ROBERT SHEMIN

Bestselling author of
Secrets of a Millionaire Real Estate Investor

MAKING YOUR FORTUNE IN REAL ESTATE INVESTING

UNLIMITED RICHES

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To Alexander: Everything that I do, I do thinking about you.

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And to the readers: Happy investing.

Indecision is the thief of opportunity.
—JIM ROHN

Getting Started

When I started in real estate, I thought there was only one way to do real estate: Borrow money, buy property, put my name on the title, rent it, put up with tenants, have the tenants pay off the costs, and make money over time. With luck, I would make money every month.

Then I learned how to flip property, fix it up and sell it, or lease-option it. I also learned that I did not have to use my own money or credit to buy homes. Most people, including myself sometimes, have no hands-on experience in the subject matter about which they are giving advice. You should seek advice only from experts. Even my mother would say, “Robert, this no-money-down stuff, I don’t buy it; I don’t believe it can be true.” Now, every time I go to my mother’s house for dinner, she says, “Robert, I’ve seen you on

TV and [in] newspapers and books. Why do you keep telling people you can buy property without using your own money or credit? Stop it!" She still will not believe me. She's an excellent expert at being a mom. However, she hasn't done any real estate investing. Yet, for the last 200 properties that I have bought, sold, and made money with, I have not used one penny of my own money or one point of my own credit. That is true. You are going to learn ways to do that, too.

The concepts I present here work for everything: houses, duplexes, land, commercial buildings, apartment buildings, trailer parks, whatever you are interested in. Small properties, big ones, cheap ones, and expensive ones. There is a big difference between a $1 million property and a $100,000 property, but the process and paperwork for buying and selling them is exactly the same.

As a full-time real estate investor, I have bought or sold about 500 properties in the last five or six years. At one time, I had more than 300 tenants whom I managed for years, and I still manage some. I constantly buy, flip, lease-option, and manage properties.

I decided that working at a job for 50 years and waiting for retirement in a nice place was not for me. I therefore recently purchased some nice places in South Beach, Florida, where a lot of people vacation. People are flipping expensive properties there. I also have some real estate deals in Costa Rica and in Latin America, where I like to travel. Once you learn how to do this, you can go anywhere. My students have demonstrated that the concepts in this book work in the two most expensive real estate markets in the world: San Francisco and Manhattan. They also work in your town. If they do not work exactly where you are, just go 35 minutes up the road.

Overnight Successes

I am from Nashville, Tennessee. My papa plays the banjo, and my mama plays the fiddle (just kidding). Nashville is where talented people go and sometimes become overnight successes. Garth Brooks, my neighbor for 5 years, became an overnight success after getting kicked out of every record company and having to play on street corners for 12 years. That kind of overnight success applies to me, too.

About 10 years ago, I did not know a thing about real estate and did not want to. I was a financial consultant working for a New York financial planning firm. Our clients had to have $3 million or $5 million to invest with us, which meant they had $9 million or $10 million total.

What Changed My Mind

One day while working for a financial planning firm, I was sent to visit an older couple living in Nashville. They had a beat-up old office and drove a dumpy pickup truck. They looked like poor, uneducated bums. It appeared that they could not even read or write well. I talked with them and learned that they did not have computers, they did not understand advanced finance, and they did not even understand a term like *return on investments.* “Obviously, you are not qualified to work with my firm,” I said as I started to leave the old gentleman’s office. He replied, “Come over here, Sonny.” He picked up a book and paused, “When I was working about 25 years ago and making no money, I started buying little houses without using any of my own money. I’d fix them up, rent them, and sell them.” Then he opened his big old accounting book, the kind with old ledger sheets and the lines going across the page. He kept all of his own records using just that book and a pencil. (He still does.) He owned 125 houses, all paid for, and showed me he had $65,000 a month coming in. He and his wife would go on vacation for six months every year. He looked me in the eye, “Robert, how’s your job?”

All of a sudden, young cocky Robert got very interested in this man’s profession: real estate. In the back of my mind, I thought, "If this 80-year-old guy can do it, I can too." He still picks up rent checks every day and still goes out and makes more deals. He certainly does not have to. For him, real estate is fun.

This really got my attention, so I followed him around for several months. I also interviewed 200 other investors and 200 tenants. I put together a big plan for my real estate business, and guess what I did with it for several months afterward? Nothing! As the expression goes, "I was a thinkin' about it. I was a fixin' to do something." That went on for about eight months. During that time, I looked at about 150 properties. Of those, at least 50 were great deals, but I did not understand flipping and lease optioning, so I did not take action. I passed by several hundred thousand dollars in profits.

What kept me from going after those profits? Fear. (More precisely, I was scared to death!) However, I did finally make an offer on a duplex, and it was accepted. That scared me, too. How would I close on it? . . . I borrowed the money and bought that duplex. At that time, my written plan was to buy 12 duplexes and retire. I figured each one would draw from $300 to $500 a month in cash flow, which I could live on. That old couple's success got me started.

My First Investment Duplex

Because I have a form of dyslexia, I cannot do a lot of things that people take for granted. For example, I cannot follow directions to put together a four-year-old child's toy. I cannot read maps. Certain mathematical things I cannot do. Even though I have rehabbed at least 500 houses, I know *absolutely nothing* about construction or repairs. When contractors talk about roof trusses, drywall, and wires, it is like they are speaking Chinese or Greek. That language simply makes no sense in my brain.

When I bought my first duplex, I could not find it because I cannot use maps. People still do not understand that. For a day and a half, I drove around Hermitage, Tennessee, looking for my duplex. They all looked the same. I called the broker and said, “I can’t find the property I just closed on. Where is it?” I was so embarrassed. He actually met me and drove me to it.

Fortunately, however, I did find my first duplex, rented it out, and that worked. Then I bought my 12 duplexes. After a year and a half, I quit my job and retired; for one year, I did not do anything because I had about $4,000 or $5,000 of tax-free money coming in every month. Then I thought, “Gee, if it works with 12 duplexes, it’s got to work with 24 or 25, and if it works with 25, it should work with 50, and if works with 50, it has got to work with 100, 200, and 300 properties.” (I do have help, one person who helps me manage all of my properties, along with a part-time secretary.)

Instead of learning 1 way to make money in real estate, you will learn about 10 ways. You may not use them all, but pick up a few of them and get started.

Why Real Estate Investing?

Maybe you want to buy your own home and learn how to save thousands of dollars on the transaction. Maybe you realize there is no job security in the United States (layoffs, reengineering, and early retirement all equal being fired), so you want to create your own business. Even if you have a great job and things are going well, if you are wealthy and successful, I still challenge you to do real estate investing on the side.

You live somewhere right now. If you pay rent, you are probably making someone wealthy. You are contributing to someone else’s investments and security, not yours. You pay your rent on time and thank your landlord, but at the end of the year, you have nothing to show for it except 12 canceled checks.

If you own a home, you are already a real estate investor. You probably know somebody—a friend, a relative, a coworker, a grandparent, an uncle, or an aunt—who has made a lot of money in real estate, often by accident. Most people spend 40 to 50 hours a week stressed out, working to make $40,000 a year and then, with one real estate deal, they make $40,000 almost by accident in a short amount of time.

If these results appeal to you, you can do it, too! You simply need three things:

1. Desire
2. Basic knowledge and information
3. Persistent action

This book can give you all of the basic information that you need to get started. Make this book the catalyst to get you started and to find within yourself the desire to succeed. I hope this book encourages you to start taking persistent actions toward becoming a real estate investor with various sources of income.

Happy investing!

CHAPTER 1

Act as if it were impossible to fail.

—DOROTHEA BRANDE

Real Estate: The Best Wealth Builder in the Universe

Why is real estate investing the best wealth builder in the universe? The answer is simple: Everyone needs a place to live, and real estate values usually go up over time. I can assure you that, in the next 20 years, your real estate property will probably double, triple, perhaps even quadruple in value. If you are in a hot market, it might even go up 10 to 20 times.

When is the time to get into real estate investing? Yesterday. Real estate increases its value to build wealth, but there are other reasons why real estate investing, compared with any other investing, is the best.

Income, Wealth, and Advantages

Here are five advantages of investing in real estate, the best wealth builder in the universe, as it leads to wealth for you.

1. *Real estate increases your net worth.* One of real estate's biggest advantages is how it can increase your net worth instantly because you can buy property *below* market value. For example, if you find a property that is worth $500,000 and a motivated seller who is willing to let it go for $300,000, you put it under contract for $300,000 (about 60 percent of its worth), then borrow all $300,000, close the deal, and become the owner of this property. You borrowed all of the money to make this happen; you did not use your own. The minute you own this property, your bank and your financial statement say you have an asset worth $500,000 and a $300,000 loan against it. Congratulations. Your net worth just went up $200,000.

   Here is a more conservative example. In my first real estate deal, I bought a duplex that was worth $60,000 for $40,000—not a home-run deal, certainly not a grand slam—but as soon as I bought the duplex, my net worth went up $20,000. Property value ($60,000) minus property cost ($40,000) equals gain in net worth ($20,000).

   This concept is hard for most Americans to understand because usually when they buy something big (e.g., a new car, television, jewelry, stereo), their net worth goes down instantly. The $30,000 car I bought goes down in value to $20,000; therefore, my net worth decreases by $10,000. However, if you buy real estate correctly, your net worth goes up because it appreciates over time, unlike most items that depreciate.

2. *Real estate generates income from holding properties.* Rental property (a house, commercial property, or an apartment building) is unique because your tenants pay off your debt on that real estate. If you own rental property with $500 monthly mortgage payments and $800 monthly rental income, you

end up with a cash flow of $300, which is extra money in your pocket. The cash will likely be tax-free because of depreciation and write-offs. Your tenants actually pay off your mortgage debt and, in 10 to 30 years (depending on the length of your loan), that debt will disappear and your net worth will go up again.

Residual income creates happiness (RICH) is the concept in which you, your family, and your estate (after you die) will benefit from residual income because the rent keeps coming in.

3. *With real estate, you can pay less than what the property is worth.* By looking for deals, you can buy real estate that is priced at 20 to 50 percent of what it it is worth. This means you seek $100,000 properties that you can buy for, say, $70,000. Compare that with the stock market. Can you find stock that is worth $100 and pay $70 for it? No. You pay $70, the market value, then pray it goes up to $100. It could hold at $70 for a year, then go up, or it could go down because that's the nature of the stock market. You cannot buy stocks below market value like you can real estate.
4. *Real estate offers tax advantages.* The third big advantage of real estate investing is how it affects your tax obligations. If you have a traditional job with a traditional paycheck, you are entitled to very few tax write-offs or deductions. However, in real estate or any business you own, you can write off a wide array of expenses, including phone calls and a portion of your business meals. Owning real estate provides the opportunity to write off most of your mortgage interest and property depreciation.
5. *You do not need cash or credit to get into real estate.* In the stock market, you require most or all of your cash up front to purchase stocks. If you want to buy a $100 stock, you have to pay $100 cash. Some banks or brokerage houses will lend you half of the money to buy stock, but you will still have to come up with the other half.

   In real estate investing, if you find a property selling for

$70,000 that is worth $100,000, you can borrow the entire $70,000. If you have good credit, almost any bank or mortgage company will lend you 70 percent ($70,000) to buy the $100,000 property. If you do not have cash or good credit, you can find hard moneylenders who will lend money—in return for charging a high interest rate. They will lend you $70,000 for a property worth $100,000 without caring if you pay them back, because if you do not pay them, they take your property.

In any business or investment, especially real estate, you can use either your own money (YOM) or other people's money (OPM). *Owner's terms* is an example of OPM. If you buy a house and the owner lends you money to purchase instead of your having to go a bank, you are using the owner's money.

What if you do not have enough money or credit to invest, but have enough knowledge to be a successful real estate investor? Then look for investors (i.e., people with money or good credit) who can borrow at great rates. These investors may have a lot of cash or retirement accounts that they are tired of putting into stocks and are seeking other ways to invest. You might convince them to invest with you if you have a good business plan and have already had some business success. Investors put in the money while you put in the knowledge and time.

An Overview of the Road to Unlimited Riches in Real Estate

During my first several years of real estate investing, I knew of only one way to make money in real estate—buying and holding; that is, buying and renting property, and collecting rents. Then I learned about flipping, lease optioning, referring contractors and legal services, and so on. I started getting little checks, then medium-sized checks, and finally big checks.

You can do the same. All you have to decide is how many checks you want from how many sources. Open your mind to not only

Examples of OPM Financing

Mr. R. in Florida says his entire family works in real estate. He himself owns hundreds of beautiful properties. However, Mr. R.'s name is not on any deeds, and he does not have any liability, because he has partners and investors (e.g., doctors, lawyers, accountants, bankers) whose names are on the deeds. He discloses every agreement in writing. He does not owe a cent to anyone. When he sells his houses, he earns from $20,000 up to $100,000, and the investors get their money back plus one-half of the profits.

I know a full-time student who makes between $80,000 and $120,000 a year as a part-time real estate investor. He digs up a good deal, puts a property under contract, finds investors, buys the property with their money, fixes it up, then sells it for a profit anywhere in the range of $5,000 to $12,000.

one, two, or three avenues of income, but to multiple avenues of real estate income. Start with one way and, as your career progresses, you will want to add more.

Being a Real Estate Agent

What source of income first comes to mind when *real estate* is mentioned? Making money as a real estate agent or broker, the people who put buyers and sellers together and carry offers between them. The average real estate commission in the United States is generally between 5 and 8 percent of the sale. For example, if a sales price is $100,000 with a 6 percent commission, the agent or broker earns $6,000. Often, however, there are two agent/brokers, one representing the buyer and the other representing the seller, so the commission gets split, dispersing $3,000 to each.

The disadvantages of being a real estate agent/broker include a requirement to be licensed, meet educational standards, pay fees, and carry liability insurance coverage.

Of course, being an agent/broker has an advantage. You have access to the multiple listing service (MLS), which lists all houses for sale in the retail real estate market. You might have access to a real estate office and its up-to-date technology, and also have contact with other agents and resources who can lead you to sales.

Buying and Holding

Most people associate real estate investing with buying and holding property—a great wealth builder. If you buy wisely, your net worth will go up, and you will have monthly cash flow, property appreciation, and some tax advantages.

Certainly, a disadvantage to the buying-and-holding strategy is dealing with a lot of tenants, many of whom cause problems. I always say that if you do not have problems being a landlord, you do not have enough tenants.

Holding property is a management headache. You have to deal with contractors, constant repairs, liability, insurance, taxes, ongoing costs, and overhead. Still, it is one of the best wealth builders in the world. Because of all these variables, I advise against buying and holding property for your first 6 to 12 months of real estate investing, but buy and hold it as time goes by. Most people should start by flipping property so they don't put their capital or credit at risk.

Buying, Fixing, and Selling

A lot of people start in real estate investing by buying, improving, and selling property. Often, beginning investors make the improvements themselves. They work for six months—what I call hang and bang, drywall, paint, and clean—then they sell it. You can make anywhere from $12,000 to $30,000 on a property, especially if you fix up three or four homes a year. It can be a great business, but understand that it takes a lot of time and work.

Quick Turning, Flipping, or Wholesaling

With quick turning, flipping, or wholesaling, an investor finds a good deal, such as a house worth $100,000 that an owner will sell for less than that amount. Suppose an investor puts this $100,000 home under contract for $70,000. If he or she writes the contract properly and puts in a disclosure and contingency clause, he or she will have little or no risk of losing money over this transaction. Shortly after buying the house for $70,000, the investor sells it for $80,000. He or she makes $10,000—a basic wholesale, flip, or quick-turn deal.

The advantage of this income source is that you do not use any of your own money or credit—you get paid for finding deals. The disadvantage is an uncertain future, so you cannot rely on the residual income you would have with the buying-and-holding strategy, and you will have to keep buying and selling property. (See Chapter 7 for more about this strategy.)

Lease Optioning

One of the best ways to control or rent property is through lease optioning. Consider leasing commercial property, houses, vacation property, duplexes, land. Instead of borrowing money to buy a property, thereby getting your name (and all the liability that comes with it) on the deed, consider leasing it for 1 year, 5 years, possibly 50 years.

Think of it this way: If 10 years ago you had locked into 10-year leases on every house in your neighborhood, what leases for $1,000 a month now probably leased for $200 a month a decade ago. Therefore, if you originally leased property for $200 and rented it today for $1,000, you would be making $800 a month.

When you lease with the option to buy, you are locking in the lease for a set number of years as well as having the choice to buy it. Remember, you are not obligated to buy the property, but you do have the right to. When you lease-option property, you control it. You can re-lease it, buy it, option to buy it, or sell it for more than what your option price was. The sky is the limit.

Mortgage Brokering

A long time ago, I was told real estate is not real estate; rather, it is actually finance. This is because with proper financing, a bad real estate deal can become a good real estate deal. Likewise, a great real estate deal with bad financing can become a horrible real estate deal. So anyone in real estate is forced to get into finance—loans, money, debt, mortgages. (Chapter 7 shows ways to make money with mortgages.)

Consulting

After you have been investing in real estate for a few years, you become an expert and can actually earn money from others (e.g., bankers, other investors, newcomers) for your consulting. People will ask you questions all the time anyway, so consider developing a stream of income that helps you profit from sharing your advice.

Partnering

Partnering (people with different skills and assets working together to form successful real estate ventures) is another path for making money in real estate. You can partner in almost limitless ways: with money, capital, credit, expertise, repairs, and management. Decide what your skills are and stick to them, but also find partners to fill in areas where you lack expertise.

One of the biggest mistakes people make in any business, especially real estate investing, is trying to do everything themselves. Are you prepared to be a finance expert, a real estate acquisition expert, a contractor, a property manager, an accountant, a bookkeeper, and an eviction agent? Are you an attorney or an appraiser? You are wise to get to know those who can help.

Managing Real Estate

You can make money in real estate as a manager mainly by managing tenants. In residential or commercial management, managers generally earn a percentage of rents collected and sometimes a percentage of repairs. Alternatively, they can get commissions (anywhere from 3 to 15 percent) for locating tenants, signing leases, negotiating new leases, and signing and leasing property.

Robert's Business Philosophy

Ask yourself why you want to get into real estate investing. Sure, you want to make a lot of money, but real estate investing is more about freedom.

I urge you to follow my business philosophy, which is to do nothing. That is right—nothing. If I have other professionals doing their jobs properly, I can do next to nothing and profit from it.

For instance, you may have money or credit but little time. Why not locate partners to find deals for you; use *their* time and energy and *your* money or credit. What if you do not have money or credit but have lots of time to look for deals? Partner with people who have money or credit. In the same manner, you can partner with a contractor for your rehabilitation projects or with a management company that manages the rental properties it finds for you.

I must warn you, managing properties requires a tremendous amount of detailed work and can be stressful. Unless you do a lot of it, it's not even very profitable. If you enjoy managing people, then do it, by all means. If not, you can always hire a manager, then manage the manager. Use this approach as another source of real estate income.

Tax Liens

Tax liens usually have to be paid off first when a piece of real estate is sold or foreclosed on. The government has the first claim on the property, even above banks or lenders who have financed a mortgage. Tax liens pay good rates of return, so you might want to familiarize yourself with this concept. (See Chapter 4.)

Judgments and Liens

Investors who are active in real estate or landlords who have a lot of tenants will experience times when people owe them money and they have to collect judgments and liens.

To save on expenses, you could learn how to collect your own judgments and liens. To create another avenue of income, you could take it a step further. Here's how it works. If someone owes $50,000 on his or her property, a judge has put a lien on it, and it hasn't been collected on for five years, you could possibly negotiate the option or the contract to buy that property for $5,000, which is the amount of the judgment. You would approach the owner and say, "Look, you owe $50,000 on this house, but if you pay us $15,000 next week, we'll wipe out the remaining debt. We'll forgive it, forget it, extinguish it." If you did that, you could earn more than $10,000.

Foreclosures

One of the most popular sources of income in real estate is foreclosures. When a house is foreclosed on, it means that a homeowner has borrowed money that he or she cannot repay. The lender takes possession of the property, but in most cases the lender is really interested in recouping the loan's principal balance and expenses incurred.

If a property is worth $100,000 and the principal balance plus expenses due the lender is $100,000, stay away from that deal! However, if that property is worth $162,000 and the lender only wants $100,000 to cover costs, I suggest that you get control of that foreclosure and find out how to profit from it.

You can go to a number of places to find out about foreclosure deals: banks, mortgage companies, government agencies, private lenders, and tax agencies. Remember, though, real estate investors are not out to take advantage of anyone. If you cannot help the person being foreclosed, you do not want to get involved. You are not in the business to get people to sign over houses they do not want to sign over. That would be a bad deal—you never want to get involved in one.

Title and Escrow Closing Fees

Some savvy real estate investors and Realtors have started generating income from title and escrow closing fees. When they get involved in numerous closings, they can make legal and ethical agreements to get marketing or consulting fees for their efforts. Investors might even be able to use another company's computers or office space in exchange for bringing customers on board. This often-overlooked source of income can add significantly to your fountain of wealth.

Buying and Selling Discounted Notes

When you buy (or broker at a discount) a note, you give those people holding notes on properties the opportunity to get their money without waiting the full term of the loan. You might know someone who made arrangements to sell his or her house for $100,000 and took back an $80,000 mortgage. At 30 years at 10 percent interest, he or she may be making $700 a month on that note, with 25 years left to pay. Here is what you say: "Instead of waiting another 25 years to get the rest of your $80,000, how would you like $60,000 in cash in the next few weeks?" Someone needing funds might go for that offer immediately.

A number of people make money by buying notes, so why not make some sales commissions by bringing together buyers and sellers of those notes?

Maintenance and Repair

Owning real estate inevitably involves repairing and maintaining property. If you regularly contract for lawn care, roofing, new appliances, and carpet cleaning and installers, you know which companies provide good prices and service. You are probably willing to recommend those companies to your associates, but it makes sense to make money by setting up a system of referral fees first.

Generally, before I refer a good contractor or maintenance person, I make a contractual agreement that guarantees me from 10 to 20 percent of the bid for a job. Because I am providing work that person would not have had without me, I should earn a commission for that service.

Word to the Wise

Get everything in writing! Disclose *everything* to *everyone* in writing. Be sure that all of your business arrangements are legal and ethical in your state or wherever you are investing. I suggest you always consult with your attorney and accountant to avoid costly lawsuits down the road.

Legal Services

If you are in any business in the United States, especially real estate, you are going to need attorneys. Using prepaid legal services, you can profit from other people needing attorneys by participating in a national legal referral system. By selling prepaid legal expense plans, you can develop another source of income.

Appraisals

Generally, any time a property purchase is being financed by a loan, it needs to be appraised. You could become a professional appraiser—provided you are careful about conflict of interest. Also, you might refer appraisers and, when it is legal and ethical, earn commissions from those referrals.

Insurance

Never buy property without proper insurance, which may include title insurance, liability insurance, fire insurance, and insurance plans specific to commercial property. Someone has to broker and make commissions from all that insurance. Perhaps you could get an insurance license or develop a marketing and referral system with certain trusted agents. That will lead to still another avenue of real estate–related income.

Ancillary Services and Profit Centers

Ancillary services are part of buying, fixing up, and renting property. They can include furniture rental, cable TV rental, Internet service, tenant services, even restaurants. You could generate different forms of income from all of these services by charging referral fees for anything your tenants or clients could possibly need.

For example, if your tenants and clients need a satellite or computer hookup, a moving service, a rental truck, or whatever, you would likely refer them to service providers you know; you might as well get paid for it. You will learn more about these various sources of real estate income in the chapters that follow.

CHAPTER 2

Vision is the art of seeing the invisible.
—JONATHAN SWIFT

Putting *You* into Real Estate Deals

Before we get into the actual mechanics of finding deals, analyzing them, and making money off of them, let us talk about *you.* Every one of you is absolutely different. You have different skills, different assets, different worries, and different goals. You need to decide what you really want to do, how much you really want to make, what you are good at, what you are not good at, what you are scared of, what you are not scared of, and what you feel comfortable with, then start developing a business plan. Whether you are going to own 1 piece of property or 1,000, you are going to have a business. Every business needs a plan. Every business needs goals. Every business needs to decide who its key people are.

If you start a computer company, you do not hire people who are good at raising horses. If you need sales, you do not find people who do not like to talk to people. Likewise, if you go into real estate investing, you want to assign yourself the jobs you are good at, the ones that inspire you.

"Know Thyself"

Write down the real estate activities that are attractive to you. Maybe you love to talk to people and sell things; you will likely be good at getting tenants, putting deals together, and selling the deals. Perhaps you love detail and finance; you would be excellent at doing mortgages and financing deals, but not good at selling them. If you become irritated when people talk to you, you probably do not want to manage property.

Like Socrates said, "Know thyself." Early in my business, I learned quickly what I am not good at—accounting. I stashed receipts in shoeboxes for the first nine months of the year. The other three months, I tried to figure out what I did the first nine months. I used to balance my checkbook by calling up the bank and asking what my balance was. That is no way to run a business. I now have a service that takes care of my bookkeeping and accounting, activities that stress me out today. My checkbook balances, and I know exactly where my financials are. This leaves me free to do what I love—finding and putting deals together.

What do you like to do? What kind of people do you like to be around? What kind of deals would fit your personality? What aspects of real estate investing fit you best? Conversely, what do you *not* like to do? Determine that and partner with someone who does what you hate to do.

This may sound too touchy-feely, but it is important because you do not want to buy property and then agonize because you don't like doing repairs, working with contractors, or dealing with tenants.

Questions to Answer for Yourself

- **What do I really like to do?**
- **What in real estate is attractive to me?**
- **What do I believe I am best suited for?**
- **What do I absolutely *not* want to do in real estate (e.g., finding deals, putting in offers, analyzing deals, financing deals, getting partners, selling deals, managing tenants, doing repairs, bookkeeping, making cold calls, looking at properties, talking to a lot of potential buyers, talking to a lot of potential renters, talking to a lot of potential sellers, talking to investors, finding money, borrowing money, legalities, contracts, writing contracts, writing leases)?**

Forming Your Team

Whatever aspect of real estate investing you get into, you need a team. You can build your board of directors or your team starting now. To whom do you go when you have finance questions? Legal questions? Contract or repair questions? Whom do you call when you have deals to sell? Start now by asking, "Whom do I want on my team?"

Writing Your Plan

When most real estate investors start out, they have one goal: to get one property. However, they have absolutely no plan. They set out to find that property and, after they buy it, they figure out what to do by accident. When tenants do not pay the rent, for example, they react quickly to evict them without researching alternatives.

Let me save you a lot of time and headache by insisting that you write a plan. Remember the famous study about Yale graduates: It determined that the 3 percent of those graduates who wrote down their goals for the future financially outperformed the other 97 percent three to five times.

Make More Offers

A gentleman named Hal lives in my town, owns a lot more property, and makes a lot more money than I do. Another gentleman named John in Ohio owns more than 900 properties, and he makes a lot more money than Hal. Why is this? Here is the secret: Hal makes more offers than I do, and John makes more offers than Hal. If you never make an offer on a property, you will never get one. I promise that if you make enough offers, some of them—not all of them—will be accepted. Therefore, if you are not happy with how much property or income you are generating from your real estate business, the solution is simple: Make more offers.

I challenge you to, in the next 48 hours, sit down with your loved ones and write out your goals. Decide what you want to have for your 30-day plan, followed by your 60- and 90-day plans, your 6-month plan, and your 1-, 5-, 10-, and 20-year plans. Schedule a couple of hours to record these goals and structure your plans. Remember, your plan does not have to be very long—I suggest between two and six pages. It should include the following items:

- How much property you want to have (in each time frame)?
- What type of activities you want to be involved in?
- How much money you want to make (in each time frame)?
- How much net worth you want to develop?

Most important, write down how you will reach each of your goals—your plan of action. How many phone calls will you make? How many properties will you look at? It is one thing to say, "I would like $10 million worth of real estate," but it means nothing if you do not say how you will get there.

Planning Your Perfect Day at Work

Tie your goals into creating a perfect day at work. How would your perfect day go? Would you have a big office, or a little one?

Would you work out of your home? Where would it be located—in a city, on the beach, or in the mountains?

Beyond the physical setup, determine the nature of your business. What kind of deals would you make? What would your portfolio look like? How much money could you make that day? What would you do to bring in money? Who would you work with?

I planned my perfect day at work a few years ago in Nashville, Tennessee. I saw myself by the beach. I would wake up and exercise, ride around, take some phone calls, do some deals, have lunch, rest in the afternoon or go to the swimming pool, check my messages, do more work in the afternoon, put some deals together, and go out at night or spend time with my family and friends. I would also travel a lot.

I made that plan when I lived in a half-room office in Nashville. Today, I live in a beautiful condominium apartment overlooking downtown Miami and the beach. I ride my scooter and my bicycle around. I wake up early to work out or do yoga on the beach. I come home, check messages, make some phone calls, listen to a few angry tenant requests on voice mail, go to lunch, work some in the afternoon, hang out, and travel a lot. Most of my days are just as I pictured.

Planning Your Perfect Day at Play

Besides your real estate goals, be sure to make overall financial goals, personal goals, family goals, and spiritual goals. How much vacation do you want to have? How much time do you want to spend with your loved ones? How do you want to relax?

When you know this, you can plan your perfect day of play. Write down what that perfect day looks like. Where are you going to be? What are you doing? Who are you with? When you make that first wholesale deal or do a lease option or buy, fix up, and sell a property, reward yourself. Take a small percentage of your profit and get that perfect day of play under way. Maybe you want to take a balloon ride, go on a picnic, go to the mountains, go to the beach, or go on a cruise ship—whatever it is, first set your goals by writing them down.

> ***If you do not have the energy to write down your goals, I can assure you that you won't have the energy to make your real estate deals happen.***

Let me give you an example. At a workshop, one of the participants came up to me and said, "Robert, I am going to learn this stuff. All I want to do is make $6,000 and pay off my credit card bill. That is my goal." He went out, flipped one property, earned $6,200, and paid off his Visa bill. He met his goal. He was thrilled.

Another student said, "Robert, I have a lot of overhead. I used to be a corporate executive making a lot of money. I need to make $20,000 a month, no less." He wrote that down as his goal. To make that amount, we agreed that he would have to do a couple of flips a month, buy rental property, broker mortgages, and get active. He really likes doing these activities and now makes between $20,000 and $30,000 a month, just as he pictured.

Your Money and Your Credit

My parents, who brought me up well, always said, "Do not ever talk about money, sex, religion, or credit." I love to talk about all of these things because I find them fascinating; most people do not. However, if you are going to be a successful real estate investor with various income sources, you *do* need to talk about money and credit. You need to get them under control, or at least get started on them. Most real estate investors who have been supersuccessful have also been superbroke.

Start by taking a financial snapshot of where you are today. How much cash do you have? How much credit? What is your credit score? Requesting a copy of your credit report and obtaining a financial statement from a bank or mortgage company will help you to determine what you want to do with your real estate investing as you put these activities into practice. Six months or a year from now, you can compare your snapshot then with now. Realize that you have to know where you are today to be able to get to where you want to be tomorrow.

If you take time now to answer the following questions, you will have a much better idea of what you want to get into. In addition, you will avoid a lot of headaches and frustrations that most investors never take the time to think about.

- How much can you borrow (if you need to) to make real estate investments?
- How much access to cash do you have?
- What are your assets?
- What do you own? (Houses? Cars? Investments?)
- What are your liabilities?
- What are your debts? (Mortgages? Credit cards?)
- How much is your life insurance? Your retirement account?

Take the next two days, the next 48 hours, to make a plan. Decide where you are and where you want to be. Write down your goals and share them with others. You are on your way to developing numerous sources of real estate income.

CHAPTER 3

To win without risk is to triumph without glory.

—PIERRE CORNEILLE, *LE CID,* 1636

All Types of Real Estate: Their Advantages and Disadvantages

New real estate investors always ask me what type of real estate is best: land, houses, duplexes, and so on. Should they get into high-end property? Low-end property? Middle-income property? Commercial property? Apartment buildings?

My advice is to pursue whatever you are interested in. Do not ever listen to someone who says, "Only do this type of real estate. Only get into houses. Never do commercial. Only do commercial. Do not do houses. Big apartment buildings are better than little apartment buildings. Trailer parks are the best, better than houses." The truth is it all can work.

Your job is to find a good deal in real estate, whether it is a $3,000 trailer, a $30,000 house, a $300,000 luxury home, a $3 million apartment building, or a $30 million commercial property. Find properties you are comfortable and familiar with at first, then expand. This chapter gives you an overview of different types of investing, so you can consider the advantages and disadvantages of getting into them.

Rental Property

Rentals can be an excellent wealth builder. You buy and hold properties, pay off the debt, and watch the value appreciate. Rentals give you some tax advantages, too. Here are some of your choices.

Trailers and Weekly Rentals

I know some people who will not rent anything if they cannot wheel it around. When I got started in real estate, I would buy a house or duplex for $50,000 in Tennessee and rent it for maybe $700 or $800 a month, at the same time paying off a note of $400 or $500 a month. I was making $200 to $400 every month. For $4,000, my friends would buy a trailer that was 10 or 15 years old. They would fix it up and rent it for $100 or $150 a week. They recovered their initial investment in eight months or less and earned $500 or $600 a month in rent after that. In these two examples, which deal is better? The last one is . . . on paper. However, as with anything, there are advantages and disadvantages.

Advantages

- The cash flow is great.
- The amount you have to invest to get started is minimal.
- The return that you get on your cash flow is good.

Disadvantages

- You deal with a lot of management hassles, transitions, and turnovers.
- You will spend money to keep the cash coming in.

Analyze the situation well, and make sure you count your time and money so you can make a good return on your investment.

Single-Family Homes

What about basic, single-family bread-and-butter homes rented to low- and moderate-income families? You do not need to have a lot of money to get into them; you can leverage out of them; you can buy them for less than what they are worth. They are in high demand, so they are fairly easy to rent and sell if you take care of them.

Advantages

- They are easy to rent.
- They are easy to sell.
- They appreciate fairly nicely.

Disadvantages

- If you own a little house here and a little house there on scattered sites, they are management-intensive.
- If your tenants are low- and moderate-income (or at any level of income) and you do not screen them well, you may face plenty of repairs when they move out.

Condominiums

Renting condominiums has advantages and disadvantages too.

Advantages

- Condominiums are fairly easy to rent. Sometimes they are easy to sell, but not as easy as single-family homes.
- Condominium owners are only responsible for the interior; common areas are kept up by the management association.

Disadvantages

- Condominiums have maintenance and management fees that range from $60 to $300 a month to cover insurance and upkeep of common areas. These sometimes eat into your cash flow.

- The condo association needs to be well funded and not facing any big expenses like a new roof or parking lot. Always do your research first.

Duplexes, Triplexes, and Quadruplexes

Here are some pros and cons of renting duplexes, triplexes, and quadruplexes.

Advantages

- They are easy to finance most of the time because they are deemed residential real estate. This means that anything with fewer than four units can be financed through a residential loan, so they are easier to finance. Remember, properties that are easy to finance are easy to buy and sell.
- They have more than one unit bringing in rent, which helps the cash flow.
- They are fairly easy to rent because people would rather live with just 1 or 2 neighbors than with 400 in a large apartment building.

Disadvantages

- They are harder to sell than houses in a slow market. Single-family, three-bedroom homes are the easiest group to sell.
- They are harder to finance than single-family homes.
- Their biggest disadvantage is also one of their advantages: Because more people are paying rent, collecting rent becomes complicated. Rent-paying situations create more turnover, more repairs, more phone calls, and more management headaches.

Small Apartment Buildings

Smaller apartment buildings, containing between 5 and 100 units, are part of a fragmented market. A lot of mom-and-pop owner-operators run small apartment buildings.

A Rose by Another Name

In certain areas of the United States, duplexes are called *doubles,* triplexes are called *triples,* and quadruplexes are called *fourplexes.* In my opinion, it doesn't matter what you call them if they make money for you.

Advantages

- You receive great cash flow.
- You can usually hire an on-site manager to take care of things because all of the tenants live in one place and are not scattered.
- You can have economies of scale because all of the apartments are in one place.

Disadvantages

- As the number of units goes up, vacancy and repair rates go up, which translate into more turnover, more repairs, more people, and more headaches.
- It is harder to sell an apartment building than a home if the market goes bad because it is an investment property.
- It is more difficult to find financing for an apartment building than for a home. Rarely will a bank or mortgage company loan more than between 60 and 80 percent of the purchase price of a small apartment building.

Large Apartment Buildings

Large apartment complexes are usually run by large organizations. This market requires a lot of capital and can be very competitive.

Advantages

- Large apartment buildings provide economies of scale.
- Large apartment buildings are easy to manage with all tenants in one place. Finding great deals on apartment buildings becomes more competitive with 100- to 200-unit complexes because many large commercial companies invest in these.

Then you may be competing against large real estate companies and institutions with tremendous amounts of capital. However, many real estate investors profit well from the smaller complexes that have from 10 to 50 units.

Disadvantages

- They can be hard to finance because of size.
- They can be tough to sell in a down market.

Commercial Property

Commercial property here refers to strip centers, office buildings, and commercial warehouses.

Advantages

- The tenants generally take care of all the repairs, unlike in residential properties.
- The rents can be lucrative, especially for big spaces.

Disadvantages

- Commercial property is more difficult to finance than residential property.
- Commercial property often requires time to find another tenant that suits the space. This means that you have to be willing to pay the note or pay the costs, taxes, and insurance while the space becomes rented and retooled for a new tenant.
- Commercial property stays empty longer than residential property when the economy is down.

Land Developments

Land developments involve investors finding land, getting it under control, improving it with roads or utilities, then selling it for a big profit, either through a residential developer or a commercial developer. It is a great business.

What Options Suit You Best

Your main job in developing unlimited riches in real estate is to find good deals. Once you learn the tools (e.g., for wholesaling and lease optioning), it does not matter whether the property is a piece of land, a house, a duplex, or a giant apartment building. Use the methods in this book to learn what options suit you best.

One of my favorite sayings: The two best businesses in the world are buying whiskey by the bottle and selling it by the shot, and buying land by the acre and selling it by the lot.

Advantages

- A land development gives you the potential for a tremendous profit because you are dealing with a bigger chunk of land.
- A land development will likely increase in value, especially if you improve it with roads and services.

Disadvantages

- You have to have *real* money because the land does not produce any income.
- You have costs (e.g., mortgage, taxes, insurance) while you are holding the land.
- You can sell land easily in prosperous times; however, in hard times, you may have difficulty selling it.

CHAPTER 4

Patience, persistence and perspiration make an unbeatable combination for success.

—NAPOLEAN HILL

Every Possible Way to Find Great Deals in Real Estate

This book shows you how to analyze deals; contract deals; lease option deals; wholesale property; buy, fix up, and sell property; rent property; and determine many other possible avenues of income you can get from real estate investing. However, one critical detail must be covered first: how to find a good deal.

If you cannot find a good deal in real estate, you cannot make any money. You cannot develop all of those sources of income without finding good deals. (Unfortunately, this is the critical part that a lot of books, seminars, and conferences about real estate leave out.)

What Is a Great Deal?

Let's say a friend of yours is getting divorced, has to move away, needs cash quickly, and says, "I have this Jaguar worth about $50,000. It's in great shape. If I could just get $30,000 for it, I'd be okay." The car was brand new the year before, purchased for about $55,000.

Could you figure out a way to make money off that Jaguar? You could call dealers, who are wholesalers, and ask, "What is a 2001 Jaguar worth today?" They might reply, "About $50,000." So you would ask, "What would you pay for it?" and they might say, "We'd have to make something on the resale, so we'd pay $42,000 for it."

If the dealership gave you $42,000 and you gave your friend $30,000, you would make $12,000. Alternatively, you could run an ad in the newspaper offering the Jaguar for, say, $45,000. You would make even more money. Or you could take $30,000 from your savings or borrow from a bank, lease the Jaguar for $600 a month, and bring in money every month for it.

You have these choices in real estate, too, but first you have to find a good deal like your friend with the Jaguar handed you. If you find a good deal, you will make good money. If you find a great deal, you will make great money.

Finding Motivated Sellers

To find good deals, find motivated sellers. If a property is worth $100,000 in the marketplace and the seller wants $99,000 for it, the seller simply is not hungry to sell. So what motivates some people to sell at below-market prices and how can you identify them?

Let me give you an example. I once called about a house after seeing a newspaper ad that stated "Must Sell." I called the gentleman

What Is One Deal Worth?

What if you find that great deal—a house you can turn over, flip, or wholesale? You make $8,000, or $12,000, or $20,000 in a short time by selling it shortly after you buy it. What is one deal worth to you? (See Chapter 7.)

What if you find one great deal—a house you could buy and hold? You borrow $100,000, rent the house out, and pay for it in 15 years. By then, it is worth $300,000 and you have made thousands on it. (See Chapter 7.)

What if you lease-option a house? With this method, you get three paydays. The tenants pay you up front with option money. You lease it out every month and make $300 to $500 extra cash flow coming in every month. And when they actually buy the house, you make another $15,000. (See Chapter 8.)

Returns like these are possible with good and great deals. If you are not searching out these deals, you could be wasting your time in real estate.

who placed the ad and he said, "It's a five-bedroom, three-bath, with a pool and tennis court in a great neighborhood." I knew that house had to be worth $400,000 to $500,000 because I was familiar with this neighborhood in Nashville, Tennessee.

I asked, "Is it in good shape?"
"It's in perfect shape," he replied.
"What do you want for your house?"
"I want one dollar." Was he motivated to sell? Yes.

I generally do not try to figure out why people do what they do, but I asked him, "Why are you selling it for a dollar?" He answered, "I'm getting divorced and I've got to split the assets with my wife. I can't wait to give her fifty cents." What was his motivation? Revenge. I had no desire to know more about their relationship. It was none of my business. But I did want to buy this home for a dollar.

Unfortunately, the judge in divorce court would not approve the contract (which I wrote under the seller's guidance) to buy the house for a dollar. The judge threw it out, but I got the house for a lot less than it was worth (though it was more than a dollar).

Here are some additional indicators for identifying highly motivated sellers.

- Poor health
- Divorce
- Unemployment
- Estate sales due to death
- Moving on to a new location or a new lifestyle

Sometimes people face a health crisis, a divorce, or the death of a loved one. They lose their jobs or their desire to care for their property. Through their transitions, they have difficulty paying

Stop Trying to Understand Why

If you follow this advice, you will save a lot of time, headaches, and psychic energy in real estate investing.

Stop trying to figure out why people do what they do.

Why do people smoke? They know it is going to kill them. Why do people not go to the gym? Why do they not take care of their health? Why do they not donate money to charity? Why isn't everybody happy? Why do people spend ridiculous amounts of money on ridiculous things?

This book is not about teaching psychology. If you are reading it, you want to be a successful real estate investor, not a counselor. Your job is to find good deals, not to understand why people do what they do. However, it is wise to find out the circumstances people face. Their life events certainly affect their motivation to sell at below-market pricing.

their expenses, including their mortgages. Although the circumstances may be sad, if you can help them prevent foreclosing on their property by getting cash into their hands, you have done them a service.

Please realize I am not saying to take advantage or rip people off. If you ever have a transaction in which every party is not completely satisfied with the deal, move on.

You can experiment with a variety of ways to find sellers, including going through newspapers and brokers. Be sure to use these approaches consistently so you know which ones work best for you.

Reading Newspaper Ads

I got started in this business Sunday mornings while enjoying my favorite hot drink at home and reading the newspaper. About half of all the deals I have ever found, even the great ones, have come from newspaper ads. Calling on ads at least every Sunday or more often will get you started. If you follow sports, you read the Sunday paper religiously. You learn about the heights and weights of the athletes, their playing statistics, even their arrest records in some cases. If you study the real estate section in the same way, you will become an expert in real estate like you are in sports. It is similar to how some people follow stocks. They know every detail about them and watch their movements 15 times a day. If you did one-tenth of that activity in real estate by steadily going to the real estate section every week, you would become an expert in real estate.

When you read the newspaper, what are you looking for? Suspects—highly motivated sellers who become prospects. The following nine ideas suggest where to look to get started.

For Rent Ads

If a property is for rent, it is often empty and the owners have a mortgage on it but are not collecting rent. The landlord or management company may be tired of renting it out and keeping it repaired. Sometimes you can get some great deals and help the owner get out of the business altogether.

For Sale by Owner Ads

If people are selling their houses by themselves, that might mean they cannot afford a Realtor, do not want to get a Realtor, or are in a hurry to sell.

For Sale Ads

Look at For Sale ads to quickly learn what property sells for in specific neighborhoods. Search for phrases such as "Must Sell," "Make Offer," and "Won't Last." I circle those ads and call to find suspects who might become prospects.

In the process of calling, you will learn which Realtors are active in those areas. Get to know them because if you ever find a deal in their territory, they could help you locate buyers or sellers.

"Must Sell"

A student of mine, Don, saw a "Must Sell" ad in the newspaper for a commercial property in Miami, Florida. He did not know much about Miami, but he called the broker listed in the ad and asked this critical question: "Why are you selling?" The broker replied, "The woman is selling because her husband was the landlord. He just passed away and she doesn't want to manage it. She's tired of it. She wants to dump it. The building is worth as much as $1.4 million but it needs $200,000 of work. She'd take $500,000 for it." Don offered a lot less than that and got the building under contract for $290,000. He wants to wholesale it and stands to make between $100,000 and $300,000. The end buyer will also get a great deal because Don is asking $700,000 to $800,000 for this $1.4 million building.

Who wins? Everybody. The widow is happy to let go of the property after making money with it over the last 30 years. The broker will make a good commission; Don will see a large profit; the end buyer will get an incredible deal. And it all started from answering an ad in the local newspaper.

Investment Property Ads

I like to call ads under the heading "Investment Properties" because I know investors own these properties being advertised. An investor or landlord has either purchased a property years ago and wants the profits from the appreciation in value, or has bought a bad deal and is tired of messing with the property. In both cases, the owner could be highly motivated to sell.

When I call, I always ask, "Do you have or know of any other properties for sale?" I recommend always asking that question when you call. Here is why.

I once responded to an ad from this section and the older gentleman who answered said, "I've got this property and I'm selling it at 30 percent below what it's worth. I'll do owner's terms. I have pictures of it and I really want to sell, so I'll be more than glad to work with you." Then I asked that important question. "Do you have any others?" He said, "I'm so glad you asked. I've got 88 more, all with pictures and documentation." I ended up buying all of them and flipped about 50 in about a year.

Lease-Option Ads

Check for a Lease-Option section in your paper. Investors looking for deals or putting deals together usually place ads here. Remember, they are investors. And if you are also an investor who is going to be wholesaling, you not only want deals that you can buy but you want people you can sell to. Always get their names, addresses, phone numbers, fax numbers, e-mail addresses, and what type of property they like. Another critical question to ask is: "Do you know of any good sources of financing?" Build your lists of people who can get you money as well as get you deals.

Every time you talk to an investor, you are looking for three things:

1. A deal *you* can buy
2. A deal of yours that *they* can buy
3. Good sources of financing

Auction Ads

Auctions, listed in the back of the real estate section, are becoming a popular way to sell property. Some estimate that in the next five years, about 40 to 50 percent of all property may be auctioned.

Auction companies advertise, conduct the auction, sell the property, and close the deal 10 to 30 days later. If they have deals they cannot auction, they sell them at a discount because auctioneers are always finding motivated sellers who want to off-load their properties quickly.

When you go to real estate auctions, whom do you meet? Buyers who have cash. (Some deals offer owner's terms or financing, but many require cash.) So go to an auction as if it were a cocktail party. Meet everybody there and build your list of buyers. Get names, addresses, phone numbers, e-mail addresses, and fax numbers. These investors find deals that they could pass on to you, and vice versa. All the while, you keep your eyes open for a great deal.

Legal Notices

You will find legal notices in many newspapers. They announce bankruptcies, divorces, foreclosures, and estate sales. You might find highly motivated sellers in any one of these areas, plus you can find a lot of great deals and work with your attorney on the technical details. These deals can be worth the effort.

Every major city has a legal newspaper. Call a local attorney or go to a magazine shop, find out the name, and buy it. It is full of foreclosures, tax liens, bankruptcies, estate sales, and divorces. You do not have to understand the legal mumbo jumbo. You simply call the attorney listed or get an address off the legal notice and send a letter asking about suspects for good deals.

Obituaries

If an obituary is in the newspaper, what does that mean to you? The deceased usually leaves behind real estate, furniture, cars, and

Get to Know Law Firms in Your Town

Generally, in any given town, a couple of top law firms handle most of the foreclosures and bankruptcies. Get to know the people in those firms and work with them. Understand that they care about client confidentiality, so they cannot tell you certain things, but they do know about pending deals. They will call somebody about them, so it might as well be you.

often family members who live all over. You could be doing their relatives a service by writing or calling them and saying, "I am so sorry to hear about your loss, but if you have any property you want to dispose of quickly, I can help you. I might be interested in taking it over." In a lot of instances, people say, "We don't want to mess with this house. The children and cousins have moved across the country. Just take the house; you're doing us a favor. Yes, we know we're selling way below what it is worth, but we don't have time to deal with it. Too many memories. Just take it."

I have been teaching this method for years and one of my students has been extremely successful. He responds to all the obituaries in writing and usually gets about 10 to 20 deals a year in a very small town. Many times, the people write him a letter thanking him after he has put the property under contract, flipped it, fixed it up, and sold it. They say, "Thank you so much for taking that property off our hands. We didn't want to have to deal with everything." So sometimes he not only gets the houses, but also acquires cars, furniture, and collectibles.

Neighborhood Newspapers

Some of the best deals can be found in the *Thrifty Nickel,* the *Shopper's News,* and other neighborhood papers because people who place ads there cannot afford to advertise in the big paper. I have experimented and found that if you have $200 to advertise with, you will likely get better results from advertising in the smaller papers. Not only are they good sources for finding deals, but you also get more bang for your buck in advertising. (More about advertising later in this chapter.)

Driving for Dollars

Driving for dollars. Doesn't it sound like a game show? "Good evening, ladies and gentlemen. In tonight's edition of *Driving for Dollars,* we have two contestants." But you can make a lot of money at this game, which is my favorite way of finding good deals. It is fun to go with someone who will write down the addresses as you find promising properties.

Pick a neighborhood that you are interested in: one that is in transition, is being fixed up, has houses that need work, and so on. Drive around it slowly and try to find at least 20 addresses you can write down for neglected, vacant, or condemned homes, ones with signs saying For Sale, For Sale by Owner, or For Rent.

Be persistent. You may have to call and call and call to find the owners. Start by calling the Registrar of Deeds, getting on the Internet, and going to the local tax records office to locate the owners. Ask a Realtor friend to look them up on the MLS computer. Then call or write to the owners once you find them.

As you drive around, how do you tell if a house might be owned by a motivated seller? Look for the following characteristics.

Neglect

Needy homes have gutters that hang, roofs with holes in them, and horrible-looking yards with trash lying everywhere. A general rule in real estate is this: The worse disrepair, the better the deal. As an investor, begin to love houses that have black goo dripping out of the ceiling, animal dung on the carpet, holes in the wall, broken windows, and 14 feet of garbage in the yard. The more work the house needs, the more motivated the seller will be. The more motivated the seller, the better the deal will be.

The best deal my friend John ever got involved a house that had 35 feet of garbage in the front yard. Drug addicts had lived in it. When he walked into the house, he could not even get access to the basement because of the garbage.

But the real estate market was hot in this neighborhood and 50 people looked at the house during its first two days on the market. Everybody who saw it walked away in disgust. Most people insist on buying a house that looks like a new present with a bow on it.

So John went into the trashed-out house, took a big breath in the smelly environment, and declared, "Ah, Paradise. Eureka. The mother lode." He figured that house was worth about $350,000 fixed up. He determined it needed about $50,000 of repair. So he put it under contract for $140,000 (less than half of its value) and got the deal done. This example proves my point: The worse the house, the better the deal.

Undeveloped Land

My friend Bill, an investor in Nashville, Tennessee, finds big chunks of land—20 acres, 50 acres, 200 acres—negotiates the price, and puts the land under contract. I asked Bill, "Where do you find most of these deals?" He said, "I drive around, find land on the edge of town, and either talk to the neighbors or write a letter and find the owner. I have never used a Realtor because the property is rarely listed."

Bill finds owners, asks if they would like to sell their land, and gets an option to buy it. If it is unimproved farmland, he reads the property codes for that area and often gets the land rezoned to make it more attractive to future buyers. He might borrow money from a partner or from the bank, then puts in roads and utilities to increase the land's value immediately. Three months to two years later, he sells this land (under option at $800,000) for $1.5 million to $3 million. You can do that, too.

Vacant Homes

If houses are empty, the grass is high, the bushes are overgrown, and the properties look deserted, could those sellers be motivated? Absolutely. Put them on your list of suspects.

Condemned Homes

Look for that yellow tape that says, "Unfit for human habitation." This signifies a code violation. That is exciting for investors because owners who have already been to court might be highly motivated to sell. The codes enforcement area of the Housing Administration has fined them. The fines are equivalent to saying, "If you do not fix this house, we will fine you more, and if you still don't fix it by a certain time, we will bulldoze your property."

Some condemned homes require a tremendous amount of work to fix up, maybe too much. The windows could be broken and the electricity or the heat may not work. You always have to ask if it is a good investment.

Not only can you spot these "diamonds in the rough" while driving for dollars, you can access a list of addresses for condemned homes posted by the Housing Administration.

For Rent Signs

If a house is for rent, you might locate a highly motivated landlord who bought the property 20 years ago for one-fifth of what it is worth today and is tired of it. The best ones are the empty ones. Call about these, too.

For Sale and For Sale by Owner Signs

As you drive for dollars, look for For Sale and For Sale by Owner signs. Some of these signs might say, "Make Offer," so pay close attention. Because you are still driving neighborhoods, learning about the neighborhoods, and getting suspects, make a point of meeting the Realtors and brokers who are active in that area. You will learn a tremendous amount from talking with them and from carefully reading the signs.

The Smaller the Sign, the Better the Deal

Mary, a student of mine, was once driving around (you have to go really slow when you are driving for dollars) and almost missed a little bitty sign behind a bush. She got out of her car, jumped over a low fence, moved the bush, and saw one of those little For Sale signs available for 90 cents at the hardware store. She could hardly even read the phone number. In fact, she wrote down eight different phone numbers she thought it might be, and found the seventh one to be correct. On the phone call, she asked the man who answered, "How long has your house been for sale?" He replied, "Six months. You're the first caller." How would you like to be a market of one? Mary bought that house for about half of what it was worth, wholesaled it, and made about $20,000.

She also asked that magic question, "Do you have any others?" He replied, "Yes, I have another one. It's a few blocks away. No one has called about that one either." She drove by that house and saw the sign there had completely fallen off. She was able to make a good deal on that house, too.

Auctions

In addition to the auctions listed in the newspaper, look for other auction companies in the Yellow Pages. When you drive around for dollars, you will see signs about upcoming auctions. Call all of the auction companies and **get on their announcement lists,** so whenever they do an auction, they send you a notice for auctions of a commercial property, house, apartment building, land, and so on. Attend all of those auctions that have properties; you might find a great deal.

Locating Owners

What if you can't find owners? One investor was driving for dollars and found some vacant homes, wrote the addresses down, went to the Internet, and looked on the tax rolls, but still could not find the owners.

It is almost always certain that *someone* almost always owns a property, whether it is an individual, a corporation, or an estate.

There is a name on a title at the tax records; it might even belong to someone who died 10 years ago. Or it might have been a factor in some kind of lawsuit. To find out what happened to the title, hire a title searcher and get the names of people listed, then locate them.

You could also hire a private investigator. For between $100 and $500, private investigators can find owners and probably learn what happened to the property. (My web site, www.shemin.com, gives names of private investigators we recommend.)

Now, what if no one owns that property and no title exists? Then you go to court, hire an attorney, and file an action to "quiet title." A judge will decide what is necessary to clear up the title or get a good title. Sometimes the judge will ask you or your attorney to advertise and see if anyone has an interest in the property. You will then be required to contact by certified letter anyone who has an interest in the property. This often occurs when there is a death and there is subsequently no proper passing of title.

If you have a problem getting good title for a property, you need to contact a good title attorney who can guide you as to what it will require to clear up the title for a property. This is a very difficult process, though. If no one owns it, it becomes hard to acquire the property. So you have to decide if the deal is potentially worth the work and expense it would take.

Also ask, "What seven or ten numbers can I dial to get the answer?" Personally, I would call my local title lawyer and say, "I have found this property and cannot find the owner. What do you recommend? In our jurisdiction, how do you get proper title?"

Foreclosures

A foreclosure occurs when someone lends another person money to buy property and the money is not paid back. Because the property provides the guarantee for the loan, the lender has the right to take it back, usually through a first, second, or third mortgage or tax lien.

Who lends money? In our country, mostly banks and mortgage companies provide property loans. Some governmental agencies have the authority to get a lien or judgment for nonpayment of funds owed (usually for taxes) and can foreclose on a property.

There are generally two types of foreclosures: (1) a judicial foreclosure, in which a lender has to go to court and get a judge to order the foreclosure, and (2) a deed foreclosure, or deed of trust foreclosure, in which the deed to the property is put in trust after the loan period is over. The unpaid mortgage is advertised for about 30 to 60 days. After that, the attorney or trustee forecloses on the property and takes possession of the deed through the trust.

It does not really matter to which type (judicial or deed of trust) you go. The important part is to understand the technicalities of foreclosure. For example, is the judgment final or is there a right of redemption? (That is, can the homeowner come back within six months or a year and pay off the loan and get the house back? In most states, that is not possible; when they get that property back, they have to pay the lender all the money back plus interest.)

Legal Newspapers

Foreclosure deals are generally listed in the community's legal newspaper. In most cities and counties, foreclosures have to be

Make Sure That the Title Is Good

Can you be sure you will get a good title at the foreclosure sale? On whom do you rely to give you answers? I recommend you work with experts from a reputable title company. Also, get an attorney who understands foreclosures and does research well. You do not have to understand title and foreclosure law; you *do* have to know how to talk to people who can answer those questions for you.

I understand foreclosures; I am an attorney by training. However, before I buy any property, I always get a title search done or consult with my title or escrow company to make sure I am buying what I want to buy.

advertised in the legal or regular papers a few weeks before the sale occurs. You could also call the tax assessor's office or go to the Registrar of Deeds and ask for the list of the properties going into foreclosure.

Foreclosures can be excellent deals. Some people make tons of money. Unfortunately, they come with some disadvantages. For example, often you cannot have access to the property before you buy it because the bank may have sealed it. So you have to make sure you understand the risks when you buy those foreclosures.

Tax Sales

If people do not pay their property taxes, the government taxing entity will demand payment and force a tax foreclosure. You can buy the property at a tax sale, or, in certain states, you can buy a tax certificate for the amount of the back taxes. By using a certificate, you get interest on your money or on the property. Some tax certificates pay anywhere from 10 to 30 percent interest. People buy at tax sales for two reasons:

1. They hope to get the property for the price of back taxes. For example, if a $200,000 property has $8,000 of property taxes not paid and goes to a tax sale, they want to buy it for $8,000, the amount of the back taxes. Of course, others may bid against you and raise the price. Still, you can find good deals at tax sales.
2. Many cities, counties, and states by law demand that the taxes owed and the amount bid collect a good interest rate. In certain areas, every taxing authority has rules and laws for how sales are run. Some require as much as 20 to 30 percent interest paid.

For example, the owner of a house worth $200,000 owes $8,000 in back taxes. You bid $8,000 with the intent to acquire the house for the amount of taxes only. However, your city has a one-year right of redemption rule. This means the homeowner has one year to pay back all of the taxes and interest due and redeem the property. For example, if your area's interest rate for tax liens is 20 percent, then the homeowner pays you $8,000 plus 20 percent to get the house back. If the homeowner does not pay you off within one year, you get to keep the $200,000 home. However, you cannot sell that house until the year is up.

Alternatively, you could get a property for the amount of the tax lien. You can also acquire properties by bidding on them by auction at foreclosure sales. The IRS also puts tax liens on property.

After you hear of a pending tax sale or foreclosure and before it happens is when you should to talk to the property owners affected. Are they motivated to sell? Yes. Are they hard to talk to sometimes? Yes, because people have a psychological defense mechanism called denial. Sometimes people say, "No, I don't want to talk to you. I'm going to win the lottery. Someone will show up at my door and give me a million dollars. I know it's going to happen, so leave me alone."

So they are difficult to talk to, but in most cases, the things that are hardest to obtain are the sweetest. So work these foreclosures and preforeclosure tax sales, and develop a good source of income.

Department of Veterans Affairs

The Department of Veterans Affairs guarantees loans for veterans and publishes a list of houses it is foreclosing on. Sometimes they are good deals and occasionally they offer very favorable financing. Check with mortgage brokers for details about good deals from the Department of Veterans Affairs. (See www.shemin.com for recommendations of government real estate agencies.)

Housing and Urban Development (HUD)

HUD also guarantees loans that banks make. It takes properties back for unpaid mortgages and you can bid on its foreclosed properties. Most real estate brokers and agents have access to lists of

HUD foreclosures in the area. They could be a great place to find deals. (See www.shemin.com for links to HUD lists.)

Questions and Answers

Q: I do not have a Realtor's license. Can I still make money in foreclosures?

A: Yes. You do not need a real estate license in most cases. I have bought and sold a lot of properties. I can put them under contract or option and sell them to somebody else. A real estate license only lets you go to the Multiple Listing Service (MLS) and make commissions off the sales of properties that are listed. This book outlines other creative ways to make money in real estate besides using MLS.

Courts

Some real estate investors always complain about the government: the IRS, courts, regulations. But I love the government. As a real estate investor, you should love the government, too, because it is hard at work making hundreds of thousands of motivated sellers. All types of courts exist to help create motivated sellers (even when they did not think they were motivated). Here are some of them.

Codes Court

Go down to your local housing administration office to find out scheduled dates for codes court, where landlords and investors go to defend their interests. The codes court enforces the codes and can issue fines. It can even condemn homes and have them bulldozed. Do motivated sellers come to these courtrooms? Yes.

The proceedings are all public record. The docket for the day is usually posted outside of the courthouse. You can talk to the people while they are there and meet with lawyers, landlords, and investors who come. Every time I go to codes court, I usually find a good deal. Chances are you will, too.

Eviction Court

In every major city, evictions go to court at least a few days a week. Who shows up there? Tenants, attorneys, landlords, and managers. Owners who have a conflict on their hands and go to court to resolve it could be in the market to sell for a good price.

Know that when you go to eviction court, you may find some great deals, and you will also find better entertainment than any TV sitcom. You will also network with people you want to know. If you do not want to spend time there, you can get names, addresses, and phone numbers of people on the docket. Send them a letter that asks, "Do you have any properties you'd like to sell?" and follow up.

Environmental Court

People who have too much junk on their properties wind up in this court. It fines people for not removing trash and not cleaning their yards. Owners of these properties can be highly motivated to sell. Go meet them, get their names, and contact them afterward. They could turn into good deals.

Divorce Court

Because divorce records are public, you can actually look up case files and see what a couple owns. Many have a home that they must sell and are often willing to take a discount just to settle the assets to get out of the marriage quickly. Get to know some divorce attorneys and show up at divorce court. You might find some good suspects there.

Estate and Probate Court

You can look in the public records where deceased persons' assets are listed. Contact the attorneys and the families and say, "Would you like to unload these properties quickly? I can help you out." Do you think you can find some deals that way?

One Good Probate Deal

When the grandparents of a real estate investor I know passed away, they left behind a condominium in Florida. The family members did not want to spend time getting rid of the property and dealing with the memories, so they sold the condo to a gentleman who contacted them through a letter. He got the address from the estate probate record. The condo and other assets sold for about 60 percent of their worth. This gentleman saved the family a lot of trouble and got a great deal in the process.

Advertising

Most real estate investors do not like to tell people what they do. They tend to be laid-back types who drive nondescript cars. If you have a quiet personality, you can get over your shyness through advertising. In my experience, businesses that have a mediocre product or service but advertise a lot bring in plenty of customers. Fast food restaurants are a good example of that—they have poor food and mediocre service, but people spend money there every day because they see the advertisements constantly.

In real estate investing, the more you advertise, the more the word gets out, and the more deals you will get. Here are some inexpensive forms of advertising you can use.

Business Cards

Make your card stand out by printing your information on a shocking-bright paper. The wording on your card should get attention and tell people what you can do for them. "We will pay cash for your house. Can close quickly. Call me first. Call me last." You might include wording like, "If you are in trouble through foreclosure, bankruptcy, divorce, need to raise cash, need to raise money, need to sell your property quickly, call me now." Put your cell phone number on the card in a prominent place. Hand out your cards to everybody.

Flyers

Make flyers—and distribute lots of them. They might say, "We will pay cash for your house. Can close quickly. Call me first. We will buy your house. We will make an offer on every property." You want your phone to ring so you can find great deals.

Ads

Place an ad in your local newspaper that states, "We will buy houses. We will pay cash." Typically, these ads generate two to three calls a day and lead to about one deal a week. Is it worth $190 a week to run an ad? Yes, because one deal can be worth a lot.

Run your ad consistently and for a long time. This is critical. If you run it for three months to a year and the wording attracts attention, you will get calls and, eventually, good deals.

Direct Mail

Sending direct mail through the postal service usually gets a response rate of 1 to 2 percent, so do not expect a high-volume return for your efforts. However, if you mail a large quantity, you will get activity. Monitor the numbers carefully, and be consistent with your direct-mail campaign, so you know which mailings work well for you.

Door Hangers

When you come home at night, sometimes you see hanging on your door advertisements for carpet cleaning and pizza specials. You can use this idea and pay the same people to hand out your door hangers. Your message would read: "We pay cash for a house. Can close quickly. Do you know of any houses for sale that are a good deal? Call me. Referral fees paid."

Signs

Put signs in your targeted neighborhood on every corner and you will get calls. The largest real estate franchises attract their prospects by running billboards that say, "We will buy any house, ugly or pretty. We will pay cash. Call now." These signs generate lots of calls and the companies make tons of money.

Car Signs

I flew to Ohio one time to speak at a real estate association. I noticed the fellow who picked me up at the airport had put a big plastic sign on the side of his Jeep Cherokee that said, "We will pay cash for your house. Call me." I thought, "I don't like the way this ugly sign covers up a beautiful truck." Nonetheless, I asked Dennis if he got calls from this sign. He replied, "I get about five calls a week and one deal a month. I made about $8,000 on one of them last month and $25,000 on a fixer-upper." That ugly sign becomes a beautiful one when motivated sellers call you.

Co-op Advertising

You can partner with businesses that are already advertising through flyers, door hangers, even pizza boxes. Instead of advertising alone, you combine your efforts with others and spread your message farther for the same amount of money and time spent.

Think about all the people advertising on restaurant menus, on shopping carts, on street signs in your targeted neighborhoods. If you can cooperate with any of them, you will generate calls that can lead to deals.

To Advertise or Not to Advertise

My experience is that if you do not advertise, nothing will happen. And if you do advertise, something will happen.

An investor named John in Ohio owns more than 900 houses. Why does he have 900 houses while you and I do not? Because he places signs on park benches, on street corners, on pizza boxes. He prints and distributes flyers, door hangers, and business cards. This kind of advertising works where John is, and it will work where you live, too.

Networking

I once attended a seminar in which I learned some information that will save you lots of time learning it yourself. It is this: When people get into financial trouble—heading for bankruptcy or foreclosure—they follow a predictable pattern of behavior. They run to their accountants, mortgage brokers, and financial planners. In desperation, they may call a Realtor and say, "Can you sell my house in three weeks?" As a last resort, they call a bankruptcy attorney.

Because of this pattern, you want to build a network of mortgage bankers, Realtors, attorneys, and accountants so that when desperate people call, they will send them to you. You can pay them cash for their house, quick-turn it, make money yourself, and possibly stop them from going bankrupt.

Investing is a lonely business. Go meet other people, talk to them, and help each other out. Here are some categories of people who can refer good deals to you.

Real Estate Agents

Real estate agents have access to the MLS and to buyers and sellers. Get to know the active agents in your targeted areas. When

Three Steps to Start

What will you do in the next 30 days to get some deals? Here is a three-step formula to follow:

1. **Go to three auctions.**
2. **Make a point of meeting five investors there.**
3. **Take each of them to lunch and ask how they began, if they have any deals, what they are looking for, who they use for financing, and so on.**

Tell them you are getting started and they will love to help you out.

good deals come their way, they will call someone, and that someone should be you. Make sure they get paid when they find deals so you keep your relationships golden. By the way, if I use agents and brokers but do not close on a property with them, I give them a check for their time until they find me something. It keeps the relationship solid.

Attorneys

Attorneys do a lot of things that can help your business: estate sales, divorces, bankruptcies. Find several active attorneys in your area and network with them.

CPAs, Accountants, Bookkeepers

When people want to do financial planning, settle their estate, sell some property, raise money, or get out of financial trouble, they turn to their trusted accountant or financial planner. These professionals often help clients dispose of their property, so get to know them and build your network.

Bankers and Mortgage Brokers

Bankers and brokers make loans to real estate people and often know where good deals are. Because they have access to funds, they can possibly finance the good deals you find. They also know lots of other investors and can help you expand your network.

Bird-dogging

Bird dogs are the white dogs with brown spots that flush out rabbits and quails in a hunting situation. In real estate, bird dogs are people who can flush out deals for you.

Most successful businesses rely on many people to get things done, and everyone in the organization benefits. It is hard to be a lone wolf in the investing business; you can only look at so many deals, drive around so many neighborhoods, write so many letters, and make so many phone calls yourself.

Who can act as your bird dogs to spot good deals for you? Everyone you know, because everyone knows someone who has to sell a property at a discount or is dealing with an estate, getting a divorce, having money problems, going into bankruptcy, and so on.

Did you know that if you are a Realtor, it is illegal to pay a finder's fee? But, if you are a real estate investor, you can do what you want within the confines of the law. That means you can pay referral fees. And when you pay people, they keep coming back with more deals.

Following are several categories of people whom you can ask to be your bird dogs.

Contractors

Every contractor, big or small, is going out looking at properties that need work. They know owners and some of those owners will be motivated to sell. So contact every contractor and repair person you know and say, "If you bring me a deal that I close on, I will pay you a finder's fee."

Utility Workers

Utility workers—from the gas company, electric company, or water company—are walking and driving through neighborhoods every day. They know a lot about houses, neighborhoods, and the people with whom they deal. They may be able to say, "Hey, I know about a house that needs a lot of work. We shut the gas or the water off. And here is the owner or the address." Utility workers can be your bird dogs.

Post Office Workers

Often postal workers know more about you and your neighbors than you think they do. They know who is getting divorced, who is moving, who has to sell a house. In fact, some successful real estate investors *are* post office workers. Ask them to help you identify good deals.

Police Officers

Police officers have a tough job in the neighborhoods. They get to know about houses or property that can be sold, especially ones they just locked up because somebody did something naughty in there. They can point you to motivated sellers.

Nursing Home Workers

Our population is getting older and more people are moving into retirement, assisted living, and nursing homes. Often, people are forced to sell their property and their assets to qualify for financial assistance before going into a home.

One of my students hangs out at nursing homes to find good deals. He makes friends with the administrators, who call him and say, “Mrs. Smith has to sell her home, and the family doesn’t want to deal with it. Can you help them out?” He gets a lot of good deals that way. He is not taking advantage of the situation; he is truly helping them. He discloses in writing exactly what he is doing.

Three More Ideas

I have found the following three ideas to be among the best ways to find good deals in real estate. Pick any of them, work them consistently, and you will make money.

Call Retail Finance Companies

Located in malls and shopping centers, these companies make high-risk loans to high-risk borrowers. Look them up in the Yellow Pages under finance companies. Some of their names are Associates, Beneficial, and American General. They make all kinds of loans, but also lend money to people who may not have perfect credit. Some will have local, regional, or national foreclosure centers where you can call about properties available. Often, they will sell them for the outstanding amount of the loan.

Write Letters

Whenever I send a letter to a prospect, I always follow up with a phone call. That alone triples my response rate. Write first, then call and ask questions like, "How long have you had the property? Would you be interested in selling? Can I help out?"

Join Real Estate Associations

Most major cities have a real estate association and/or a landlord association. Who attends the meetings? Investors, landlords, and people who find good deals. Associations are great sources of education, too. At www.shemin.com, we provide a list of real estate associations. Network at their meetings and you will find everything you need to become a successful real estate investor.

CHAPTER 5

A prudent question is one-half of wisdom.
—FRANCIS BACON

Now That You Found It, Analyze It

Do you analyze a property for buying, for selling, or for renting?

The answer is yes . . . for any property. You need to make an analysis with any sale. More important, you need to build in a margin for error. Determine how much money is coming in and going out, but do not buy strictly based on cash flow. You still need to buy a property for less than what it is worth today, so you have room to sell it when you want to.

In addition to margin of error, be aware of the property's finance-ability. The bigger the deals you chase, the more difficult it may be at certain times to get financing. You might have to put what I call *real* (that is, your own) money into it. In fact, on large commercial or investment deals, lenders may insist you put in some of your own cash.

Analysis Paralysis

One of the biggest stumbling blocks of successful investing (and this applies to me, too) is called *paralysis of analysis.* You stumble into a good deal and then you stop dead in your tracks. You think about purchasing, worry about the decision, and *never do* anything.

In my first six months of real estate investing, I looked at hundreds of great deals and I did nothing. How did I know it was a good deal? How did I know I could make money? I was scared to death to make an offer because if I did, I might have actually gotten the deal. Then what?

As we learned earlier, a great deal in real estate is something you can really make money on. There are two approaches to making money in real estate: (1) speculation and (2) investing.

With real estate *speculation,* you buy property that is priced near market value, or put it under contract. For example, you buy something worth half a million dollars for $499,000 and pray that it quickly goes up in value to $550,000 or $600,000.

With real estate *investing,* you look for something you can either put under contract or buy for 20 to 40 percent lower than what it is really worth. That means a property worth $500,000 today would be put under contract for $400,000 or less to make it worthwhile. Face it, if you had to sell this property for $475,000, you would still come out okay because you had a 20 percent margin of error in this deal.

To protect your income source and overcome any analysis paralysis, (1) make sure you have a good deal (because even if it is not as good as you think, you still have a margin of error to work

At Least 20 Percent below Market Value

Rule of thumb: Do not buy property that is not at least 20 or 25 percent below what you really think it is worth today in its current condition. I am not talking about a property worth $100,000 that needs $20,000 worth of work and sells for $80,000. I am talking about having it at least 20 to 25 percent below what it is really worth in today's market.

If you look at enough deals, you will find some well below the value of comparable properties. If you never look and analyze deals, you will not find any.

with), and (2) get lots of information. If I said, "Let me tell you the exact cards that will come out on the blackjack table: Without a doubt, your next hand will be a 19 and the dealer will have 18. The next one, you are going to have 21 and the dealer 18," you would be inclined to play because you would have information about what will happen. This can also happen in real estate investing when you gather lots of meaningful information.

Analyze in Less than 90 Minutes

To analyze any property deal in less than 90 minutes and not get bogged down in analysis paralysis, find the answers to these three questions:

1. What is the property worth today?
2. What repairs are needed, and how much will they cost? (Most properties, even brand-new homes, need repairs.)
3. What can you get it for?

What Is the Property Worth Today?

Remember, to develop a successful real estate investing career, your job is to find deals and put them together. Your job is *not* to become an appraiser, a closing attorney, a management expert, or a repairperson. Use professionals!

Say we parachute you into Naples, Florida. You have never been there before and your goal is to find good deals. What would you do? As discussed in Chapter 4, you look at newspaper ads, drive for dollars, call For Rent ads, For Sale ads, and so on. You are certain to find prospects that may become suspects, so you call one of the property owners, who says, "I think the building is worth \$100,000. I will let you have it for \$50,000 and it needs very few repairs." But you do not know if it is really worth \$100,000. So you call a Realtor who sells a lot of property in that area and ask, "A three-bedroom, two-bath on Apple Street in Naples, Florida—what would it sell for?" He replies, "I've sold two in the last month, one for \$99,000 the other for \$102,500." You just learned that house is worth about \$100,000.

Still, it is important to call two or three people to verify the information you get. Another Realtor might say, "Nothing has sold there in a year. The last offer we got was for \$79,900."

If you are looking for commercial property, call a commercial broker or an appraiser and ask, "What would something similar to this property bring in today's market?" Follow up by getting a list of comparable sales in that area from real estate professionals.

How do Realtors, appraisers, and banks determine what a property is worth? They look at comparable sales, usually three to five sales of very similar property close by. Realize that you cannot compare three bedrooms with eight bedrooms; you cannot compare 2-story office buildings with 30-story office buildings. The properties have to be similar.

Take it a step further and get a list of comparable sales. You can actually find lists on the Internet (www.shemin.com) and see the sales price of every property bought or sold (and when it sold) for the street you want information about. In addition, talk with active professionals and ask, "What is the market like?" Then get the information in writing via fax, e-mail, or letter. Put comparable sales lists and information in a folder for future reference.

(Remember, you cannot keep hounding Realtors and never do business with them, so get them to help you and let them have part of the commission.)

After you have done this 15 times in Naples, Florida, you will know the comparables by heart and have rapport with several Realtors.

What Repairs Does It Need?

If you have motivated sellers but their properties need repair, you can find the cost of the repairs from two different sources: from the owner or the seller (most are truthful; a few are not) and from a good contractor who is licensed, bonded, and referred to you. The most important word I just used is *referred.* Make sure you get bids from more than one contractor who comes recommended by respected Realtors or other investors. (Again, you cannot just get bids all the time from contractors and never work with them. Likely you will close on some deals, get repairs done, and give the contractor glowing references. If that does not happen in a timely way, pay the contractors for their written bids.)

What Can You Get It For?

When sellers are motivated to move a property worth $100,000 and it does not need any repairs, they may say, “We’ll let you have it for $70,000.” (Thirty percent below market value.) Would that be a good deal? Yes. So negotiate an even better deal and get a signed contract. That is where you make your money in real estate.

Before you had access to this book, you may have gotten excited and said, “Oh my God, it’s worth $100,000 and it’s being offered to me for $70,000! I’m going to sign the contract right now.” You would have made some money on this deal, but you would have also made a grave error. By not negotiating, you may have potentially left a lot of money on the table.

Every property’s value is in the eyes of its beholder. If you own a lot of real estate and you are being sued, you might make a case that your property is not worth much and needs repairs. On the other hand, if you go to the bank to borrow as much money as you can against the property, you will want it appraised as high as possible using the highest comparable sales. And when the tax assessor calls to figure out your new taxes for next year, you will say the rents are low, the buildings need work, and so on. Since property has different value depending on who is looking at it, make sure you talk to professionals active in the market who tell you honestly what buyers are paying for their properties today.

The best way to determine market value is by attracting an offer through a newspaper ad that includes details of the property. See if the phone rings. Likewise, if you want to see how much rent should be, run a For Rent ad and see if anybody calls. If no one calls, you may not have much of a market.

Put It under Contract

You have negotiated a good price and **put it under contract** with the contingency clause. Now **do your analysis.** Beginners have a tendency to analyze for six weeks before putting in an offer. But by the time they find out the age of the hot water heater and the condition of the roof shingles, and have talked to the neighbors five times, their opportunity may have disappeared.

Instead, at the beginning, do a quick survey to see if it is a good deal, document everything, put your offer in with a contingency, and then do your analysis or due diligence. Remember, if you wait too long, you will lose a lot of deals.

Get Appraisals

Remember, you can always spend a few hundred dollars and get an appraisal done on a property. You may even get the seller to pay for all or part of it. Have a professional appraiser look at it, research comparable sales, and tell you its value. Sometimes when I go to a lender to finance a property, I have the appraisal in hand and can say, “Here’s proof. It’s worth $200,000. Can I borrow some money, please?”

The Three-Day Deal

When I was asked to be a guest on *The Leeza Gibbons Show* (a TV talk show), Leeza Gibbons challenged me to find a good real estate deal in Los Angeles, California. The producers knew I was from Tennessee and did not know the L.A. real estate market. They also knew I liked to give away homes to homeless people, so they said, "Come out to Los Angeles. If you find a good deal, then you can give a house to a homeless family right on our show." They only gave me three days to put a good deal together.

On my first day, I decided to follow my own advice and drive for dollars in a particular area. I was driving around at six in the morning. When people wearing bathrobes came out of their houses to get their newspapers, I asked them, "What do these houses sell for? I'm looking for a place in this neighborhood." I quickly learned that the worst, cheapest houses in the worst neighborhood started at about $120,000. A little different from Tennessee values. Next, I chased down some For Sale signs and made some calls. After two days, I found three bank foreclosures, one landlord, and four great deals. The best one was a two-bedroom condominium with a pool and tennis court. It appraised for well over $140,000, and I put it under contract for $42,000 with terms from the bank.

How did I determine what real estate values were in that neighborhood? I asked everybody I met, including Realtors, "What are these houses selling for?"

I also needed information about repairs, so a contractor (referred, of course) gave me a written bid for $3,500 to get this condo in tiptop shape.

Third, I negotiated. The bank that was foreclosing on the condo wanted $42,000 to satisfy the loan. I was able to take it over on a short sale because of my good credit. Now this bank can show this as a good loan on their books instead of a bad one.

Then I called back the producers of *Leeza*. At first, they refused to believe me, declaring that "Nothing in Los Angeles sells for under $100,000. You must be making up stories." I had to show them all the paperwork and they finally believed me. We gave that condo to a homeless family, right on the show.

Short Selling

When a bank takes back a property because a loan went bad, often it discounts the property for the amount of the loan. This is referred to as a *short sale* or *short selling*.

Inspect the Property

You want an inspector who is experienced and familiar with repairs to do an inspection of the property. I generally use a licensed, referred, bonded contractor who can make sure the property meets codes and can identify major problems. Also, before closing on any property, I have it inspected for termites.

Get a Clear Title

Make sure you ask the seller, "Do you have clear title to this property?" Sometimes, when you deal with highly motivated sellers, you find out they do not have titles to the properties. They are handling a deal for their uncle, brother, sister, and so on. Either that or they have 22 liens against the property they forgot to tell you about.

Be sure to ask these questions:

- Do you have clear title?
- Are there any loans, liens, or judgments against the property?
- Is there more than one mortgage?

Again, verify everything in writing. And before closing, have an escrow agent do a title search and provide title insurance.

Crunch the Numbers

Real estate investing is real estate by the numbers. You want to know what the profit and loss on a property would be if someone were to buy it, fix it up, and sell it, or if someone should buy it and rent it. Answer all tax, insurance, rental rate, and expense questions. Document all the details so you are an informed buyer. Do this for any property, whether you are going to keep it, wholesale it, lease-option it, or finance it. You want to make sure it will provide cash flow for somebody, even if that somebody is not you.

Gather full details about the transaction costs for buying and selling the property: commission costs (if you work with a Realtor), recording fees (to record deeds), and all financial details that apply to the property, including the terms of any loan (total amount, balance owed, years to pay, interest rate, and so on).

Analysis Recap

When you talk to sellers, always, always, *always ask questions.* The most important questions are: Why are you selling? Why are you selling? Why are you selling? That will determine their motivation level. If sellers say, "I can take my time because I don't really need to sell," they are not motivated. But if they say, "We're moving out of state. Job transfer. Have to sell it in the next three weeks," or "We're going through a divorce," or "We're getting foreclosed on. We've got financial problems," they are most likely motivated.

Then ask, "What is the debt on the property?" If they owe $100,000, it is unlikely they will accept less than $100,000 (or whatever the debt is).

You want to ask, "What are the terms of the loan? What are the payments and interest rate? Are you current on the payments?" Almost every loan has a due-on-sale clause.

The next question is, "Do you have clear title? Whose name is the title in?"

Also ask, "What are the mortgages? Are there additional mortgages, judgments, or liens? What repairs are needed?"

Real Estate Doctor

What if you ask, "What is your mortgage? How much do you owe on the property?" and the seller says, "I'm not going to tell you. This is personal information."

Respond by saying, "I am a real estate doctor and want to help solve a problem. To be able to help you, like a doctor, I have to know your symptoms."

Always enter into the conversation with that intention. If you meet with resistance, say, "By the way, even if you don't want to tell me this information, it's all public information. It's on the Internet. It's at the Registrar of Deeds. I can call the courthouse, the tax assessor's office, and get it anyway. So please go ahead and help me help you. I'm a real estate doctor."

Concerning repairs, make a worksheet and write down the condition of:

- The roof
- The gutters
- The shingles
- The attic
- The ceiling
- The walls
- The electrical system
- The carpet
- The flooring
- The kitchen
- The windows
- The plumbing
- The basement
- The foundation
- The yard

Visualize the house from top to bottom. Ask what work needs to be done and how much it will cost. Then, if you are interested, put it under contract with a contingency and send over your contractor to verify in writing what was found. Get a detailed written bid from your contractor.

All of these items you look for are important to you if you have to finance the property, or sell it, or bring in a partner. Keep all of the details (comparable sales and the repair estimates) in your folder.

Good for Business

By the way, this process reflects how most large commercial deals are handled with big companies involved. They use accountants, lawyers, and other professionals to make sure the numbers are accurate, then close on the deal. That is how you should manage your real estate business.

Most investors want to know everything up front before they put an offer in, but in reality, they do not have to. If you smell a good deal, put your offer in, and conduct your due diligence. However, make sure you have a good deal in hand, because if you put in a lot of offers and never close on them, no one will want to sign another one with you.

CHAPTER 6

It is not for us to forecast the future, but to shape it.
—ANTOINE DE SAINT-EXUPÉRY

How to Control Your Real Estate Holdings

You found it. You analyzed it. Now you want to control it.

Let me give you a secret of real estate investing: You have nothing until you have a signed offer. So many investors, beginners or pros, come to me and say, "I've got a great deal worth $1 million, but I can get it for $200,000. I'm going to make $800,000. I'm going to buy it, rent it out, and make so much money every month. It's going to be great!"

Then I ask: "Do you have it under contract? Do you own it?" They say, "No, I'm going to sign the contract next week." They have nothing—and you will have nothing but a lot of talk and a lot of excitement until you get a signed contract.

The first step in making money in real estate and developing sources of income is controlling the real estate.

Note, I did not say buying it; I did not say signing the deed; I did not say owning it; I did not say borrowing a bunch of money. I said controlling it. When you are in control of something, is that a good thing? Yes. When you own something, is that a good thing? Not necessarily. If you own it, you could be sued, and you are liable for the taxes, the mortgage, and so on. Owning things has its advantages, but simply controlling them is almost always better.

Get a Signed Contract

To get a signed contract, the first step is negotiating one. You will make more money than you have ever made in your life if you follow these simple negotiating strategies.

Negotiating Strategies

When I began in real estate, I found a house worth $80,000 and the owner said, "I'll sell it for $60,000." I thought it was a great deal (it would provide cash flow). I was so excited, I signed the contract immediately. I left a ton of money on the table, though, because I did not know I could negotiate. However, over the years, I learned these basic negotiating rules:

1. The first person who mentions a number loses.
2. Never mention a number until you *absolutely have to.*
3. Ask this magical question as many times as you can until they get upset: "Can you do any better?"
4. You cannot negotiate a good deal until you find out what the seller really needs—what his or her level of pain is.

People do things for two reasons: One is to get pleasure, and the second is to avoid pain.

They usually sell their property below market value to avoid more pain than they have now. "We have to move. We owe money. We need cash. We're getting divorced."

When you negotiate with sellers, you want to be like a doctor and find out about their symptoms and situation. Be sure to ask: "Why are you selling? How long do you have to sell? When do you need to sell the property by? What are you going to do after you sell? What will you do with the money? How long have you been trying to sell the property? Have you received any offers?"

When you are discussing these points, keep asking questions but say very little. "When did you buy the property? What did you pay for it?" If the other person does not want to give you that information, say it is all public record anyway, and besides, you intend to improve their situation.

Ask: "What is the mortgage on the property?" Knowing that helps you figure out the lowest price the sellers are likely to accept. If the mortgage owed is $80,000, they probably will not sell it for less than $80,000. Likewise, if they bought it for $20,000 five years ago, they are probably not going to sell for under $20,000.

Negotiating Price

Ask the next question this way: "What is the absolute least amount you would take for this property?" Then pause. Let the silence eat up the moment and eat at the sellers. People do not like silence; it makes them nervous. So just wait until they come up with something. It could be 10 seconds, or it could be two minutes. However, they *will* answer.

What do you do next? You pause, look at them, grunt a little, sigh, act uncomfortable, and say, "Uh, can you do any better?" Remain silent and look at them. What if they say, "No, $68,000 is the least we can do. That's it. That's the least we'll take," then what do you do? Sigh again and ask, "Really? What is the *absolute least* amount you would?" They might say, "OK, we'll tell you what . . . $67,000. That's it." How long did it take you to make that extra thousand dollars? Between 5 and 15 seconds. Not a bad return for your time.

Okay, they said $67,000. What do you do now? Start over and ask the question again: "Can you do any better?" Suppose they get upset, even angry, because you have asked the same question seven times. Simply smile, laugh, and say, "Just kidding."

So when sellers are irritated and say they are at their absolute bottom number, you know you have hit their lowest price. But you are not finished. You counter with a number that is a lot lower than their final price. And always use unusual numbers.

Why do I use odd numbers? Because people think I know something they do not know, that I have a secret formula. So if their lowest price is $67,000 and they insist, "That's it," I come back and say, "Great. I'll offer $57,426."

You may be chuckling and thinking this is cute, but negotiating will prove to be the most money you ever make in your life—per second, per minute, per hour, per week, per year. Because when I say my number, they ask, "How did you come up with that?" I reply, "I just have my secret formula." They might say, "I can't do $57,426 (or whatever that weird number is), but I can do $63,000. Take it or leave it." I come back again with a still lower number and gamble

Reframe the Situation

If your children have ever become mad at you because you told them 20 times to brush their teeth, it is unlikely they would show their frustration by laughing. However, if you say (in a playful way), "If you don't brush your teeth, I'm going to spank you, put you in boarding school, then send you to your grandparents for five hundred years . . ." what will they do? They will laugh. I call this *reframing*. This technique works well in negotiations because it lowers the tension, lightens the conversation, and makes people feel better.

that I will save another couple of thousand dollars. If they stick to their last number five more times, then I quit negotiating.

You want to **negotiate, negotiate, negotiate,** and if you do not like to negotiate verbally, do it in writing. Send your offers by mail or e-mail instead. Mail a hundred offers a week. If someone wants $100,000, write an offer for $49,872 with a contingency clause (which I will explain) in it. If you get a signed offer, you have made a great deal. This is an excellent way to gain a lot of real estate.

Standard Buyer's Contract

Make your contract a form of income for you. If you are buying a property, write at the top of the contract "Standard Buyer's Contract" and follow these directions.

Buying Property: Seller Pays Closing Costs

In your buyer's contract, the seller pays for everything, including title insurance and all closing costs. Usually, closing and title insurance costs are split between the buyer and seller, but that does not have to be the case. If it is a rental property, the seller gives the buyer all of the tenants' deposits and the entire month's rent for whenever it is going to close (e.g., if you close on the 15th of January, the contract says you get all of January's rents).

I promise you, if you do not include these requirements in your contract, you will never get them. Even if you *do* include them, you will still only get them some of the time. Negotiating these costs can save you hundreds of dollars on every transaction.

Make Offers via E-Mail

I have a student who sends out 100 offers a week via e-mail. About 90 percent of them go unanswered and 5 percent are answered by recipients (usually Realtors) calling to cuss him out. But 1 or 2 percent make counteroffers, and people often accept ridiculously low prices. Could you do that, too?

I Learned the Hard Way

Often people sign a contract without really reading it. In the early years of my real estate dealings, someone gave me a standard contract and I went to closing without reading it. Guess who paid for everything? I did. I certainly learned the hard way. I recommend you use your standard contract, and you may not even have to negotiate all of the details.

Earnest Money

Do you have to put earnest money in a contract? No. The contract is valid without earnest money. However, a lot of Realtors will insist, "I need to make sure you're serious. Put some earnest money down." Again, in most cases, you have a choice—use your own money, or use OPM.

I just put a house valued at $600,000 under contract. The Realtor wanted a lot of earnest money, so I asked him, "How much interest will you pay me on that money?" He said, "I won't pay any interest." So I replied, "I earn about 36 to 40 percent on my money through different real estate investments. That is about 3 percent a month." Would a Realtor be willing to pay that much? Not likely.

Selling Property: Buyer Pays Closing Costs

If you are selling property, you still use your standard contract, but this time, you say the buyer pays the title insurance and closing costs. If it is rental property, the *buyer* gets the deposits but *you collect the rent* for the full month. Type in what you want. You may not get everything you ask for, but if you never ask, you will never get it.

Negotiating Owner's Terms

Now that you have negotiated on price, it is time to negotiate on terms. Whenever you are doing a contract, ask for "owner's terms." Even if you are going to pay cash, even if you are going to wholesale it to someone else, always get owner's terms. That means the *seller*

Only Negotiate with the Decision Maker

Always make sure you are dealing with the person who has the legal authority to sell the property. If anyone else is involved, make sure you negotiate with that person, too. You will save a lot of time and hassle when you communicate directly with decision makers.

Try this: Go to a car dealership, a stereo place, a restaurant, or a major department store and approach the manager. Ask how much one of the items costs and say, "What's the least you'll take?" "It's listed for $50, so I want $50." Respond by saying, "Can you do any better?" Sometimes the manager will hold firm, but sometimes you might hear this: "Well, we *are* going to run a sale in three weeks and list it for $29.99, so give me $30 today and it's yours."

If you do not negotiate, you will not ever get the lower price that you want. If you negotiate on a real estate deal, you could save thousands of dollars.

lends you the money to buy the property. You put the least possible amount of money down, so instead of coming up with $100,000 to buy a property, you might put $5,000 down and pay $700 a month.

Most often when you negotiate on owner's terms, the sellers need cash. So you ask this million-dollar question: "What will you do with the cash?" Here is one answer I have heard: "I need $4,000 to pay off a Visa bill, and then the rest I'm not sure about." I have learned what that person needs; he just told me about the "pain" he is dealing with. So I say, "I'll give you $4,000 down so you can pay off your Visa bill, then I'll pay you $600 a month for the term of the loan." That met his needs and I did not require much cash as a down payment.

When sellers say, "We're going to invest the cash in a CD and make 5 percent," I ask, "How would you like to earn 7 or 8 percent?" They reply by saying, "That sounds great. How are you going to do that?" I respond, "Through owner's terms. Your loan is secured by your real estate, which you are familiar with, and I will pay you 7½ percent, better than the bank." By structuring a deal this way through owner's terms, I help them meet their needs.

Contingency Clauses

On the subject of contracts, let's talk about how to reduce your risk to zero, because I know you are thinking, "Wait a minute. I'm not sure. What if I make a bad offer? What if it isn't a good deal? What if it doesn't rent? What if I am going to lose money?"

Would you be interested in a business if your risk was reduced to zero? The way you do that in real estate is by writing your contract with a *contingency clause.* This clause is also called a *weasel clause.* I rarely sign a contract without one.

In the contract, the contingency clause may say something like this:

- "This contract is contingent upon buyer's inspection and approval before closing . . ."
- "This contract is contingent upon buyer's partner's inspection and approval before closing . . ."
- "This contract is contingent upon buyer receiving favorable financing . . ."

Their messages are all the same: "This is not what I thought it was. It does not work for me. I am out of here." With this clause, you are not obligated to close on a deal if it does not work for you.

Financing Contingencies

Many contracts include a financing contingency: If you do not get proper financing, you do not close on the home. Be careful how often you do this, though. Do not ruin your reputation by putting in offers on properties that you know you cannot close on.

Most people, after signing a contract, choose to close 30 days later. I recommend you type 90 days instead of 30 days into your buyer's contract. Why? Often people who say they will be able to close in 30 days do not do so. In fact, half of all real estate contracts fail because buyers do not get their financing in time.

A Realtor's Objection

A Realtor in Miami told one of my students, "Wait a minute. I know you real estate investors like to put in these contingency clauses, but I'm not going to allow it." My student countered, "Listen. What if a hurricane, a flood, a fire, or even vandals come the day before closing, break all of the windows, tear up the property? You mean to say I'd still have to buy it even with these problems? So, just please let me come by the day that we close to check that everything is still OK. I'm a professional real estate investor who's going to close on it if everything seems right, don't worry about that." Yes, it is fair to put in that contingency clause, no matter what a Realtor says.

With a good deal and giving yourself 90 days to close, you can find something to do with that property, like lining up a buyer. You risk not closing, but since you have control of the property, you have reduced *your* risk to zero.

Contract for Deed

When you are buying a property, your first preference is always to get the deed to the property. If the seller will not give you the deed (possibly because the mortgage has due-on-sale clauses), then turn to a lease option (discussed in the following section).

Here is an example of a contract for deed, sometimes called a *land contract.*

Mr. Smith owns the house he bought 10 years ago for $50,000. It is worth $100,000 today. You say, "Mr. Smith, I'll buy it from you for $70,000," and he agrees. But instead of borrowing the money, you give Mr. Smith a contract that says, "I will pay you $700 a month for *x* number of years until I pay all $70,000. I will have the house under contract for deed."

So who owns the house? You do. You get all the benefits of ownership, and, after you fulfill the terms of the contract, you get the deed. This is a type of owner's terms. (Remember, *owner's terms* refers to the seller lending you the money to buy the property.)

Controlling Properties with Options

Most commercial and industrial property is not controlled with contracts, but with options. An option gives you the *right* to buy something but *not the obligation.* So if you see a $40 million office building and put an option in to buy it at $30 million within one year, the seller will sign and you have one year to buy it for $30 million. Then, whenever you find someone who will pay you $32 million for it, you exercise your option and give the seller $30 million.

Sometimes sellers want a down payment before allowing you to option a piece of property. However, if you are a good negotiator, you will make the down payment as low as possible.

> ***Remember, a contract with a contingency is almost like an option because you are not obligated to buy.***

Control with a Lease

You can control property through a lease. You also could re-lease it for more than what you have leased it for (if your lease gives you the right to sublease). This is another way to make money.

Control with Lease Options

You could lease a property for $500 a month for five years with the option to buy it. You could also have the right to sublease it for $800 or $1,000 a month or so.

If you lease a property for five years with the option to buy it, you *do not own* it. What if the world goes into a massive depression? Suppose you bought the property with borrowed money and then were obligated to pay it back? You would be in hot water because you would own the property and would have an obligation to pay. With a lease option, even if a depression hits and the property value

Getting Out of a Lease

Do people get out of leases? Yes. However, I am not recommending you do a lease option just so you can walk away from it. I recommend doing it because you have the freedom of not being tied to the property like the owner would be. You have less liability and risk. And if you have done your homework and have lease-optioned it properly, you will make money. So it is possible to get out of a lease, but it is not usually smart.

goes down by half, you still have an option to buy but no obligation. (Read Chapter 8 for more in-depth discussion of lease options.)

Disclose Everything in Writing

My general rule for everything you do is this: Disclose everything in writing.

For example, if I lease-option property from Bill, I have a five-year lease with a five-year option to buy it, then I turn to Susie and say, "Susie, would you like to become a homeowner? You can lease-option or buy the property from me. Give me $5,000 down and $1,000 a month." She is now a homeowner who has owner's terms or some kind of ownership in the property. What if Bill (whom I got the property from) suddenly goes bankrupt, gets divorced, or has the IRS chasing him, and he cannot pass clear title? At the same time, Susie says, "I'm ready to exercise my option. I want to buy the property." I would have to say, "I can't sell you the property because I don't have title to it, Bill does, and he is having some financial difficulties." Susie is upset and says, "Hey, I thought you were going to sell me the house." Through these actions, I have committed fraud. That is why you always disclose everything in writing any time you exchange information with someone: a mortgage banker, a title lawyer, a buyer, or a seller. If you do not, you will regret it.

Proper Title Disclosure

Always make sure there is proper title disclosure for any transaction. Some real estate investors are going to prison for fraud because they did not properly disclose title information. Learn the proper way to do this and you will stay out of trouble.

In my standard buyer's contracts, I write this on the top of the cover page:

(1) "I am a real estate investor. I am buying your property and I may resell it or rerent it for a profit. You understand that."
(2) "I do not represent you or your interests."

Have I disclosed everything I am doing?

When I am going to sell a property (using a standard seller's contract) or lease-option it, I also state in writing:

(1) "I am a real estate investor who invests in real estate to make money."
(2) "I do not represent you or your interests."
(3) "I may or may not have or be able to obtain good title to this property."

Most people say I am being overly cautious, but I strongly believe in disclosing everything in writing.

Three Review Points

1. Negotiate a contract. Negotiate, negotiate, negotiate. You can always get a lower price. If the seller quickly accepts your price, you have not negotiated enough.
2. Always try to get owner's terms.
3. Always include contingency clauses to reduce your risk.

Disclosures Rarely Stop a Deal

You might say, "Wait a minute. If you put these disclosures in your contracts, no one will sign them." Not in the real world! Most people are motivated for their own reasons. If a buyer wants to become a homeowner, he or she is willing to overlook that clause. Motivated sellers want their money. You have found their pain. They are willing to go ahead. But if you do not disclose everything and something bad happens, you could be in big trouble. It's called fraud.

If you cannot do these things, then you have to make a business decision based on all your information and decide if it is worth it for you to proceed or walk away. Rule of thumb: **Always have more pending deals than you can do.**

Also, be sure to understand how to control properties by contracts, contract for deed, and putting in contingency clauses, options, and lease options. Make sure you disclose everything. Never, *ever* close on a property without getting the proper title insurance and having the proper insurance in place to protect you.

CHAPTER 7

Big shots are only little shots who keep shooting.
—CHRISTOPHER MORLEY

Multiple Real Estate Profit Centers

Most people think that there are only a few ways to make money, but there are lots of them, especially in real estate. For beginning investors, I recommend wholesaling properties, also referred to as *flipping* or *quick turning.* With this approach, you are not using any of your own money or your own credit to buy property. In effect, you get paid to find good deals and have almost no risk if you disclose everything properly. You can use this approach to get into real estate, learn about real estate, generate cash, and so on. You can also consider other strategies (e.g., buy, fix, and sell; buying and holding; getting involved in financing mortgages).

Quick-Turning or Flipping Strategy

Did you realize almost everything you buy is wholesaled or flipped, including your chairs, your furniture, your televisions, and more? In these cases, a businessperson went to companies in China, Japan, Korea, or even locally and put them under contract to make items, then sold those items to a retail store for a marked-up price.

Similarly, car dealerships put their cars on a lot for sale. They get vehicles from the manufacturer without putting any money down. They have finance plans with the manufacturers for, for instance, $20,000 per car, then they sell that car to a buyer for $25,000. That's called *wholesaling, quick turning,* or *flipping.* Most industries are doing business this way, including real estate.

Here's an example. Suppose John finds a property worth $100,000. It needs $20,000 worth of repairs, and John has it under contract for $40,000; therefore, he plans to put $60,000 into it and sell it for $100,000.

John has a few choices. He can borrow the money, rely on his credit, or use his cash to buy the property. He also has to hire a contractor to do repairs (or do the work himself) for an estimated $20,000. However, he goes into cost overruns, the repairs end up being $25,000 and take six months to complete. He has put $65,000 into the property, but it's still a great deal. He then puts this fixed-up house on the market, sells it for $100,000 three months later, and makes about $35,000. However, he's had carrying costs, holding costs, taxes, insurance, and other headaches. He has spent nine months worrying about the property and dealing with contractors, Realtors, and prospective buyers. He also has had to pay some commissions, so he really only has made about $27,000. Is that still a good deal for John? Absolutely. However, he has spent nine months to get his capital investment back and earn his profit.

Time is money. Your single asset in business is your time. What's your time worth? After having access to unlimited riches in real estate, John has learned that instead of buying, fixing, and selling properties, he can wholesale them. Let's consider an alternate scenario: John puts the property under contract for $40,000. He gets bids and estimates repairs. He also does sales comparatives. Then he runs an ad in the paper that says, "Handyman special. Won't last. Call now." His phone rings off the hook with investors who love to buy and fix up property. John asks them, "This house is worth well over $100,000. What would you pay for it as is?" One may offer $45,000, another $49,000, yet another $52,000. He next asks the investor willing to pay $52,000, "What are you going to do with it?" The investor replies, "Assuming I can do the repairs for $20,000, I'll have $72,000 into it. Then I think I can sell it for $105,000 because real estate values in that neighborhood are going up."

After starting negotiations with this prospective buyer, John asks, "What's the absolute most you would pay for this? Can you do any better? Can you do any better? Can you do any better?" The investor replies, "Instead of $52,000, I can afford to pay $54,000." John returns with, "I was really hoping to get $62,849." The prospective buyer says, "This is my last offer. I'll pay $55,000 and spend $20,000 fixing it. I'll have $75,000 in it, sell it for $105,000, and make between $20,000 and $25,000."

John writes out the standard seller's contract stating a price of $55,000. The buyer agrees to pay the closing costs, and John gives him 10 days to close. An attorney arranges the closing, called a *collapsed closing.* The buyer comes in with $55,000, and the attorney hands $40,000 over to the original sellers of the property. Are they happy? Yes, they got what they wanted. John gets $15,000 because he put together a good deal that had a lot of margin to work with. He disclosed everything in writing, told all parties what he was doing, did some negotiating, and made $15,000.

This transaction took about 30 days. John spent nothing out of his pocket and had no risk. He didn't have to fight with contractors, drive by the property, make sure everything was fixed right, or deal with selling it. Instead of making $25,000 or $27,000 over nine months, he made $15,000 over one month. Better yet, his stress level was a lot less than the first scenario because he was wholesaling, not financing and renovating. John basically got paid for finding a good deal.

Get Contracts with No Money Down

When I started in real estate in the early 1990s, a gentleman named Larry, about the same age as I (27 or 28 at the time), visited owners of office buildings around downtown Nashville, Tennessee, and asked, "What would you sell your building for?" If they said, "Two million dollars," he'd reply, "What's the least you'd take for the office building? Can you do any better?" They'd say $1.8 million and he'd get an option to buy that building for $1.8 million for six months without putting any money down.

Then Larry would run an ad in a German newspaper inviting Germans to invest in American real estate in Nashville. This ad generated calls from several overseas investors. To follow up, he would send them a photo of the building with all the details spelled out, including rents and answers to questions that an investor would ask about the property. He also included some comparable sales on the flyer. Then he would ask, "What would you pay for a building like this?" They might respond with $2.4 million or $2.2 million, or whatever. Larry would then get a contract and work with a good commercial closing attorney. After he closed the deal, he would make anywhere from $200,000 to $800,000 on each building. In just a few years, he flipped or wholesaled about seven of them and made a lot of money. However, he had a lawsuit served against him because a German investor said, "We thought you were representing us. We did not know you were wholesaling and making money."

What is the lesson here? You must write into all of your contracts a statement such as "I do not represent you or your interests." If Larry had included that statement in his contracts, he wouldn't have been sued, or he would have won the lawsuit.

Turning Properties That You Control but Don't Own

These four steps are required to quick-turn, flip, or wholesale a property. Some aspects have been discussed in earlier chapters.

1. Find a good deal.
2. Get it under contract.
3. Find buyers for it.
4. Close the sale.

Can you close on a property that you do not own? Yes, because though you do not own it, you *control* it because you have it under contract, as in John's situation. You can accomplish this either through an attorney or an escrow agent who helps you assign/sell the contract to the next person or use a collapsed closing.

In general, all contracts are assignable in the United States. So for the first option, you can say, "I have a contract to buy this house for $40,000. Give me $15,000 and I'll give you the right to buy the house for $40,000." These days, many commercial properties are sold and purchased by assigning the option or the contract. You are simply selling your contract.

The second option, a collapsed closing, requires two closings, two contracts, and two deeds. The end buyer walks into the closing meeting and pays the money for the property. The original seller is paid by the wholesaler (that's John in the preceding example), then John sells it simultaneously to the end buyer at the same meeting. Two closings happen within 30 minutes, and funds go from the buyer to John to the original seller.

Many mortgage companies do not like flips or wholesale deals, so you might structure the transaction in a way that requires the end buyer to purchase the property for $55,000. That way, there is only one contract on the closing statement and John gets a

$15,000 finder's fee. With this scenario, the property has only been sold once.

Start Marketing

When you have a property under contract, start marketing it immediately. Create a flyer about the property, including a photo and description. Say something like, "Will appraise at $100,000, maybe $110,000. Must sell. Make an offer. Only needs $8,000 of repairs. Will rent for $900 a month."

You can even take photos with a digital camera and put them and your flyer on the Internet. If you cannot do this, have a Realtor do it. Answer all possible questions on that flyer, then fax, mail, or e-mail it. Call all of your potential buyers, especially Realtors and people you met at association meetings. Set a convenient time and say, "I'll be at the property Saturday, 12:00 to 12:15." If 10 investors show up at 12:00, that is good.

One investor who buys properties can purchase all or most of the deals that you find. You only need good deals. Serious investors will buy a lot of those deals, so you don't need to know a large number of them.

Make Preapprovals Mandatory

A word of caution: Never sign a contract to sell anything to anyone unless that person has been preapproved from a bank or a mortgage company for financing the property. Alternatively, you need proof that the purchaser has cash to pay for the property. Ask this question: "Oh, you're going to pay cash? I want written proof, a bank statement, or whatever, of where the cash is coming from. Don't sign the contract until you have that proof. Mail, fax, or deliver it to my office." I guarantee that you will save yourself from headaches if you do that. Also, make sure that you verify in writing what people tell you.

Cure for the Doubting Spouse

Suppose your spouse, loved one, or significant other is scared about your getting into real estate. He or she thinks it's risky and fights you every step of the way. How do you deal with the doubting spouse and/or any other dissenting family members? Don't tell them in detail everything you're going to do; just do it. Then, when you flip your first property, tell them about it and give them the check.

My student Bob has a lovely wife Cindy, who once said, "That flipping stuff's got to be illegal. It's got to be wrong. There's no way you can do it. Don't get involved. I don't want you doing it."

Still, Bob went out and flipped his first property. He found a house worth about $80,000, paid $65,000, flipped it, wholesaled it, and made about $7,000. Then he went to Cindy and said, "I wholesaled a house and closed on it." She said, "I told you not to do that. You can't do it. It's wrong. There's no money in it. I'm sure that stuff doesn't work." Bob replied, "Cindy, I'd like to give you the check for $7,000 that I made. You take it. You spend it any way you want to."

Now, every morning Cindy wakes up and says, "Bob, how many houses are you going to flip today? Why did you only make $5,000 on that one? You gave away too much. You could have flipped it and made $8,000. Get out there and find some more deals."

Bob and Cindy's example suggests how you can respond to dissenting or negative family members: Give them the check. All of a sudden, they'll become more interested in real estate investing. Cindy did . . . and she is still married to Bob.

Buy-Fix-and-Sell Strategy

Think like a real estate wholesaler getting properties ready for retail sale. Find houses that need painting, cleaning, and fixing, then sell them at retail price. On a single-family home, for example, you should make an average of $12,000 to $25,000 for a house that would sell in the $50,000 to $100,000 range. If you have a house in the $100,000 to $150,000 range, you should make $20,000 to $30,000 after you buy it, fix it up, and sell it. If it is in the $200,000 to $300,000 range, you should make between $20,000 and $50,000. For commercial buildings that sell between $0.5 million and $2 million, you could make from $30,000 up to as much as $80,000, depending on your capital, your time, and the overhead involved. However, if you can't make a good amount of money on the deal, it may not be worth your time. Make sure you get paid not only for the use of your time, but also for the use of your capital.

Know the Costs

When you buy a house to fix up and sell, you need to know the following costs:

- Carrying costs
- Taxes
- Insurance
- Repairs (give yourself room for cost overruns)
- Transaction costs (closing costs to buy it, closing costs to sell it, commissions)

Calculate at what price you think you can sell the house, how long it will take you to sell it, your cost of capital, and your payment to yourself. If you are spending 20 hours a month working at the house or running back and forth, what's your time worth? $10? $20? $100 an hour? Multiply that number into the equation to decide whether this buy-fix-and-sell property will be profitable for you.

I have met a lot of real estate investors who have told me stories like this one: "I bought a house for $50,000, spent $20,000 fixing it, and sold it for $90,000. I made $20,000. It only took me a year and a half. I worked on it every day, six days a week, did all the painting and carpeting myself." I say "Congratulations. You just bought yourself a $6-an-hour job."

That is not what savvy real estate investors do. Your job is to find good deals, put them together, and sell them. If you want to be a drywaller or a painter, then spend time learning how to do these skills, especially in the beginning. There's nothing wrong with that. In fact, many investors start by doing their own work because they have to hold on to their money. However, remember your goal: Do you want to be a cleaner, painter, and drywaller, or do you want to be an investor who makes money?

> ***To summarize, make sure that there's a big enough margin in the deal for your profit, your overhead, your time, and your cost of capital. Also, verify that your contractors' bids are accurate and that you can rely on reputable repair people. Allow extra time and money for this strategy because repairs always take longer than you think.***

Dealing with Contractors

When people buy property to fix up, their biggest complaint is dealing with contractors. That's why I suggest you make sure that every repair bid is in writing, that you have a fixed finish date for each part of the job, and that you never give your contractors more money than the work that has been done. Draw out payment every week as they do the work; never advance them too much. If you do, they won't finish the job because they've already been paid.

In addition, if they don't finish by the date they promised in writing, have a per-day penalty, just as the government has. When city, county, and state governments build new facilities, they use holdbacks and per-day penalties because, for every day your property is unfinished, it is a day you cannot sell or rent it. You're losing money, so you need to deduct a per-day penalty from the money you owe the contractor. Again, have everything in writing, and most important, make sure that you are working with referred, licensed, bonded, and insured contractors.

Use Other People's Money

The best way to buy and hold (or even buy and fix up) property is through other people's money (OPM). You could own 10 houses in your name and be on the hook for 10 loans at $100,000 apiece. Alternatively, you could get a partner who puts up the $1 million. Instead of putting your name on the loan or mortgage and using your credit, use OPM. Have a silent partner with whom you can work. You make all of the decisions, use your energy to fix up and sell the property, pay back your partner's initial investment, and split the profits. Your silent partner holds the property in his/her name, and you receive a written agreement that's filed at the courthouse. For example, the agreement might state you each have a 50 percent interest in the income and equity of the property. When that property sells, you are entitled to half of the profit. When it's rented, you get half of the rent and pay half of the expenses. How much money comes out of your pocket? None.

Be sure to carefully analyze any deal you make, running through all the numbers regarding what comes in and what goes out. That way, both you and your partner have a clear idea on how the money will flow. Warn your partner (as I am warning you) that it is likely that you will spend more money than you think and always make less money than you predict, as in any business—and especially in real estate. However, you will make money if you do it right. Occasionally, a deal will make a lot more money than you thought. It all works out.

Offer an Incentive

To make the partnership attractive, you can give the person who puts up the money the advantages of writing off expenses and depreciation on his or her taxes. You may want to form a legal corporation or partnership so you can give your partner certain income tax benefits, yet you still own half of the property and half of the income.

You might be able to negotiate with your partner for more than 50 percent of the profit and income. Just do what is fair and right. Remember the saying "Pigs get fat, hogs get slaughtered." I believe there is plenty of money for everyone involved, if you are able to find good deals.

Buying-and-Holding Strategy

When you decide to buy and hold property, you have the advantage of building a lot of wealth because every month the debt goes down, the property appreciates, and the cash comes in. Would you like to have several rental properties that generate thousands of dollars a month so you can use that money to pay expenses, pay off debts, and have extra cash flow every month? If you don't want to manage the property, you can hire a management company and manage the manager. You can be free from dealing with tenants and still receive income every month.

Owning property remains one of the best wealth builders available. It can be a great way to build up an education or a retirement fund for children, grandchildren, or favorite relatives. You can even buy a house in their names and, in about 15 years, they will have a paid asset worth a lot more than you paid for it.

Understand, though, that buying and holding property can be a roller-coaster ride. Sometimes properties are vacant; sometimes tenants and repairs create headaches for you. However, over the long term, if they generate enough cash flow and enough equity, they will make you rich.

Financing Mortgages as a Strategy

Every time you buy or sell a property, it is likely that there is some type of mortgage on it. You can profit from these mortgages. For many years, while I was buying or selling properties, I referred between 30 and 80 people a year to a particular mortgage company. After a while, I decided to become a mortgage originator (i.e., someone who finds people needing mortgages). This mostly requires filling out some paperwork. The processor actually processes the mortgages, but the originator gets a fee ranging anywhere from 30 to 70 percent of the mortgage amounts for finding customers. On a $100,000 loan, for example, that fee could be 1 point ($1,000), 2 points ($2,000), or even from 3 to 5 points (from $5,000 to $7,000).

Start by becoming affiliated with a mortgage company that does good work and that hires people who are honest and dependable. By becoming a mortgage originator, every time a mortgage is completed, you earn those fees.

> ***Remember, any time you make money at something, be sure to disclose your role to your clients by saying, "I recommend this mortgage company. I'm an originator. I get paid for recommending the loan to you."***

Owner Financing

If you live in the world of real estate, you will find people who either give you or already have owner-financing notes. As an example, you could put $1,000 down on a $100,000 price, and the lender would give you $99,000 on a $100,000 purchase for 30 years at 10 percent interest. You can then broker that loan and earn a fee for doing it. Start by calling on people who buy those mortgages (they advertise in local newspapers, or ask around for referrals), and ask, "What would you pay for this type of loan?" They might reply, "We're going to discount it. We'll pay $94,000." Then you call the property owners and ask, "What's the least amount you would take if we could get that cash in your hands right now?" They reply, "We'll take $90,000." You write up the contracts, then have the mortgage company that is buying the loan arrange the legalities and close it for you. They pay you $94,000, and you pay the property owners $90,000. You will make about $4,000 on that mortgage transaction.

Mortgages as a Source of Income

Mortgages are bought and sold every minute in the United States. In fact, when you first got a loan on your home, the bank or loan company probably sold it immediately. Stop letting them make all the money and get into the action, too.

In addition to being a mortgage originator, I also buy loans. If you have a pending mortgage opportunity, go to www.shemin.com, or call and tell us what you've got. We'll either make a bid on it or find others to buy your loans.

Some people make a living brokering notes like this by running ads and finding owner-held financing. When you're talking to potential investors and sellers, simply ask "By the way, do you have owner-held financing or do you know anyone who has it and would like to sell it?" When they answer yes, ask for details. Write down the basic terms of the note [e.g., type of mortgage (first or second mortgage), characteristics of the property behind it, value of the property, terms (amount, payment, principal, interest, years left on the note, who has signed it), and creditworthiness of the noteholder]. Then ask us for a quote on the note. We'll help you determine what your profit can be.

Seven Secrets for Getting Paid

1. *Residual income.* The beauty of buying and holding property is that it generates residual income. One of the problems with wholesaling or buying, fixing, and selling property is the absence of ongoing or residual income. Therefore, if you turn a property and make a few thousand dollars, you still have no money coming in the next month from that property. Remember residual income creates happiness (RICH)? One of your themes for real estate investing should be RICH.

   How would you like to have the best of both worlds? Let me explain. A few years ago, a student located 20 duplexes in disrepair. The owners were motivated to sell because the buildings were run-down. They were willing to sell them for $20,000 each, owner's terms.

Each unit was actually worth about $40,000 or $50,000, so my student put the property under contract for $20,000 and flipped most of the units to me for about $28,000 each. My student made $160,000 ($8,000 × 20) by quick-turning that deal. I received a good deal because I got property worth more than the price I paid. The original sellers got what they wanted, too. In fact, one of the sellers wrote us a letter thanking us for taking those horrible duplexes off his hands. We then wholesaled these units to another investor and made about $60,000 ($3,000 per duplex × 20). The end buyer of the duplexes fixed them up and raised the rents tremendously. In a matter of three years, the duplexes increased in value to $120,000 each. The end buyer later sold those 20 properties and made more than $1 million, all because of the deal my student found. Some might think I should be upset by that result because I only made $60,000 and the end buyer made $1 million. That did not seem fair. I learned from that experience to develop a strategy of sitting down with prospective property buyers and walking them through the numbers, saying, "Mr. and Mrs. Investor, you're going to buy these duplexes for $60,000, and they'll be worth $100,000 or more in a few years. You'll make a lot of money. Isn't that great? One way I get paid for bringing these great opportunities to you is through a fee. It doesn't come out of your pocket until you sell or refinance the property. My fee would be five percent of the sales price whenever you sell or refinance these properties. That could be in a year or two, or even three years from now.

"We'll put a note against the property and record it at the courthouse. The lawyer will handle all of this. Whenever you refinance or sell the property, I get an extra fee for helping you get this great deal in the first place. Realize that you'll make most or all of the money—about $20,000 per building—and I'll only get, say, $4,000, assuming it sells for $90,000 or so."

This approach is almost like getting a second mortgage recorded against the property with your name, address, and phone number. Because of the recording, the buyers cannot sell that property or refinance it until they pay the fee.

Ask for this kind of deal every time you wholesale or sell a property. Have your attorney draw up the paperwork. You will not always get the purchaser's agreement, but what if you get it a few times? You then get paid again on the property you have already received payment on.

Be sure to disclose everything in writing and check with your own attorney to make sure you can do it. I have done this a few times and enjoyed getting a call or letter stating, "Please sign this paper. We need to pay you your $9,000 because we can't sell the property or refinance it until you release your lien."

What if the sale took place 10 years previously and the property increased in value to $1 million? Five percent of that would be $50,000—not bad. Suppose you request this residual income and the prospective buyer asks, "Why should I let you get paid again when the property sells?" Your reply would be, "How much do you think this will be worth in five years from now? If it's worth $100,000 then and you're buying it for $60,000 now, you're going to make $40,000. So do you really mind paying someone $5,000 to make $40,000? If that isn't a good deal for you, I know a lot of other buyers who'd like to get into this deal."

The buyer might say, "No way. I'm greedy; I'm not going to give you anything. I want to make all of the money." Then you make a choice: Either wholesale the property to that person without taking the residual income, or move on to somebody else. However, I promise you this: If you never *ask* for the residual, you will never get it. If you ask for it every time, you will get it sometimes. That "sometimes" could be worth $2,000, $5,000, $10,000, or even $20,000.

2. *Make three offers.* Whenever you make an offer on a property, don't just make one offer. Make three. For example, if

the sellers want $100,000 for their house, make one offer for $64,500 in cash. Make a second offer with $1,000 down at $65,922. Make a third offer with nothing down and $800 a month for $68,422. You have given them three choices: the cash offer being the lowest, the second one with terms a little higher, and the third one with terms higher still. When you sell a property, do the same thing: Say, "If you give me cash, pay me a wholesale flip fee, and agree to a residual fee, it's this particular price; if you don't give me that, it's another price."

3. *Become a mortgage broker.* Some states require a license, certificates, and educational classes to become a mortgage broker whereas others don't. The same is true to be a mortgage originator. Consult with your attorney or mortgage company, or call the mortgage department at the department of commerce and insurance in your state and find out the requirements.

   Generally, you can affiliate with several mortgage brokers and become an originator without too many regulations. Mainly, you want to affiliate with reputable brokerage companies and get referral fees from them. That's how to develop another source of real estate revenue. You can get referral fees from contractors and title companies, too. Just make sure they are run by honest people who deliver great service.

4. *Put service before money.* More important than making lots of money is delivering quality service to your clients. If you give good service, you *will* make money; if you give bad service, you will be out of business. Remember, always disclose any referral or relationship fee in writing to your clients.

5. *Choose a geographic focus.* As a beginner, should you concentrate on one small area, view the whole city as your territory, or consider the whole state or country as your domain? The answer: Do what you feel comfortable with.

   Initially, I picked a moderate-income neighborhood in Nashville on which to focus. It only took me a few weeks to know the neighborhood and the prices in it. However, I realized the people who make the most money have more guts than beginners, and they make bigger deals. Before long, I expanded beyond the first targeted neighborhood. I now view the whole world as my territory, so when I travel and go on vacation, I often find a deal, then wholesale it or lease-option it.

I suggest that you first concentrate on smaller deals in a certain area before branching out into, for instance, large apartment buildings in exotic locations. However, be careful not to spend all your time chasing elephants—big deals that never happen.

6. *Find the right advisors.* How do you find title and mortgage brokering companies that will do double flips, wholesaling, and creative simultaneous closings? I share the names of attorneys around the country who probably will close deals and/or know others who do. I also suggest contacting real estate associations for referrals.

   I warn you, though, that you will find some Realtors who know nothing about wholesaling and lease optioning, renting to own, flipping, zero percent financing, brokering mortgages, and so on. These people belong to a group that says you can't do these things, because they have never done them themselves. Do not listen to them! It reminds me of my friend who has been divorced six times yet loves to give out relationship advice.

   Another group of advice givers includes people who have failed miserably at something and love to tell you how bad the whole idea was. You may go to a real estate investor or a Realtor who bought a house one time, did not follow good policies and procedures, and lost money. They quickly tell you flipping will not work.

   A third group that gives advice is made up of experts who have successfully worked in a certain field for years and years. They know exactly what they are talking about; they have encountered a full range of positive and negative situations. Listen to *them.* Make sure your advice comes from people in *this* category.

Everyone Makes Money

In the world of investing, you want everybody to make money. Actually, I like my clients to make a little more money than I do because the way to really profit in any business is have repeat clients.

Maybe I only make $8,000 to wholesale a property when I could have made $12,000. However, if my clients bought it from me, fixed it up, sold it, and made $30,000, they will come back. My lawyer friends have a saying: If you're going to rip someone off, do it once, do it big, and leave the country. Some real estate investors like to rip people off in little ways, and that is stupid! They don't make much money, and they have unhappy clients.

7. *Invest in your own home.* Your best real estate investment is your own home because you now know you can buy a home for less than what it is worth. Let me give you an example. You could buy a home worth $100,000 for $70,000. Instead of having a $100,000 mortgage, it will be $70,000 (or $68,000 with a $2,000 down payment). Your payment will be about $550 a month, depending on the interest rate. After living there for two years, you can sell it for up to $250,000, make a profit, and not pay any taxes on it (in the United States). If you're married, you can sell it for up to $0.5 million after two years or more.

Suppose that after two years, your home appreciates quickly and becomes worth $200,000. You find another deal, keeping the same level of mortgage payment but making money each time. That's tax-free income.

> ***I believe that one of the best deals going is finding a good deal on your own home, living in it for about two years (check with your accountant for residency requirements), then selling it and making money tax-free.***

CHAPTER 8

Opportunity is missed by most people because it is dressed in overalls and looks like work.

—THOMAS ALVA EDISON

Do Not Pass Up These Sources of Income

This chapter discusses in detail several avenues of income introduced in Chapter 1.

Lease Options

A lease option means leasing a property with an option to buy it, commonly called *rent to own.* If you are leasing an apartment or a house now, you are always better off to own it. If you are an investor who has a property you want to rent, you are always better off lease-optioning it or setting up a rent-to-own situation, rather than just renting it out.

The statistics support this approach. According to various real estate groups around the United States, 97 percent of renters want to become homeowners but are not sure how, so a tremendous market exists for investors or real estate entrepreneurs.

For a comparison, let us look at the automobile industry. About 20 years ago, only two ways to buy a car existed: (1) pay cash, or (2) borrow money from the car company or your bank. Today, more than 50 percent of all automobiles are purchased through a lease option. In the luxury market, more than 60 percent of them are through lease option. That way, lessees put down a much lower down payment and make lower monthly payments than if they borrowed the funds to buy the car. At the end of two, four, or sometimes five years, they have the right to buy the car at a predetermined option price. Alternatively, they can give the car back to the dealer if it is not damaged and lease-option a newer one. It is a win-win situation.

In this country, an estimated 1 percent of all houses are lease option, so it is a wide-open market. You could learn to dominate this market in your area.

Controlling Property

Lease options are not only good for rental or rent-to-own properties, but they also provide an excellent way to control properties without using much of your cash or credit.

Suppose you found a beachfront condominium you could have either purchased or lease-optioned for $50,000 10 years ago that is worth $100,000, $150,000, or $200,000 today. If you had lease-optioned it for 10 years for $50,000, you could have purchased it within that time frame. (Lease option means you have the *right* to buy a home, but not the *obligation* to buy it.) Today you would either own it completely or sell it for a handsome (depending on the market) profit.

What results! Now, suppose every condo house in the neighborhood was available for lease option. How many could you lease option in the next 10 years for their investment value, knowing the market will likely go up? Do the math and you will see how lucrative this income source can be.

How Lease Option Works

To get started, find a fairly motivated seller. With lease optioning, unlike wholesaling, you do not have to find a supermotivated seller. The most profitable real estate deals require you to buy properties or put them under contract for 25, 30, 40 percent below current market value. That is, if you want to wholesale a property and it is worth $100,000, you need to purchase it for $65,000 to $70,000 so there is enough room for you to sell it and make a profit. If a seller says the property is worth $100,000 but he needs $82,000, many investors would walk away. With lease optioning and rent to own, however, you do not have to walk away, even at a moderate discount like $82,000.

The best way to find a motivated seller for a lease option is through the For Rent ads. Call landlords and property managers. If a property is for rent, do you think they might be motivated to lease-option it? Quite possibly they will be so motivated, and here's why: In the world of owning rental property, a For Rent ad signals that the tenant has vacated, probably leaving the place in a damaged state. It needs paint, cleanup, new carpet, and so on. In many cases, the tenant may not have paid the rent regularly, or neglected or damaged the property. The owner or manager likely had to drive back and forth to the property to make little repairs. With these hassles, the owner or manager is not likely making as much money as originally thought. He or she could simply be tired of managing it.

Fact-Finding Questions

When you call about the ad, write these questions down and have them handy when you talk to the landlord, owner, or manager.

1. *How many months has the property been vacant in the last two years?* The reply may be, "Someone moved out two years ago. It sat empty for two months. We rented to a couple who stayed for a year. Then it was empty for another month." So

out of the last two years, it was empty three months. If the rent was $1,000, that means $3,000 was not collected. Remember, real estate is numbers.

We have to present some powerful numbers to help convince the owner to go for a lease option on the property.

2. *How much money have you spent on repairs in the last two years?* This includes painting, cleanup, new carpet, appliance repair, and so on. The reply might be, "We painted it, and that cost $800. We had to replace the carpet a year and a half ago; that was $2,000. We did some yard work, which cost $500. We also did some work on the roof for $4,000. Oh, and the hot-water heater broke. That was another $800." Add up all those repair numbers.
3. *How much time do you spend worrying about the property, or going back and forth to it, or taking tenant calls every month?* The response might be, "It takes at least five hours for paperwork and answering the phone. When I have to lease it, I spend time driving back and forth to the property a lot." Add up those numbers.
4. *How much is your time worth?* If the response is $20 an hour and the answer to the previous question was, for example, eight hours, that is $160 more spent a month.
5. *What are the mortgage, taxes, and insurance costs?* When you total all the numbers defined through these questions, say, "When you subtract all the vacancy and repair costs, you are really only making about $650 a month and not $1,000." They will likely agree with you. You are leading up to making an offer.

Make an Offer

Start by asking this question: "How would you like to not have to worry about tenant repairs or tenant phone calls any more?"

The response will likely be, "That would be great. How do we do that?" Then ask, "How would you like to not worry about collecting rent money for the next five years? You just have to go to your mailbox and get your check. You don't have to worry about the property anymore." If you get a positive response, now offer the possibility of renting to own or lease-optioning the property to you.

You want at least a five-year lease at $650 a month (the actual intake). That locks in your cost for five years. (Maybe you will only get a 2-year lease, a 10-year lease, or more. You are limited only by your own creativity and ability to negotiate.)

Next, you offer to be responsible for the small repairs up to, for instance, $300. That covers 90 percent of those piddling repairs that drive landlords crazy. However, be clear in your contract that the owner is always responsible for big repairs over a specified dollar amount. In addition, you should carry insurance for any big repairs. If a storm damages the roof or the hot-water heater blows up, you have insurance to cover repair and replacement expenses.

The next step is to negotiate an option price by saying, "What is the absolute least amount you would sell or option this property for today?" If the response is, "The property is worth about $100,000, but I'd take $82,000," you would either accept it or keep negotiating. You point out it will probably take another 30 to 60 days to rent it and your first payment will not be due for 60 days. You explain that you are a professional real estate investor who will paint and do repairs and make payments regularly. In your disclosure, make it clear you do not represent them or their interests. Also be sure to disclose that you will sublet the property. Although the person still owns the property, you obtain the right to lease-option it for five years at the price you agree on. If money down is required, find out how much deposit is normally collected when the property gets rented. Ideally, your down payment should equal that amount.

However, you can even negotiate that. Point out that the tenant receives *back* the deposit money unless it is needed to pay for damages. As an alternative, suggest, "Since the deposit money belongs to the tenant and is really not your money, let me take that same amount of money and spend it making improvements over the next few months. You will be much better off because your property will be improved."

Once the lease-option agreement is signed, you control the property. Be sure to file that option document at the local courthouse to protect your interests so the owner cannot sell it out from under you. Both parties are protected that way. (Refer to Chapter 9 on asset protection for details.)

Move Forward to Make Money

Suppose that you have leased this property for $650 a month with the option to buy it for $82,000 within five years. It rents for $1,000 a month, and the market value is about $100,000.

Now that you control the property, you can move forward and make some money. The beauty of lease optioning is you really have four paydays. Here is how that works. You run an ad in the paper that says, "Rent to own. Stop throwing your rent money away. Become a homeowner. Easy qualifying." Do you think that would draw some attention and get some phone calls? Absolutely. Remember, about half of all real estate contracts fail because the buyers cannot get financing.

Your phone is ringing and people are saying, "I'd love to become a homeowner. I do not want to be a renter, and I'm tired of throwing my rent money away. I don't think I can buy, though, because I don't have a big down payment and my credit isn't perfect."

The first qualifying question you ask on the phone is this: "How much do you have to put down as option money?" Now, in your mind, you know you would prefer to have $3,000 down on a $100,000 house. That is three months' worth of rent. That will protect you against any vacancy or repairs. If someone calls up and says, “I have $8,000,” what do you say? “We might be able to work something out.” What if someone calls and says, “I only have $300 to put down?” You may not want to work with that person, because you do not have a big enough cushion to play with for this transaction.

> ***Remember: Before you rent your property, always do a credit and criminal background check. Check with two previous landlords, and verify everything they have told you. Warning: Never give anyone a key to any of your properties if you have not done a complete credit and background check.***

Then ask them, “How much are you looking to spend a month?” Ask this as an open-ended question. If you say that $1,000 is what you need, they could respond with, “Great. A thousand’s fine.” However, if you ask, “What are you looking to spend?” and they reply, “About $1,100,” you just earned a $100 rent increase. That’s $100 a month times 12 months a year, which is $1,200—a $1,200 idea.

Payday 1. After everything checks out well on the background check, it is payday number 1. The tenants give you $3,000 option money up front. That is your money. You are not taxed on that option money until the option is exercised or a sale on the house closes. (That option money will go toward the purchase of the property, so you need to have access to it should they buy the property.) That is $3,000 in your pocket.

Payday 2. Your first payment is not due to the original owner for 60 days, and your new tenants are ready to move in 30 days. Now, take their $1,100 rent the first month, and you do not owe any payment for 60 days. You have payday number 2.

Payday 3. The tenants begin paying you $1,100 a month, and you owe the original landlord $650, so you are making a profit of $450 a month. At this point, you should be thinking, "How many lease options can I do?" How would you like to have 3, 5, or even 20 of these going every month?

Payday 4. Next, one of two things happens. You give the tenants an option for one year only to buy the property. They have 12 months to arrange a mortgage and buy the property. If it is $100,000 today, in 12 months (the term of the option), it could be worth $107,000. Always add a few dollars in because property generally appreciates in value.

Eight months from signing the lease-option agreement, one of two things will likely happen:

1. The tenant-buyers disappear in the middle of the night like some renters do. This is not necessarily bad! You can turn around and re-lease the property. Someone new offers another $4,000, $5,000, or $6,000 as option money. You start over again with your four paydays.
2. The tenant-buyers come to you and say, "We've gone to the mortgage company. We've been approved and we're going to buy your property." Many landlords get sad about this because they do not ever want to lose the property. However, that result is not as bad for an investor. They pay you $107,000, you pay the original owner about $82,500, and your profit is approximately $24,000 at closing. This is why you should not feel bad for yourself or any other landlord who has lease-optioned.

Give Rent Credits

Consider these nuances. First, always give some rent credit to the tenant-buyer. Maybe $100 to $400 a month of their rent every month goes toward the purchase price so your tenant-buyer can build a down payment. You need to escrow that money should they ever purchase the property.

Second, put in writing that the new tenant-buyer is responsible for all of the repairs up to the amount you agreed with the original owner (e.g., $300, $500, or $1,000). Also, explain that it is their home. They now rent to own it and are therefore responsible for repairs. This is important as most renters have no pride of ownership. Generally, when we rent a car, for example, we do not take good care of it, because it is not ours. If you instill in your tenant-buyers' minds that this is their home, that gives them incentive to take care of it, plant flowers, and so on.

Third, make sure that you have a separate lease and a separate option agreement in your documentation. If you ever have to evict your tenant-buyer, you need only the lease agreement when you go to the eviction court. Judges in eviction courts understand leases. A joined agreement that includes lease-purchase or rent-to-own documentation could confuse the judge and weaken your case.

In Their Own Handwriting

Have you heard of Chinese torture techniques? In the Korean war, some of America's bravest, most patriotic soldiers were captured and led in front of television cameras where they were told, against their will, to speak badly about the United States. To get them to do this, the Chinese often used psychological torture techniques. Specifically, they discovered if they could get their victims to write down in their own handwriting certain statements, they could not deny them. The principle is this: You cannot deny what you have written in your own handwriting.

Therefore, in addition to using documentation for all of your tenant-buyers, get them to write these four points in their own handwriting:

1. "I understand I am responsible for the repairs up to the first $500."
2. "If I am late on any payment, I will lose all of my option money."

3. "If I do not close, refinance, and cash you out of the property within the next 12 months, then I will lose all of my option money and built-up funds."
4. "I promise to keep the property up to codes and to keep everything repaired as long as I am in the property."

So when the sink needs repair and your tenant-buyer calls and says, "Come fix the sink," you reply by saying, "Remember that handwritten paper you signed that said, 'I promise to keep everything repaired as long as I'm in the property.' Would you like me to send a copy of that paper to you?" I believe if people handwrote their own contracts, we would have fewer lawsuits. If your agreement were contested in court, the tenant-buyer might say, "I didn't understand this 10-page lease. It was too complicated for me." Then you produce a paper in his or her own handwriting that states "I'll lose all of my money if I do not pay the rent on time." How could the tenant-buyer argue then?

> ***I recommend that you make sure every tenant-buyer writes out the key points of their contracts. Give them copies and attach these to the rent-to-own/lease-option contract.***

Lease-Option Benefits

To summarize the advantages of lease optioning:

1. You can control a lot of property without using much of your own credit or money.
2. You can get out of the repair business, which can drive you crazy.
3. You can make money up front with option money differentials.
4. You can make money every month with the difference in rents.
5. You get big paydays when they close on the properties.
6. You can affiliate with a mortgage company and make it easier for tenant-buyers to get preapproved credit before the lease is ever signed.

7. You can help them start on a program to build up their credit so they can buy your property.

Summary of the Lease-Option Process

1. Find motivated landlords or property owners.
2. Walk these owners through the details outlining their actual earnings, assess the amount of time they spend on their properties, and find their pain in operating them. Determine if you can help them by taking the property off their hands at a discounted price.
3. Advertise and find qualified, hungry tenant-buyers who have cash to put down as option money, and who have good references and decent credit.
4. Make sure that the tenant-buyers understand all of their responsibilities for repairs and maintenance while encouraging them to take pride in their homes.
5. Affiliate with a good mortgage company so you can help your hungry tenant-buyers close on the property.

When the tenant-buyers do close on the property and you have a check in hand, I recommend congratulating them by giving them

Star Student

One of my students, Larry B. from Atlanta, Georgia, used this information to lease-option 14 executive homes in the $200,000 to $500,000 range. The average differential between rent money taken in and his costs was between $500 and $1,500 a month on each property—his profit. In the first year, three of the properties closed, so he made almost $100,000. Every time Larry closes a sale, he goes out and finds one or two properties to lease-option.

You can do a lease option with any type of property—vacation property, rental property, or commercial property. It is very powerful. It works.

flowers or arranging a limo ride to make them feel great about owning their home.

Questions and Answers

Q: What happens if you cannot rent the property? Do you have a way out with the original owner or landlord?

A: You can get creative and ask the owner to give you 60 days to get someone in the property. Put that request in writing and add a clause saying, "If I do not get a tenant, I can't go through with the deal." If your price and bottom rent are low enough, you should always be able to rent and market the property quickly, assuming you know the market. Do your research by talking to other property managers, investors, and landlords in the area to find out what the true rents are and how quickly things rent. Call on For Rent ads to see what the rents are and determine how long it takes to move a property.

Q: Who pays the insurance and taxes?

A: The beauty of renting to own and lease optioning is that the original owner still owns it. That person has all the liability and responsibility to pay for insurance and taxes. As you now have an interest in the property, be sure to get copies of that insurance, or even become named as the insured, which is easy to do. You also want to make sure the mortgage taxes have been paid, so ask for copies documenting that for every year you are involved in that property. Sometimes investors will take over a property, and the original owner stops paying the mortgage and taxes. It goes into foreclosure, and that causes problems for everyone. So make sure everything is current and stays current.

That is why you must disclose to your tenant-buyers that you may or may not be able to pass on a good title or that you may not have ownership of this property at this time. If anything bad happens to the deal, you have already disclosed it to the tenant-buyers to protect yourself. You may want to get your own insurance to protect against your activities.

Q: What is a fair commission to set up a lease option and flip it over?

A: Whatever you think is fair and whatever the deal will bear—the sky is the limit. I like to work backward and say, "There is $50,000 of profit in this deal. You'll make $50,000 if I do this deal. I should get at least $20,000 of it. If it is $600 a month, I should get at least $200. Or just pay me. You are going to make $50,000. Pay me $15,000 today and make $50,000 later." You can also use partnership equity sharing. (See the section titled "Partnering" in this chapter.)

Q: How do you conduct credit and criminal background checks on tenants?

A: Hire a professional firm and charge the prospective tenant-buyer an application fee, which pays for the expenses for the credit and criminal background check. (Go to www.shemin.com for names of good background- and credit-checking agencies.)

Q: How do you determine what that tenant-buyer can actually buy?

A: Remember, any time you consider selling a property to someone, get the person preapproved for financing. Put a system in place that allows tenant-buyers to work with your affiliated mortgage company to find out what they can afford before signing any paperwork.

Q: How do you know if a tenant or a tenant-buyer can afford to pay the rent every month?

A: Generally, the rent should be no more than one-third, or better, one-fourth of their income. If people want to rent an apartment for $1,000 a month, they should have $4,000 a month income. Unfortunately, many renters pay almost 50 percent of their income toward rent, so make sure that your applicants have a safe ratio in place before renting to them.

You can verify their income by getting current pay stubs and by checking with their employer, and, of course, using the background-checking agencies. However, I have some tenants who do not seem to work but who always pay their rent on time. If they put enough down and their track record is good, do you care?

Q: How many lease options would you like to have going?

A: How many do you think you could find? What type of property do you want to lease-option? Where? If you do not want to do it in your area, maybe there is a vacation area you want to be in. The main question is this: How many phone calls and how many For Rent ads are you willing to handle to find one lease option?

Generally, I make 15 to 25 calls and talk to 15 to 25 owners to find one or two lease-option potentials. Then I do my homework and make sure the numbers are as stated, verify the rents, and verify the market by talking to other professionals.

You can always run ads in the local newspapers. If you are doing executive homes, have an ad running constantly saying, "Rent to own executive home," and always have people calling you, so you are always having more tenant-buyers than you have property.

You can also advertise for acquiring rent-to-own property. "Landlords, sick of doing repairs? Tired of dealing with tenants? Let me help you out. Call now." You could do a free special report about how you are going to lease-option their property and get them out of all those repair headaches. You could have someone making phone calls for you. You can go make a presentation to a landlord association and see if you can get 10 properties all at once.

Q: What about property management companies?

A: You may call a lot of For Rent ads and get management companies on the phone. Some property management companies will work with you because they get a fee on the rent they collect. You can offer to take over the management of the property, control it, and pay the rent on time every month. They can collect their fee, and their repair costs will go down. However, you or the management company will need to talk with the owner to acquire an option to buy it.

Generally, when property management companies sell one of their owner's properties, they get a commission. You can offer the manager a commission if you have enough room in the deal. Do not let the fact that a property management company operates the property deter you from following through with your lease-option potentials.

Q: What kind of taxes do you have to pay as an investor when you sell a property?

A: If you buy and hold property, and your intent is to hold it for about a year, you can depreciate everything and write off the interest payments on your taxes. You also have some business expenses you might be able to write off. If you sell that property, generally the depreciation is recaptured, and you will pay taxes at the capital gains rate (about 20 percent) on your gain, plus the recaptured depreciation.

If you are wholesaling properties (i.e., putting them under contract and selling them), the Internal Revenue Service determines that you have a separate business, just as if you were buying and selling pictures, chairs, cars, jewelry, and so on. You pay ordinary income tax on it, plus about a 14 to 15 percent self-employment tax.

Often, investors, and especially beginning investors, talk themselves out of doing deals because they will have to pay taxes. Your goal should be to pay $1 million to the IRS because that means you made $3 million (if you fall in about the 30 percent tax bracket).

You can reduce your tax expense by, for example, incorporating your wholesale real estate business. This way, you can get extra benefits and write-offs and thus decrease the amount of tax you will pay on those activities. You can buy and sell properties in most cases through your self-directed IRA or do 1031 exchanges on your home properties and not pay taxes on them. Ask your tax advisor. These 1031 tax-free exchanges allow investors who have held property to buy new property of equal or greater value and not have to pay taxes on the gains. To learn how to save on taxes, go to www.shemin.com.

In my opinion, as long as the tax rate is below 50 percent, you want to make as much money as humanly possible and pay all the taxes you are legally and ethically bound to pay.

Q: Who do I need to have as advisors?

A: You need a team to be successful in any business, especially real estate: A good accountant (preferably one who owns real estate), a good attorney, a good mortgage company and banker, a good closing title company, some good repair people and contractors, and an excellent insurance broker. Always go to your team before you make any moves. Be sure to have them approve and make recommendations for fine-tuning your business plan, your money, and your tax planning.

Partnering

Another way to control property, make money, and not use any of your own credit is partnering. Remember, if you do not have the capital or credit or do not desire to use your own, get a partner to fund your business. It should never be a 50-50 partnership; someone has to be in control and make decisions, and that person should be you. Make sure you work with silent partners who do not interfere and tell you what color to paint the house, how much to rent it for, and so on. (About 70 percent of real estate partnerships fail because two equal partners cannot agree on anything.)

As a real estate investor, it can be difficult to borrow funds because you are self-employed and do not have much verifiable income in the beginning. You can overcome this by getting strong partners whose credit is excellent. Of course, you want to make sure that