in the form of a second mortgage. (Example: You intend to assume a $100,000 mortgage and find out at closing that the remaining balance is only $95,000, you would have to come up with an additional $5,000 in cash to close. Have your contract written that the seller will carry that $5,000 in the form of a second mortgage).

☐ Inspections: A time limit for any inspections must be in writing. Spell out what inspections are needed: Roof, Termite, Appliances, etc. You may want to employ an inspection company to do a complete inspection.

☐ Repairs: The contract should specify how repairs are to be handled. Most contracts allow for a percentage of the purchase price to cover repairs that are the seller=s responsibility.

☐ Leases: The seller will sign over all leases to the buyer. Estoppel letters from each of the tenants is also desirable to verify rent and terms of the lease for each tenant.

☐ Mechanics Liens: A clause protecting the buyer from any liens that may surface. Seller to furnish the buyer with a >no lien= affidavit.

☐ Closing Costs: A clause spells out which closing costs are to be paid by the buyer. The buyer should also expect a copy of the closing statement well prior to closing.

☐ Taxes, Insurance and Escrow Balance: Handling this is spelled out in the contract.

☐ Fire or Casualty: The contract spells out what happens if the property is damaged prior to closing.

☐ Property Maintenance: A clause requires the seller to maintain the property in the same condition it was in when the contract was executed.

☐ Tenant Leases: A little known clause that could be important for a buyer:

Seller agrees not to execute new leases or re-lease to existing tenants without prior approval of the buyer. This approval cannot be unreasonably withheld.@ This clause prevents a seller from filling his building with undesirable tenants just to collect extra rent prior to closing. It also prevents him from executing long term, sweet-heart leases to present tenants who have become his friends.

There are many additional clauses in a contract. Consult your legal counsel for advise

OBTAINING FINANCING
CHECKLIST

☐ Prepare the following documentation for two or more lenders:

Personal, current financial statement

A statement of your track record in owning this type of property (if you have one)

Current financial analysis of the property you want to buy.

A current survey of the property, if available (Lender will require a new one anyway)

Photos of the property, if possible

A copy of your contract to purchase the property

A detailed report of any circumstances the lender should know (Provided it will help your case).

☐ Check with several lenders, not just one. See who is making loans on your type of property and submit your presentations to each.

☐ If re-financing, where there is a current mortgage on the property, check with the current lender first. Your best deal will probably be with the existing lender. They know the property already plus they should only charge closing points on the new money.

☐ Most lenders determine loan value based on the property's NOI and then use a multiplier against that figure to determine value for loan purposes. They will then loan a percentage of that amount.

☐ After you receive two or more commitments, compare each for the best one regarding:

- ☐ Interest Rate
- ☐ Amount of Loan
- ☐ Term of Loan
- ☐ Closing Costs
- ☐ Total Payments
- ☐ Balloons
- ☐ Adjustable rate or other clauses
- ☐ Assumption
- ☐ Non-recourse

Practical Point: Don't be afraid to negotiate with a lender. They are in business to loan out money. They could be negotiable on rate, term

HOME INSPECTIONS
WHAT TO EXPECT

There are a number of possible inspections of your property that may be called for in the sales contract. Inspections in a contract allow the buyer to hire a professional inspector to examine the property. Your contract will spell out which inspections the buyer may want to have done and if any repairs are required, and what portion of that cost will be your responsibility. Here are the primary inspections that may be required:

A HOME INSPECTION

The most common "optional" inspection in our sales contract is a professional home inspection. This inspection includes a check of appliances, air conditioning systems, roof, plumbing and electric to insure all are in working order. The inspection will also include a general inspection of the building for any structural problems as well as pool, dock and seawall if applicable.

A RADON INSPECTION

You cannot see, smell or taste Radon but it is sometimes found in the earth's rock and soil…and is a potentially cancer causing radioactive gas. Although only found in certain geographic areas of the country, the government now requires this test be run on homes being sold.

A TERMITE INSPECTION

A Wood Destroying Insect Infestation Report is a required report in all sales contracts. The report is commonly referred to as a termite report because the most prevalent insect is the subterranean termite. The test, however, will also include certain kinds of beetles, carpenter ants and wood rot. If termites are found, this situation will need to be corrected.

ASBESTOS AND LEAD PAINT

The appearance of Asbestos and Lead Paint, in older homes, has become an area of concern in recent years. Tests will be run to determine if ceilings (such as "popcorn" ceilings) contain asbestos. They will also check for lead paint in finished woodwork, etc. Often, these problems can be cured by "encapsulation" or sealing the surfaces that have the hazardous conditions. Under extreme circumstances, the offending properties may have to be removed.

A FINAL NOTE

It's a good idea to have your home inspected *before* showing the property to prospective buyers to insure no problems exist. It will save time and potential problems later.

INVESTMENT PROPERTY PROFILE (IPP)
Property Analysis Work Sheet

Annual Property Expenses

Personnel:	Pool ___________	Insurance ______________
On Site Mgt. ___________	Exterminating __________	Professional:
Maintenance __________	Trash Removal _________	Management ___________
Grounds __________	A/C Heating ___________	Legal-Acctg. ____________
Cleaning ___________	Other__________________	Advertising______________
Utilities	Taxes:	Reserve for
Water ___________	Real Estate __________	Replacement____________
Sewer ___________	Pers. Property ________	Other: _________________
Electric ___________	Payroll ___________	_______________________
Repairs & Maint. __________		

Financing

Existing Assumable Financing:

	Mtg. Balance	Interest Rate	Remaining Years	Annual PI Pmt.	Balloon	Fixed/Adj.
1st	$___________	________	_________	_____________	_________	________
2nd	$___________	________	_________	_____________	_________	________

Potential Financing:

Amount	Term/Yrs	Interest Rate	Balloon Years	Annual P&I Payment	Balloon Amount
$ ___________	_________	________	___________	____________	___________

Depreciation Schedule

Market Value

Depreciable Improments = $ ______________ or ______ % of MV

Useful Life = _________ Years

Annual Depreciation $ __________________________

Taxable Income

Total Return(Cash Flow + Principal Pmt.) $ ____________

Less: Depreciation (Per Year, S/L) _____________

Taxable Income – Year 1 = $ _____________

INVESTMENT PROPERTY PROFILE (IPP)
Property Details and Financial Analysis

File No.: _______

Property: ___________________________ Location: _____________________________
Type _____________ No. Units: __________ NLA __________ Yr. Blt._____
Average Rent/Mo. $________ Construction:________ No. Bldgs.______ Stories _____
Land: __________ Pool: ____ Waterfrnt. __________ Parking # _______ Taxes $_____

Asking Price: $ __________________ Assumable Mortgage Amt. $ ________________
Price Per Unit: $___________ Price Per Sq. Ft.: $ ___________

		Unit Breakdown		
		Size	Qty.	Sq. Ft.
Offering Price	$ _______________	1/1	______	______
Assumable Mortgage(s)	________________	2/1	______	______
Potential Mortgage(s)	________________	2/2	______	______
Equity	$ _______________	3/2	______	______

	Year ______	Year _______
Scheduled Gross Income	$ ___________________	$ ___________________
- Vacancy ___ %	___________________	___________________
+ Other Income	___________________	___________________
Operating Income	$ ___________________	$ ___________________
- Expenses $____/Unit	___________________	___________________
Net Operating Income	$ ___________________	$ ___________________
CAP Rate	_______ %	_______%
- Mortgage Payment	____________________	___________________
Cash Flow	$ ______________ = ___%	$______________ = ____% +
Principal Payment	_________________	_____________________
TOTAL RETURN	$______________ = ___%	$ ______________ = ____%
Notes:		

REAL ESTATE SALE AND PURCHASE CONTRACT

_______________________________________, of ______________________________ as Seller,
and _______________________________________, of ______________________________ as Buyer,
hereby agree that the Seller shall sell and the Buyer shall buy the following described property UPON THE TERMS AND CONDITIONS HEREINAFTER SET FORTH, which shall include the STANDARDS FOR REAL ESTATE TRANSACTIONS set forth within this contract.

1. LEGAL DESCRIPTION of real estate located in _______________ County, State of ______
____

____

together with all improvements and attached items, including fixtures, built-in appliances, attached wall-to-wall carpeting, draperies, rods and window coverings. The other items included in the purchase price are: ____

____

The following items are excluded from the purchase:

____

2. PURCHASE PRICE $ _________________ Dollars.

Method of Payment:

(a) Deposit to be held in trust by:
__________________________________ $ ____________________

(b) Additional Deposit due within ______ days $ ____________________

(c) Approximate principal balance of first mortgage to which conveyance shall be subject, if any, to Mortgage Lender:
__________________________________ $ ____________________
Interest _______________% per annum:
Method of payment: ___________________

(d) Other_______________________________ $ ____________________

(e) Balance to close with cashier's check. $ ____________________

3. FINANCING: If the purchase price or any part of it is to be financed by a third-party loan, this Contract is conditioned on Buyer obtaining a written commitment within ___ days after Effective Date for (CHECK ONLY ONE): ___a fixed; ___an adjustable; or ___ a fixed or adjustable rate loan for the principal amount of $ _______________, at an initial interest rate not to exceed ________%, and a term of ______ years. Buyer will make application within ______ days after Effective Date and use reasonable diligence to obtain the loan commitment and, there after, to satisfy the terms and conditions of the commitment and close the loan. Buyer shall pay all loan expenses. If Buyer fails to obtain the commitment under this subparagraph within the time for the commitment the terms and conditions of the commitment, then either party, by written notice to the other, may cancel this Contract and Buyer shall be refunded the deposit(s).

4. CLOSING DATE: This contract shall be closed and the deed and possession shall be delivered on or before the _________ ___AM ___PM, on the __________ day of _____________, ________, unless extended by other provisions of this contract.

5. PRORATIONS: Taxes, insurance, interest, rents and other expenses and revenue of said property shall be prorated as of the date of closing.

6. PLACE OF CLOSING: Closing shall be held at the office of the Seller's attorney or as otherwise agreed upon.

7. TIME IS OF THE ESSENCE: Time is of the essence for this Sale and Purchase Agreement.

Buyer (___) (___) and Seller (___) (___) acknowledge receipt of a copy of this page, which is page 1 of 4 pages.

8. RESTRICTIONS, EASEMENTS, LIMITATIONS: Buyer shall take title subject to: (a) Zoning, restrictions, prohibitions and requirements imposed by governmental authority, (b) Restrictions and matters appearing on the plat or common to the subdivision, (c) Public utility easements of record, provided said easements are located on the side or rear lines of the property, (d) Taxes for year of closing, assumed mortgages, and purchase money mortgages, if any, (e) Other: _______________. Seller warrants that there shall be no violations of building or zoning codes at the time of closing.

9. DEFAULT BY BUYER: If Buyer fails to perform any of the covenants of this contract, all money paid pursuant to this contract by Buyer as aforesaid shall be retained by or for the account of the Seller as consideration for the execution of this contract and as agreed liquidated damages and in full settlement of any claims for damages.

10. DEFAULT BY SELLER: If the Seller fails to perform any of the covenants of this contract, the aforesaid money paid by the Buyer, at the option of the Buyer, shall be returned to the Buyer on demand; or the Buyer shall have only the right of specific performance.

11. TERMITE INSPECTION: At least 15 days before closing, Buyer, at Buyer's expense, shall have the right to obtain a written report from a licensed exterminator stating that there is no evidence of live termite or other wood-boring insect infestation on said property nor substantial damage from prior infestation on said property. If there is such evidence, Seller shall pay up to three (1.5%) percent of the purchase price for the treatment required to remedy such infestation, including repairing and replacing portions of said improvements which have been damaged; but if the costs for such treatment or repairs exceed three (3%) percent of the purchase price, Buyer may elect to pay such excess. If Buyer elects not to pay, Seller may pay the excess or cancel the contract.

12. ROOF INSPECTION: At least 15 days before closing, Buyer, at Buyer's expense, shall have the right to obtain a written report from a licensed roofer stating that the roof is in a watertight condition. In the event repairs are required either to correct leaks or to replace damage to facia or soffit, Seller shall pay up to three (3%) percent of the purchase price for said repairs which shall be performed by a licensed roofing contractor; but if the costs for such repairs exceed three (1.5%) percent of the purchase price, Buyer may elect to pay such excess. If Buyer elects not to pay, Seller may pay the excess or cancel the contract.

13. OTHER INSPECTIONS: At least 15 days before closing, Buyer or his agent may inspect all appliances, air conditioning and heating systems, electrical systems, plumbing, machinery, sprinklers and pool system included in the sale. Seller shall pay for repairs necessary to place such items in working order at the time of closing. Within 48 hours before closing, Buyer shall be entitled, upon reasonable notice to Seller, to inspect the premises to determine that said items are in working order. All items of personal property included in the sale shall be transferred by Bill of Sale with warranty of title.

14. MECHANICS' LIENS: Seller shall furnish to Buyer an affidavit that there have been no improvements to the subject property for 90 days immediately preceding the date of closing, and no financing statements, claims of lien or potential liens known to Seller. If the property has been improved within that time, Seller shall deliver releases or waivers of all mechanics' liens as executed by general contractors, subcontractors, suppliers and materialmen, in addition to the seller's lien affidavit, setting forth the names of all general contractors, subcontractors, suppliers and material men and reciting that all bills for work to the subject property which could serve as basis for mechanics' liens have been paid or will be paid at closing time

Buyer (___) (___) and Seller (___) (___) acknowledge receipt of a copy of this page, which is page 2 of 4 pages.

15. DOCUMENTS FOR CLOSING: Seller's attorney shall prepare deed, note, mortgage, Seller's affidavit, any corrective instruments required for perfecting the title, and closing statement and submit copies of same to Buyer's attorney, and copy of closing statement to the broker, at least two days prior to scheduled closing date.

16. EXPENSES: State documentary stamps required on the instrument of conveyance and the cost of recording any corrective instruments shall be paid by the Seller. Documentary stamps to be affixed to the note secured by the purchase money mortgage, intangible tax on the mortgage, and the cost of recording the deed and purchasing money mortgage shall be paid by the Buyer.

17. INSURANCE: If insurance is to be prorated, the Seller shall on or before the closing date, furnish to Buyer all insurance policies or copies thereof.

18. RISK OF LOSS: If the improvements are damaged by fire or casualty before delivery of the deed and can be restored to substantially the same condition as now within a period of 60 days thereafter, Seller shall so restore the improvements and the closing date and date of delivery of possession hereinbefore provided shall be extended accordingly. If Seller fails to do so, the Buyer shall have the option of (1) taking the property as is, together with insurance proceeds, if any, or (2) canceling the contract, and all deposits shall be forthwith returned to the Buyer and all parties shall be released of any and all obligations and liability.

19. MAINTENANCE: Between the date of the contract and the date of closing, the property, including lawn, shrubbery and pool, if any, shall be maintained by the Seller in the condition as it existed as of the date of the contract, ordinary wear and tear excepted.

20. LEASES: Seller, not less than 15 days before closing, shall furnish to Buyer copies of all written leases and estoppel letters from each tenant specifying the nature and duration of the tenant's occupancy, rental rates and advanced rent and security deposits paid by tenant. If Seller is unable to obtain such letters from tenants, Seller shall furnish the same information to Buyer within said time period in the form of a seller's affidavit, and Buyer may contact tenants thereafter to confirm such information. At closing, seller shall deliver and assign all original leases to Buyer.

21. OTHER AGREEMENTS: No agreements or representations, unless incorporated in this contract, shall be binding upon any of the parties.

22. RADON GAS DISCLOSURE: Radon is a naturally occurring radioactive gas that, when it has accumulated in a building in sufficient quantities may present health risks to persons who are exposed to it over time. Levels of radon that exceed Federal and State guidelines have been found in Florida buildings. Additional information regarding radon and radon testing may be obtained from your county public health unit. Buyer may, within the inspection period, have a licensed person test the property for radon. If radon exceeds the accepted level, seller may choose to reduce the level to an acceptable EPA level or either party may cancel the contract if the seller fails to comply.

23. LEAD PAINT HAZARD: Every purchaser of any interest in residential real property on which a residential dwelling was built prior to 1978 is notified that such property may present exposure to lead from lead-based paint that may place young children at risk of developing lead poisoning. Lead poisoning in young children may produce permanent neurological damage, including learning disabilities, reduced intelligence quotient, behavioral problems and impaired memory. Lead poisoning also poses a particular risk to pregnant women. The seller of any interest in residential real estate is required to provide the buyer with any information on lead-based paint hazards from risk assessments or inspection in the Seller's possession and notify the Buyer of any known lead-based paint hazards. A risk assessment or inspection for possible lead-based paint hazards is recommended prior to purchase.

Buyer (___) (___) and Seller (___) (___) acknowledge receipt of a copy of this page, which is page 3 of 4 pages

24. TYPEWRITTEN OR HANDWRITTEN PROVISIONS: Typewritten or handwritten provisions inserted in this form shall control all printed provisions in conflict therewith.

25. SPECIAL CLAUSES:

____
____
____

26. The Following Addenda shall be attached to and become of part of this contract:

____
____

RIDERS: Check those that apply and are attached to this contract
____Condominium Rider; ____Lead Paint Disclosure; ____Agency Disclosure(brokers);
____ "As Is" Rider; ____Other ____
DISCLOSURES: Buyer ____acknowledges *or* ____ does not acknowledge receipt of above Riders.

COMMISSION TO BROKER: The Seller hereby recognizes ________________________ as the Broker in this transaction, and agrees to pay as commission _______________% of the gross sales price, or the sum of __________________________________ Dollars ($_______________) or one-half of the deposit in case same is forfeited by the Buyer through failure to perform, as compensation for services rendered, provided same does not exceed the full amount of the commission.

DEPOSIT RECEIPT

Deposit received by: (Print) ______________________ (Signature) ______________________

The above individual received the amount specified in Paragraph 2(a) on __________, 19______

TIME FOR ACCEPTANCE OF OFFER

Buyer offers to purchase the Property on the above terms and conditions. Unless this contract is accepted by the Seller and a copy delivered to the Buyer no later than _____________ __a.m. ___p.m. on _________________________, 19 ____. this contract may be revoked at Buyer's option, and Buyer's deposit refunded subject to clearance of funds.

BUYER

Date: ______________ Buyer: ________________________Tax ID No. ___________________

Date: ______________ Buyer: _______________________ Tax ID No. ___________________
Phone: __________________ Address: ____
Fax: ____________________

SELLER

Date: ______________ Seller: _______________________ Tax ID No. ___________________

Date: ______________ Seller: ________________________ Tax ID No. ___________________
Phone: __________________ Address: ____
Fax: ____________________

Company Name and address
(If applicable)

No representation as to the legal validity or adequacy of any provision of this form is made. If you have questions, seek legal counsel prior to executing any contract.

Buyer (___) (___) and Seller (___) (___) acknowledge receipt of a copy of this page, which is page 4 of 4 pages

FOR SALE BY OWNER
WEBSITES

The following list contains the web address of various FSBO websites. For the most convenient use of this list, copy it into a separate file on your hard drive. Once on line on the Internet, you can click on any of the sites to open them up. (They will also load from the floppy disk, but it will be slower).
If they will not load automatically to your browser, you can highlight any of the web addresses and click on "edit" then "copy". On your Internet home page (make sure you are on line), highlight the web address already there (ie: http://www.etc)
Then, paste the saved website into that box (Edit, paste or CTRL V). Hit the enter key to open the website.

Some websites may not be relevant to your particular marketing area. Others will contain a wealth of potential sellers who are advertising their own home for sale. Most of these sites will give you details on the home PLUS the seller's name and address.
The best part is your competition probably does not know about this approach to FSBO's.

http://www.netfsbo.com
http://www.sellyourhomeyourself.com
http://www.fsbo.com
http://www.usfsbo.com
http://www.easyhomeseller.com
http://www.thishouseforsale.com
http://www.fsbocentral.com
http://www.worldhomefinders.com
http://www.fsboconnection.com
http://www.smartfsbo.com
http://www.fsboworld.net
http://www.by-owner-ol.com/bobuy.html
http://fsbo.net
http://www.fisbo.com
http://www.realestatephotos.com
http://www.byownersales.com
http://www.fsbogroup.com
http://www.fsboweb.com
http://www.owners.com
http://www.americashomes.com
http://www.forsalebyowner.com
http://www.fsbo.net
http://www.realview.com/under.htm
http://homes.inresco.com/Bfisboreg.html
http://www.friendsindeed.com

http://www.fsboconnection.com
http://www.4salebyowner.com
http://www.nefsbo.com
http://www.privateowner.com
http://www.fsbohelp.com
http://www.fsbo-bc.com
http://www.bchomesforsale.com
http://www.fsbodirect.com
http://www.webbrowsers.com
http://www.fsbo-home.com
http://www.forsalebyowner.com/index.html
http://www.forsalebyyou.com
http://www.usarealestate.net
http://www.homesforsale-us.com
http://www.ezbuy.com
http://fsbo-home.com
http://www.mibyowner.com
http://fsbohelp.com/forsalebyownerfaq.htm
http://www.wirelink.com/houselink/premium.htm
http://www.fsbo.net/mm/fsboservices.html
http://www.virtualfsbo.com/default4.asp
http://www.homesinsantacruz.com/FSBO.htm
http://www.mis-fsbo.com
http://www.newyorkfsbo.com
http://www.fsbocentral.com
http://www.fsbo-home.com/index.html
http://fsbo.net/mm
http://www.miamifsbo.com/toc.htm
http://www.fsboweb.com/cotton.htm
http://www.philadelphiafsbo.com
http://dmoz.org/Business/Classifieds/Homes_-_FSBO
http://www.sellyourhomeyourself.com
http://www.detroitfsbo.com
http://www.atlantafsbo.com
http://www.realtyoptions.com
http://www.fsbo.net/mm/other.htm
http://www.fsbo.kamloops.com
http://www.by-owner-ol.com
http://www.thishouseforsale.com
http://www.idaho-fsbo.com
http://www.sfsbo.com
http://www.houstonfsbo.com/services.htm
http://www.fsbogroup.com
http://www.realestatephotos.com
http://www.buyersresource.com/sellertips.html
http://www.losangelesfsbo.com/sellers.htm

http://www.fsboweb.com/marktrail.htm
http://www.privatelist.com
http://www.findahome.org
http://www.homeslink-bbs.com
http://www.wirelink.com/houselink/premium.htm
http://www.usarealestate.net
http://www.deal-makers.com/for_sale_by_owner.asp
http://www.fsboconnection.com
http://www.americanet.com/classified/resreal.htm
http://www.by-owner-ol.com

If the above 80+ web addresses are not enough to keep you busy for awhile, you can continue the search for more…there are thousands of them out there. We tried to select the biggest FSBO sites.

To locate additional sites, do a search on any of the major search engines: Yahoo, Infoseek, WebCrawler, Lycos, MSN, Excite, Snap etc.

Search for all related topics such as: FSBO, for sale by owner, home sellers, homes for sale, real estate for sale, etc.

To narrow your search, try the above searches and specify an area, such as Dallas homes for sale; Chicago homes for sale, etc.

A few of the links may no longer be valid. Some of the smaller sites, the ones not well established, come and go on the net.

Finally, make use of this information. Contact the sellers and FOLLOW UP after the initial contact. Use the accompanying program to convert many of them into listings.

About Milt Tanzer

Milt has been a commercial investment Realtor and real estate broker for over 30 years. He received his CCIM designation (Certified Commercial Investment Member of the National Association of Realtors) in 1976. CCIM is a professional degree in commercial/investment real estate after several intensive courses are taken and passed. Of the over 800,000 licensed Realtors in the nation, only a few thousand have obtained this professional designation.

Milt has devoted his real estate career to working with investor of all types from beginners of huge multi-national investors in major apartment complexes, office buildings and shopping centers.

This ebook is based on his personal experiences of investing with no money down as well at what he has learned by working with other investors. It is the professional, minimum risk approach to getting involved in real estate investing when your funds are limited.

Visit all four of Milt's websites:

Author of Real Estate Investments and How to Make Them
Originally released by Prentice Hall in 1986. Now in its third edition
The best selling book and investment course with over a
Quarter of a million sold.
Website: www.investmentre.com

Author of How to Buy or Sell Your Home Without a Broker
Released in 2002 by Prentice Hall division of Putnam-Penguin
Website: www.homebuyersellertips.com

Milt's Third Website: www.realestate-supermarket.com
Devoted to a collection of the finest real estate software courses and programs on the planet.

Milt's Fourth Website: www.therealestatesupermarket.com
A complete web portal (such as AOL or MSN home pages) and includes all of the real estate software programs above.

Legal Stuff

A typical Investment Property Analysis (IPP) form (next two pages) prepared by the software program included in the Real Estate Investments and How to Make Them investment course. Visit our website at: www.investmentre.com

Screen Shot
Investment Property Analysis (IPP)
Page 1.

INVESTMENT PROPERTY FACT SHEET

File # 112
Year: 2002

Property Name: Always Full Apts.
Purpose: Owner's Statement

ANNUAL PROPERTY EXPENSES

Personnel:		Contract Services:		Insurance	2,808
On Site Mgt.	2,552	Pool		Professional Fees:	
Maintenance		Exterminating		Management	
Grounds	766	Trash Removal	600	Legal-Acct.	
Cleaning		Maintenance		Advertising	255
Utilities:		A/C,Heating		Replace.Res.	
Water	1,807	Other		Other:	
Sewer	2,050	Taxes:		Office	675
Electric	618	Real Estate	9,255		
Gas	4,680	Pers. Property			
Rep./Maint.	2,803	Payroll			
				Total Expenses	**$ 28,869**

FINANCING

Existing Assumable Financing:

Mtg. Balance	Interest Rate	Remaining Years	Annual PI Pmt.	Balloon Amt.	Fixed/Adj
1st $ 65,400	10	5	$ 8050	$	
2nd $			$	$	

Potential Financing:

	Amount	Term Years	Interest Rate	Balloon Years	Annual P&I Payment	Balloon Amt.
$	240,000	25	9.5	10	$ 25,162	$ 200,814

DEPRECIATION SCHEDULE

Market Value $ 325,000
Depreciable Improvements = $ 276,250 or 85. % of MV
Useful Life = 27.5 Years
Annual Depreciation $ 10,045

TAXABLE INCOME

Total Return (Cash Flow + Principal Pmt.)	$	9,496
Less: Depreciation (Per Year, S/L)	-	10,045
Taxable Income - Year 1	**$**	**-549**

The information presented herein is from third parties and is subject to errors, omissions, changes, prior sale, or withdrawal without notice and is not warranted. Every effort has been made to secure accurate information.

Screen Shot
Investment Property Analysis (IPP)
Page 2.

INVESTMENT PROPERTY PROFILE

File No. 112

Property: Always Full Apts.	Location: Your City		
Type: Apts.	No.Units: 8	NLA: 7,200	Yr. Blt.: 1982
Average Rent/U/Mo.: $ 950	Construction: Frame	No. Bldgs.: 1	Stories: 1
Land: .35 Ac Pool: No	Waterfront: No	Parking: 12	Taxes: $ 9,255
Listed Price: $ 335,000	Assumable Mortgage: $		

		Unit Breakdown		
Offering Price	$ 325,000	Size	Qty.	Sq. Ft.
Assumable Mortgage(s)		1/1	6	850
Potential Mortgage(s)	240,000	2/1		
Equity	$ 85,000	2/2	2	1050
		3/2		
Price Per Sq. Ft.: $ 45.14	Price Per Unit: $ 40,625			

	Year 2002		Year 2003	
Scheduled Gross Income	$ 63,200		$ 66,300	
-Vacancy 5 %	3,160		3,315	
+Other Income	1,125		1,175	
Operating Income	$ 61,165		$ 64,160	
-Expenses $ 3608 /Unit	28,869	=47.19%	30,312	=47.24%
Net Operating Income	**$ 32,296**		**$ 33,848**	
CAP Rate	9.93%		10.41%	
Mortgage Payment	25,162		25,162	
Cash Flow	$ 7,134	=8.392%	$ 8,686	=10.21%
+Principal Payment	2,362		3,420	
TOTAL RETURN	**$ 9,496**	**=11.17%**	**$ 12,106**	**=14.24%**

Comments: Sample analysis using the IPP property analysis program. Use this space for comments about the property.

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Milt Tanzer President
Milt Tanzer Corp.
2269 Alba Way Deerfield Beach FL 33442
800-330-5480 FAX 561-392-9901