REAL ESTATE INVESTING

STARTERS GUIDE

Real Estate
Wealth Lab

THE REWL BOOK - STARTER COURSE

… SO YOU CAN SEE CLEARLY…

Real Estate
Wealth Lab

To RULE THE UNIVERSE

ECONOMIC INTELLIGENCE, PERSONAL GRIT, METHODS that WORKS

cc: robnguyen01 - https://www.flickr.com/photos/46651916@N00

Real Estate Wealth Lab

When we are done...

cc: JD Hancock - https://www.flickr.com/photos/83346641@N00

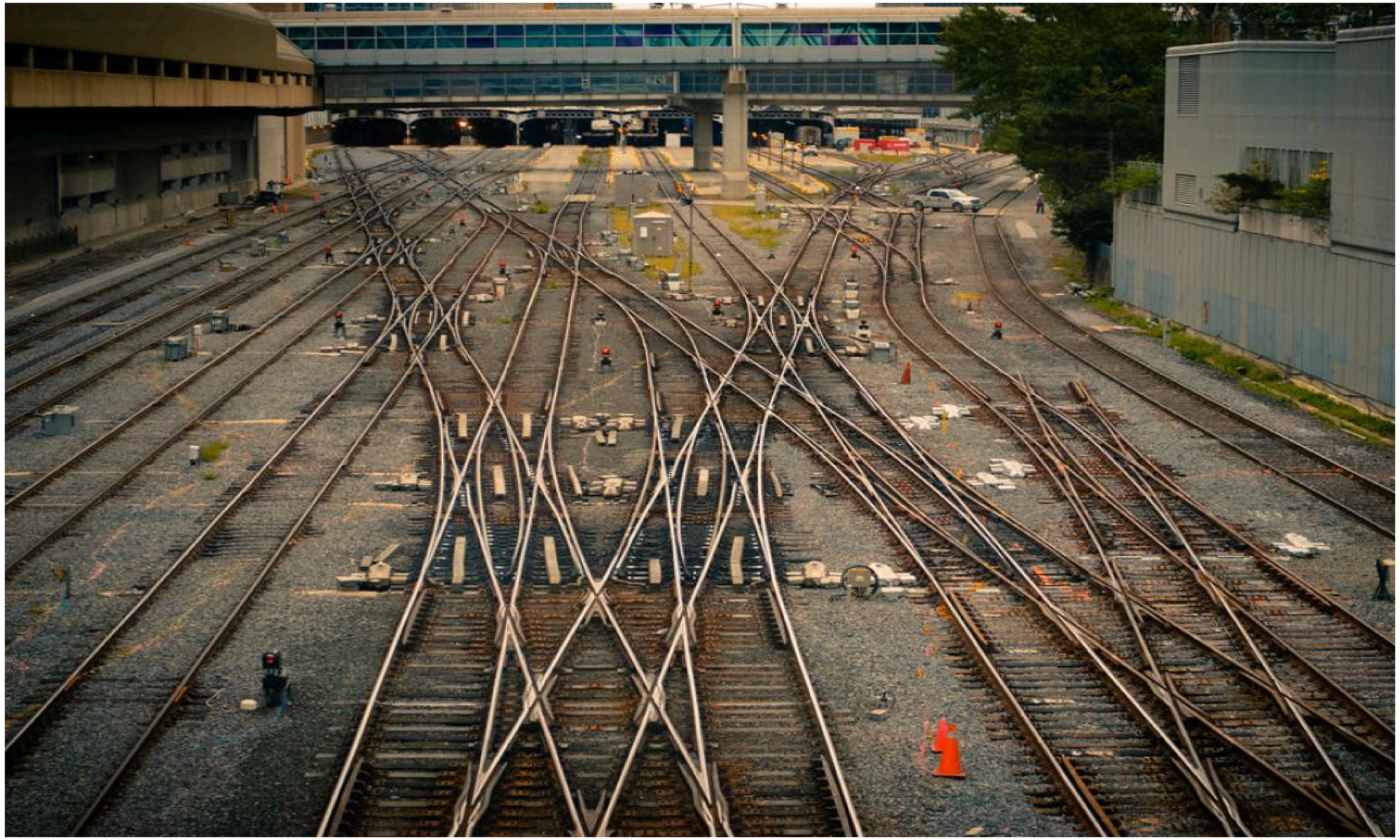
Real Estate Wealth Lab


accidental INVESTORS
Real Estate
Wealth Lab

MODULE 1

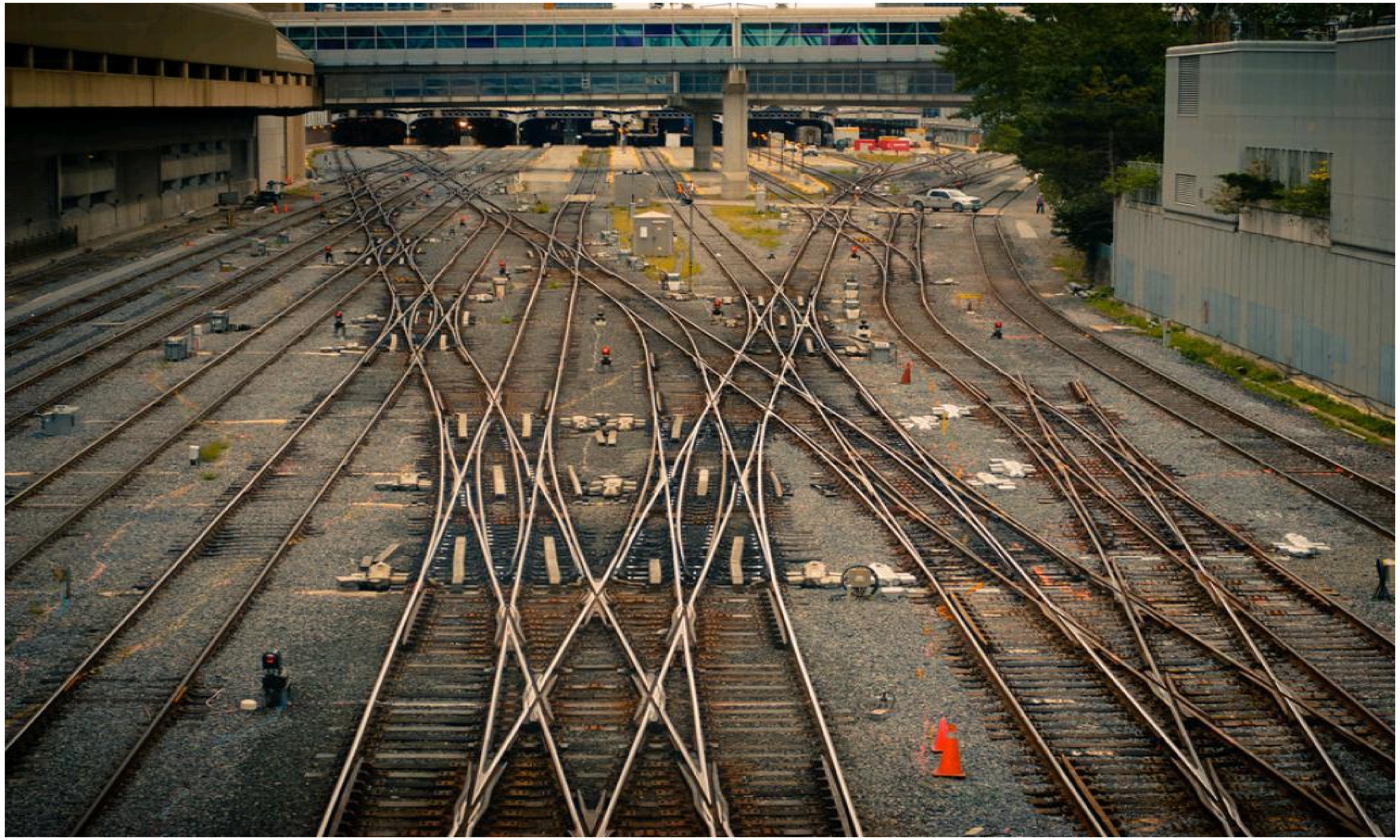
Choices , Overwhelm, Excuses

- **STARTERS GUIDE**
- **WORKBOOK**
- **NOTEBOOK/JOURNAL**



What's stopping you?

- Knowledge
- Capital
- Time
- Opportunity
- Courage



MODULE 1

INTRODUCTION

- Before you jump into real estate investing using this program you need to consider 3 things:
  1. Know yourself (can you accept risk, working longer hours, etc)
  2. Know the market (do you know the local market and what is in demand, economics, schools, and the timing and condition of market)
  3. Cash liquidity – do you have enough cash to put a down payment, cover realty fees, fixes, etc
- You are in it to make money

Different future

- Financial freedom
- Time to do and be
- Legacy… that is world altering

Real Estate
Wealth Lab

MODULE 1, CHAPTER 2

MINDSET

Step 1 – Purpose

- **Purpose:** Keep coming back to the foundation when direction is needed. Essentially, know "why." Why is it important to learn how to flip houses?
  - Is it money, confidence, meaning, opportunity, to prove it can be done? It could even be a combination. Regardless of what is the driving force, know it and never forget it.
- **Know why:** In order to be successful, understand the motivation. Have a reason to be successful, something that's important. The answer may be, "making more money." And that is a strong motivation – but look deeper.
  - Why have more money? What will be done with it?

MODULE 1, CHAPTER 2
MINDSET

Step 2 – Set goals

- **Set goals:** Goals are absolutely essential in driving success. Setting real, tangible goals is literally the difference between success and failure. Write down goals and refer back to them often.
- An unwritten goal is nothing more than a dream. A goal is a written step-by-step process to help someone get from where they are, to where they want to be.
- The process for achieving a goal is very simple; write down the goal, establish a realistic time limit, then create a step-by-step procedure to accomplish the objective.
  - ➡ Have different goals for different time periods. Not everything is achieved at the same time. Start from the end and then work backwards.
  - ➡ The steps should be bite sized and achievable to create momentum
  - ➡ Set a routine and eliminate bad habits
  - ➡ Make decisions. Don’t over think things just make decision and do it. give yourself a deadline
  - ➡ Tell others about your goals
  - ➡ Stay focused.

MODULE 1, CHAPTER 2
MINDSET

Top Excuses

- These are the 6 most common excuses.
  - ***"I'm too old."***
  - ***"I'm too young, I don't have enough experience."***
  - ***"I don't have enough money."***
  - ***"I don't have the time."***
  - ***"I've done it before, and it doesn't work" or "It's a scam"***
  - ***"It works for you in your area, but not in mine."***
- What kind of person are you going to choose to be?

MODULE 1, CHAPTER 3

KNOW YOUR MARKET

- The #1 most important rule in real estate investing is to know your market
  - This will help you avoid expensive mistakes and find diamonds in the rough
- The Kind of information you want is:
  - What kind of properties are selling
  - Where properties are selling
  - Size of houses – number of bedrooms and bathrooms, total square footage
  - Number of days on market
  - Asking versus selling price
  - Desirable features
  - Top real estate agents
- The cost of not knowing your market means you make less profit, even a full blown loss.

MODULE 1, CHAPTER 3

KNOW YOUR MARKET

- You can research the market by…
  - Using the internet (Zillow, MLS, neighborhood info)
  - Realtors and mortgage brokers
  - Neighborhood residents
- When choosing a neighborhood, pick a sustainable area where properties sell in less than 60-days
- Know the comps: how big are the homes, how many bedrooms, what are the prices
  - When you start off, take on properties that need only light repairs like paint, kitchen update bathroom. Avoid foundation work, new electrical systems

MODULE 1, CHAPTER 3

KNOW YOUR MARKET

- Construction costs: to determine how much to offer you need to understand basic construction costs. Projects vary but know how to ballpark costs.
  - The basics > paint, carpet, floor tile, granite kitchen, update bathroom, landscaping
  - Know the costs of labor and materials as well
  - Initially rely on knowledge of contractors or other tradesman you know

Calculating profits:

- The three key numbers you need to know are:
  - After-repair-value (ARV) – what the property will sell for when it's fixed up
  - Repair costs – how much it will cost to fix
  - Maximum allowable offer – the most you can pay for the property to make worthwhile profits

MODULE 1, CHAPTER 3

KNOW YOUR MARKET

How to determine maximum offer for a property

- You can’t buy on emotion; you have to buy based on numbers.
- This is the formula for calculating how much to pay.
- ARV – 20% (Your Profit) – 10% (Misc. Costs) – Repairs = Maximum Offer for Ownership
  - ➡ *Profit:* 20% minimum of ARV.
  - ➡ *Miscellaneous costs:* 10 percent of ARV.
  - ➡ *Repair cost:* dollar value of the repairs.
  - ➡ *Maximum offer for ownership:* ARV minus profit, minus miscellaneous costs, minus repair costs.
- All these numbers are based on a six-month holding period (ideally you should sell within 4-months). The extra two months are a safety cushion.

MODULE 1, CHAPTER 3

KNOW YOUR MARKET

- Let’s suppose you’re interested in a house with the following numbers:
  - ARV: $200,000
  - Profit: 20-33% ($44,000 to $72,600)
  - Misc. costs: 10% ($22,000)
  - Repair Carrying costs: $22,000
- That leaves a maximum offer for ownership of between $103,400 and $132,000
- Miscellaneous costs are things like insurance, taxes, attorney fees, builders insurance, etc
  - Sometimes unexpected things happen so an additional 10% of miscellaneous expenses is added to the budget

MODULE 1, CHAPTER 4

BUILDING YOUR TEAM

- As in sports, if you have a good team, you win more games.
  - In real estate, they can reduce stress, spread the workload, work with more efficiency

Key members

1. **Your Mentor(s)/Coach** – A trusted, experienced adviser. Most successful businesspeople have learned invaluable lessons through training from mentors.
2. **Real Estate Agent** – A person who represents buyers or sellers of properties and land, for a commission. Good agents know their market, can bring deals to you, and have marketing reach.
3. **Mortgage Broker** – A liaison between loan applicants and lenders. Brokers can find the best loans for buyers at the best rates, since they work with various lenders. Investors can use mortgage brokers to assess the financial viability of making an offer on the property, as well as to generate leads.

MODULE 1, CHAPTER 4

BUILDING YOUR TEAM

Key members continued…

4. **Real Estate Attorney** – Assists with purchase agreements, title, and complicated transactions. Important for contracts and understanding the applicable laws in every step of the process.
5. **Contractor –** Person or company that performs and oversees the construction of the property. A good general contractor is priceless to your flipping business. You want one who is dependable, finishes on time, and works within the budget.
6. **Escrow Agent or Title Rep** – A neutral third party who holds funds and documents in real estate transfer. Essential for closing deals quickly; find one who will have your back.
7. **Accountant** – A person responsible for inspecting or keeping financial accounts. Be sure to hire a Certified Public Accountant who specializes in or is very knowledgeable of real estate. Important for tax write-offs.
8. **Insurance Agent** – A person who sells insurance policies. It’s important to understand what kinds of accidents or disasters could happen to the property and get insurance coverage through a knowledgeable souse to cover your potential liability.
9. **Supportive Family & Friends** – A network of people who care about you and your best interests. This is always important, no matter what you do.

MODULE 1, CHAPTER 4

BUILDING YOUR TEAM

- Need a bigger team? You can expand with these optional team members:
  - Appraiser
  - Home inspector
  - Property manager
  - Handyman
  - Virtual assistants
  - Automated systems

MODULE 1, CHAPTER 4
BUILDING YOUR TEAM

• When you make a deal, remember that everyone on your team has to make some dough

Coach

- The most important person on your team is your real estate coach. The cost of learning the hard way is dramatically higher than the cost of learning the right way.
- It means you are committed to seeing this through and that you know enough to want someone to watch over your shoulder and make sure you're doing it right.

Real Estate Agent

- Find an investor friendly agent that you like as a person, and do business with them. You can find them at real estate clubs, the internet, through your network
- It can take time to build a relationship with a real estate agent, but this isn't a get rich quick program
- As an investor you do not need to become an agent yourself

MODULE 1, CHAPTER 4

BUILDING YOUR TEAM

Contractors

- Get a contractor who has insurance, worker's compensation, liability insurance, and is licensed by the state or city as required by law.
- If you don't get a good vibe talking with your contractor when speaking with them, don't work with them. Find someone you mesh with. You have to interview them to get this feeling.
- Best way to find them is through referral and tradesmen you know and/or use
- Learn something about construction costs, labour, materials, and timelines so you can properly vet a contractor and their bid
- Consider hiring your own subcontractors (plumbers, electricians, painters) because you can probably find them at more reasonable rate than those preferred by your GC

MODULE 1, CHAPTER 4

BUILDING YOUR TEAM

Mortgage Broker

- They are a backstop for you. Make sure they qualify a buyer for you.
- They can be a good source of deals too since they are often first to see short sales and foreclosures

Home Inspector

- An inspector completes his home inspection after the seller has accepted an offer and should have a keen eye for potential problems and repairs.

Appraisers

- Appraisers are in play when the bank and mortgage brokers require them to evaluate loan amounts.
- As an investor, you need an appraisal to know what the value of the home you are buying is.
- They usually cost $300-$500

MODULE 1, CHAPTER 4

BUILDING YOUR TEAM

Insurance Agent

- Get an insurance agent familiar with different types of home and building insurance.
- In stages, you may require builder’s risk insurance, property insurance, and your standard homeowner’s insurance. Get the right one at the right time. Don’t skimp for a few dollars

Escrow Agent/Title Company/Attorney

- Some states require an escrow agent or title company or attorney to close your deals.
- Use whichever option is required by state law

Attorney

- Don’t be intimidated by them and interview them as you would other service providers
- Tell them how you are doing business so they can tell you they can handle your needs

MODULE 1, CHAPTER 5

WHY REAL ESTATE IS A GREAT INVESTMENT

- The real estate market goes up and down, but if you know how to play, you can win in any market
  - When people are scared and property prices are falling, that's a buyers market – the one you have been waiting for
  - It doesn't matter what the market is. Where there is people, there's a real estate market. People need to put a roof over their head
- If you cant find a deal in your market, drive 30min to another market and try there.
  - This program will show you how powerful real estate investing can be and how to apply it anywhere

Power of Leverage

Investment Capital = $120,000

At 8% = $9,600/year

Power of Leverage

Investment Capital = $120,000

At 6% = $7,200/year

Property Purchase Price	**$500,000**
Downpayment 20%	**$100,000**
Closing Cost	**$20,000**
Total Investment	**$120,000**

Power of Leverage

Investment Capital = $120,000 At 6% = $7,200/year

Property Purchase Price $500,000

Downpayment 20% $100,000 + Closing Cost $20,000. Total Investment. $120,000

Profit

Cashflow $100/mth … $1,200 x 5 = *6000*

Mortgage pay down $, 44,108 (25yr/ 5.34%) Mortgage Balance $355,892

Sale Price $638,140 (Appreciation 5%)

Selling Costs: Commission 25,525 + HST = 28,844 + Staging/Painting 10,000 = 38,844

Net Sale = 638,140 – 38,844 = 599,296

Profit from Sale = 599,296 – 355,892 – 120,000 + 6000 = $129,404

ROI 129,404/120,000 x 100 = 108%

= 21.6% per year

MODULE 1, CHAPTER 5

WHY REAL ESTATE IS A GREAT INVESTMENT

4 ways to earn in the program

1. Finder’s fee
2. Wholesale rehab
3. Retail rehab
4. Cashflow properties

MODULE 1, CHAPTER 6

GETTING OVER THE FEAR OF MONEY

- If you are getting into real estate in order to make more money, it can be very difficult, stressful, and frightening to take the leap.
- They say it takes money to make money—but if you don't have much to begin with, it can feel like a very big risk.
  - A major component of the real estate business is risk.
  - When you buy a home you take out a loan, if you can't make payments for any reason you lose the home
- Another fear is the fear of investing in a property at the wrong time.
  - The best way to combat fear is with information
  - Get information by doing own research, asking your team, and see what other real estate professionals are opining

MODULE 1, CHAPTER 8

INVESTING IN REAL ESTATE

1. **Know Your Exit Strategy**: Beginners usually follow the media, buy a property and wait for its value to increase. This could be risky. Real-estate investing requires research. You have to be prepared for the worst: If nobody bought the property, then you would have to think of other methods to generate income from it such as leasing, renting or others.
2. **Knowing the Law**: Before you make any kind of investment, you should be familiar with the laws applicable to the property. E.g. paperwork for escrow, title, purchase agreements, etc.
3. **Emotional Involvement**: Another common mistake is getting emotionally involved with your first investment. For example, prospective buyers being rejected, even though they are offering the best deal.
4. **Build Your Team**: Before you start looking for properties, make sure that the real estate team is ready. Most people think that they could start investing on their own; this is a big mistake. A good real estate team and mentor will help you move quickly towards your goals.

MODULE 1, CHAPTER 8

INVESTING IN REAL ESTATE

- Real estate investment doesn’t have to stop at buying a home. There are several ways to invest, turn the property around, and profit.
  - There is always a market for making extra cash flow through properties.
  - Understanding the market is like understanding the country’s customs and laws. You learn how things work in order to succeed.
- The first thing to keep in mind if you want to invest in real estate, is to find homes at the right time.
  - There will be times when the market is lower than others.
  - There will also be houses undergoing the foreclosure process, which will be sold at a lower price than others.
- Time of year is important too if you plan to fix up a deck or paint the exterior before selling it

MODULE 1, CHAPTER 10

USING REAL ESTATE INVESTMENTS FOR RESIDUAL INCOME

- Its time to find renters so you need to know the local laws, how to screen them, and how to honestly advertise
- Here are some things to screen potential tenants for:
  - Employment
  - Current income
  - Credit history
  - Previous rental history (including any evictions)
- Additionally, have them fill out an application that has a simple to understand code of conduct and expectations from you and from them.
- Get a photo id like a driver’s licence and references from previous landlords if possible
- Let them know you will do a background and credit check and ask beforehand if there are extenuating circumstances that could paint a dull picture

MODULE 1, CHAPTER 10

USING REAL ESTATE INVESTMENTS FOR RESIDUAL INCOME

- When it comes to setting price, know the supply and demand in your area.
    - Are people moving in or moving out of the area
    - Good schools or companies creating demand for the area
    - Comparable rental unit prices
    - Is the vacancy right increasing, decreasing, or steady
- You need to know as much of your tenants as possible and local laws to see how much you can raise rent if that is what’s need to make you a profit.
    - Sometimes a current tenant can’t afford the increase so you need to find a new one

MODULE 1, CHAPTER 10

USING REAL ESTATE INVESTMENTS FOR RESIDUAL INCOME

- You will have to make repairs on the property so make sure to put money aside for it.
- You must provide your tenants with a safe property.
  - Walk through it yourself and ask, “Do I feel safe here?” and;
  - “Would I be happy living here if X didn’t work?”
  - Then fix the problems you identify.
- Do the job right by getting the right tradespeople to do the job

MODULE 1, CHAPTER 11

REAL ESTATE MYTHS

- When you consider how many people have made their fortunes in real estate, it can seem like an almost glamourous profession. Are high-profit real estate deals only for the wealthy?
  - They are not. Here are some common myths that we will dispel.

1. **The good real estate deals are reserved for the wealthy.** Of course money helps, but it's certainly not a requirement. Smaller deals, using money partners, and low-down deals are always available. Or, you can build up your down payment money over time putting aside $7-$10 per day for a couple of years.

2. **"No money down" is the best way.** When you don't invest some of your own money, you have higher payments. You also spend more time finding suitable properties, and pay more for them (cooperative sellers naturally want more profit for their cooperation). So yes, there are zero-down deals, they just aren't always worth doing.

3. **You need a lot of experience.** Experience helps, that much is true—but you get it by investing. Start with common sense, be willing to learn the numbers, and you can start where you are.

MODULE 1, CHAPTER 11

REAL ESTATE MYTHS

4. **Good investors have a “knack” for making money.** Well, sort of. But more accurately, they just took the time and risk to understand their market and to continue their education.

5. **You have to know the “right” people.** This is another partly true myth. It’s not impossible, by any means, to start out without the ‘right’ contacts. But it does help, so why not start the process? Talk to other investors, real estate agents, landlords, etc.

6. **Great negotiating skills are necessary.** Do negotiating skills help with real estate deals? Of course they do, but learn to run the numbers and make offers based on them. You can be the worst negotiator and still do okay if you understand the numbers correctly.

7. **Fixer-uppers are the safest way to go.** Poorly planned “fix and flips” have bankrupted even experienced investors. Most poorly purchased rental properties will only eat a little money every month, and grow in value over time. Fixer uppers are for making money faster, not more safely.

8. **You need to make lowball offers.** Low offers may help, but the numbers have to work, and you need a plan. You can offer MORE than the market price and still make money investing in real estate. Just learn how to run the numbers before you do any real estate deals

MODULE 1, CHAPTER 12

COMMON MISTAKES AND HOW TO AVOID THEM

- There aren't just myths to dispel, but common mistakes that others have made that we want you to avoid.
- Here are 11 common mistakes that we want you to avoid so you can invest with greater profitability.

MISTAKE #1 - *Failure to follow a successful pattern*

- If you want to go out on your own and learn the hard way, you would need a lot of money to do it. Real estate mistakes can be very expensive. Failure to learn the basics of real estate investing before beginning is a formula for disaster. Learn the basics first, then follow the formula to success.

MODULE 1, CHAPTER 12

COMMON MISTAKES AND HOW TO AVOID THEM

MISTAKE #2 – *Not using/Ignoring a coach or mentor*

- Using a mentor has been mentioned a few times. Your real estate coach can literally save you tens if not hundreds of thousands of dollars. But it’s more than just the financial elements. Your coach is there to encourage you when you are down, kick you into action when you are not performing, and hold you accountable for your goals. Your coach is there to make sure you see the bigger picture and make decisions based on logic, not emotion.

MISTAKE #3 – *Not knowing your market*

- If you don’t take the time to know you market before you get into a deal, you’re not investing, you’re speculating. It is absolutely critical that you spend time before you write your first offer, to understand where it invest. The market will dictate whether you succeed or fail. But you can increase your probability of success exponentially if you do your homework first. Do not get suckered into making a quick decision on a house before you understand what is happening in the marketplace.

MODULE 1, CHAPTER 12

COMMON MISTAKES AND HOW TO AVOID THEM

MISTAKE #4 – *Not knowing your exit*

- There are multiple ways to exit a deal. You need to know all of them, and the order in which you prefer to implement them. There are deals you will initially want to flip, but which end up becoming holds, and vice versa. It is important that you know multiple ways of pencilling out each deal, just in case you end up needing to use another option. The worst thing you can do is to get into a deal without any exit strategy at all.

MISTAKE #5 – *Not knowing your numbers*

- It's easy to tell which investors are going to be successful by the numbers they know. If you don't know the numbers of your deal (the average days on market, the after repaired value, your forecasted carrying cost, etc.), then it's trouble just waiting to happen. You should not be speculating, you should be investing. If you don't know how the deal pencils out, you won't know what your profit potential is, and you'll tend to go over budget.

MODULE 1, CHAPTER 12

COMMON MISTAKES AND HOW TO AVOID THEM

MISTAKE #6 – *Fear of making a huge financial mistake*

- Everyone is afraid of making mistakes—especially a large financial one. If you follow the advice in the program, you'll still make mistakes, but they probably won't be the ones that bury you. Again, follow the program. Know the market and the property BEFORE you buy. Know your exit strategy.

MISTAKE #7 – *Not evaluating properties*

- Amateurs fall in love with properties. That's easily one of the biggest mistakes you can make. Don't fall in love with properties. Too many investors buy properties because they "look nice," or they are too lazy to run the numbers BEFORE they buy them. You are an investor. You need to know the property and neighborhood, as well as the ins and outs of the deal. If you don't, you're not following the formula… which means you may as well not use the formula at all.

MODULE 1, CHAPTER 12

COMMON MISTAKES AND HOW TO AVOID THEM

MISTAKE #8 – *"The bigger, better" syndrome*

- Look, there is always something out there with more potential. But a bird in the hand is worth two in the bush. If you're always waiting for the perfect deal, you'll always be waiting. If it fits within the confines of the program, you should be able to make the deal work. Find a deal, get it done, and then move onto the next one.

MISTAKE #9 – *Losing sight of your options*

- Many investors fall in love with their property. They've seen how well it is doing and they like the money. Two big mistakes are made here: 1) Never fool yourself into thinking your property is doing too well to sell or trade up, the property you love may cost you something bigger or better; 2) Once you fall in love, you tend to not want to improve the property, which means you again limit your earning potential. Always keep an eye on the market. You want to own property that exceeds the market standard.

MODULE 1, CHAPTER 12

COMMON MISTAKES AND HOW TO AVOID THEM

MISTAKE #10 – *Not knowing what your end goal is*

- Before you purchase any property, determine what you expect from your investment. Understand the “Time Vs. Money” concept. The more you have of one, the less you need of the other in order to reach your financial goals.

MISTAKE #11 – *Trying to purchase properties that the seller isn’t motivated to sell*

- Many inexperienced investors try to purchase properties that are not on the market. This includes property owners who have the attitude of “Sure, it’s for sale… for the right price.” Unfortunately the “for the right price” part usually means it will make no financial sense for the buyer. If it doesn’t pencil out correctly, if the numbers don’t work in your favor…then DON’T BUY IT!!! Don’t waste your time, move onto something that is for sale that you can make a killing on.

MODULE 1, CHAPTER 12

COMMON MISTAKES AND HOW TO AVOID THEM

- In addition to the these, you need to look at the broader picture and the signs of the market.
  - Real estate is a profession that works off of the flow of cash moving through the economy.
  - If you want to make sure that you are getting the right deal, you will also want to make sure that you are moving into the right market.
- Typically, there will be two markets to consider.
  - One is a buyer's market, during which the prices of real estate will be lower.
  - The second is a seller's market which is when it will be better to sell your property home.

MODULE 1, CHAPTER 13

HOW TO AVOID POTENTIAL INVESTMENT DANGERS

- After doing all this hard work, there are some items you should give attention to, to avoid danger
  - Make sure that you have the correct information regarding the property. Don’t rely on the information posted in the listing alone. Go and visit the property in question. Verify everything.
  - Walk through the property to ensure that it is what you’re looking for. Don’t settle for less than what you want. You will only end up being disappointed. It’s ok to have a property which only needs small repairs or upgrades for your first few deals.
  - Stay away from the ones that required extensive work until you have the knowledge and resources to complete them.
  - If you have to get a mortgage loan, make sure that you can afford the monthly payments.
  - Don’t be so eager to get your first deal that you sign paperwork you don’t understand. Ask questions so you thoroughly understand how this will affect you financially down the road.

MODULE 1, CHAPTER 13

HOW TO AVOID POTENTIAL INVESTMENT DANGERS

- Remember that the most important thing in real estate is “Location, location, location.”
  - Some people find a location desirable and others will not. It fluctuates and changes.
  - The main point for consideration is the strategy for making a profit. Buying is only half of the equation. Determining whether the location is good or bad depends upon the profit strategy.
- **Example**: If an investor invests in a property with the intention of waiting for the market to go up, then prime real estate is probably the very best choice.
  - Locations that are near entertainment centers or developing areas would be best, because the likelihood that the property will increase in value simply by waiting is a pretty good bet.
  - On the other hand, if an investor’s intent is renting for monthly income, then he might be better off looking into urban properties. Urban properties wouldn’t be considered “prime” real estate, but they could be “prime” rental properties.

MODULE 1, CHAPTER 13

HOW TO AVOID POTENTIAL INVESTMENT DANGERS

- A 'handyman' who can do the work himself would consider a mid-priced home in a working class neighborhood and update it.
- There are many factors people consider when buying real estate, but as the seller, you have the goal of convincing a buyer or tenant that your property is the one they consider 'good'.
- It comes down to 'desirability'.

MODULE 2

MODULE 2

INTRODUCTION

- This module is about finding properties, negotiating, and talking to motivated sellers. You'll find out how to identify key market drivers that show you what to buy, what price to pay, how to compare comps in the area, and how to use bird-dogging.
- If you're a first time real estate investor, you must know that everyone will evaluate you based upon your results.
  - Everyone will look at your first deal—your investors, attorneys, real estate agents—they'll want to see if you can really do it.
  - Once you do it using the Program principles correctly, all you have to do is turn up the volume and you can do it again and again.
- In some cases, the right deal can make you the same amount of money that the average person works all year to earn. The average American salary is $30,000.
  - One deal can generate more than that, but if you're not careful you could lose that, and more.

MODULE 2

INTRODUCTION

- So, what’s the endgame? Reverse engineer everything.
- Everything you need to know to choose the best property will be discussed in this section.
  - You will need to know when you’ve found a good deal, how much to offer, and how to find deals quickly—after all, the more you invest, the more potential you have to earn, fast!
- You need to create a “finding funnel.” If you are looking for property, someone has to be lining up funding, doing the rehab and so forth. You are only 1.
  - One of the first things discussed in the “Foundation” section was that you needed a team.
  - Each of the team members play a key role in the Program; however, each of them also plays a critical secondary role: finding properties.

MODULE 2, CHAPTER 1

REAL ESTATE AGENTS AND REAL ESTATE BROKERS

- **Mortgage Brokers**: When people need to sell a house, they often try to refinance the loan first. But if they are upside down on the loan, and they cannot qualify for a refinance, the mortgage broker cannot help them.
  - You can offer the seller an alternative to buy the house directly. You can also talk to the homeowner about a short sale, if that's the last resort. You must network with mortgage brokers, because they are a great source for deals.
- **Real Estate Agents**: You must have a real good real estate who understands what you think is a good deal. The real estate agents can bring you short sales, REO's listing that fit your criteria.
  - A good agent should know the real estate market inside out, and can give you key information in regards to buying a particular home.
  - They may also have access to "pocket deals," property that is currently for sale, or which is going to be for sale, but isn't yet listed in the MLS system. Of course, this would be a huge advantage for an investor since it cuts down on competing offers. If you're able to see the property before it's listed, you may be able to make an offer before its listed.

MODULE 2, CHAPTER 1

REAL ESTATE AGENTS AND REAL ESTATE BROKERS

- In most real estate deals, there is a buying agent and a selling agent. As the buyer, you pay buying agent who has done work for you. The seller pays the selling agent.
- Whichever locale you invest in, work with a reputable local agent who can provide in-depth knowledge of the local real estate market
- Do you need a real estate license to be a real estate investor? No. Remember, while there are reasons to get a license, there are also many reasons not to.
  - There is one critical thing to be aware of: if you have a license, you must disclose that you are an agent/broker on each and every deal you do, AND you have to adhere to different rules than the average buyer. This can be a compelling reason to not get your license.
  - One possible solution is to partner with an agent…that way you get the best of both worlds (the inside track and no disclosure).

MODULE 2, CHAPTER 2

FINDING A FLIP

- Flipping houses is very popular, and that can drive up prices.
- If you find a good deal and feel that the property is a good candidate for a flip you can ask yourself the following questions to help you determine whether or not the property really is a good candidate.

1. Have you had a qualified inspection and determined that there are only minor repairs that need to be made to the property and the landscaping? This is important, because every repair that needs to be made will eat into your budget.
2. Is the property suitable for the neighborhood? Is the property a three-bedroom house built for families in the middle of a retirement community, or is it a one bedroom, cottage-style home in the midst of family houses?
3. Can the neighborhood bear the price you need to bring in from the Flip? If you are creating an upscale home in a marginal neighborhood, you are almost guaranteeing a loss on your investment.

MODULE 2, CHAPTER 2

FINDING A FLIP

Questions continued…

4. Can you make the changes you envision on your budget without significantly, changing the structure of the house? This is a biggie, and one that often gets overlooked. Don’t start knocking out walls or creating additions when flipping a house. That is something you should leave for the new owners.
5. Can you improve the value of the home enough to make it worth your while in a short amount of time? Do you have the time to stick with it and the money to cover the carrying costs while you are in the process of making the changes?
6. Is the property in a high demand neighborhood, city, area, etc.? A common mistake is buying in areas where it’s hard to resell.
7. Can you do the work or will you need professionals? If so, will it still be cost effective? Be careful that you do not overestimate your abilities.

MODULE 2, CHAPTER 3

HOW TO ATTRACT DEALS

- Without marketing, you will not find a deal.
- You have to focus on marketing from the beginning. If you don't find a deal, you can't find the guys who will give you the money.
  - Right now, we're specifically taking about the marketing and advertising methods you use to announce you are in the market to acquire properties.

Bandit Signs

- You should put up bandit signs all over the place. These yellow, plastic signs can say, "I Buy Houses," or "I Buy Short Sales," or "I Buy Foreclosures." They have a 1-800 number and a URL.
- Don't put them in towns that ban them
- Find great locations where during high traffic hours people are backed up and have time and an opportunity to read them.

MODULE 2, CHAPTER 3

HOW TO ATTRACT DEALS

Business Cards

- You can print them yourself or order them in batches of 500 or more
- They need to stand out. Make sure your name, address, phone number, and what you do is all on the front of the card. Your title, should be in the center of your Business Card.

• I BUY REAL ESTATE

• PROPERTY WANTED

• FAST CASH FOR PROPERTY

• CASH NOW FOR HOUSES

• CASH-OUT NOW!

- A short phrase like one of the catch phrases above should dominate your card.
- The whole idea is to get your name and number out there so that someone can call you back in the future.

• Post your business card on bulletin boards at grocery stores, hardware stores, and other similar places.

- It may seem simple and a little hokey, but it only takes one card to make a lot of money.
- The goal here is to have lots of fishing lines in the water.

MODULE 2, CHAPTER 3

HOW TO ATTRACT DEALS

Magnetic Signs

- You can get magnetics signs that stick on your car doors. A white background for visibility is best.

A Sign on Your Vehicle

- Many real estate investors also use a stencil on their car's rear window to announce that they buy and sell houses.
- Real Window Stencil:

I BUY HOUSES

PHONE #

- Keep in mind, if you use this strategy you will have people judge you by your car. If your car is beat up, old, and/or rusted out, you might not get may calls.
- Some other things you can do are: put out fliers, buy lists of people to call (e.g. late mortgage payments), have your own website, and direct mailing

MODULE 2, CHAPTER 3

HOW TO ATTRACT DEALS

Answering Service

- If you don’t have a website that people are pushed to, make sure you call the person back fast.
    - People are usually loyal to the first agent that calls back.
- When people call you, always get answers to the following questions:
    - Name and phone #?
    - What’s the address of the property?
    - What’s it worth?
    - What are you asking for it?
    - Why are you selling?
    - What else have you got (do you have any other properties)?
    - Do you know anyone else who is selling a property?
    - What is their number?
    - Always ask where your caller saw your ad. You will want to keep track of your successes.

MODULE 2, CHAPTER 3

HOW TO ATTRACT DEALS

Where to Market

- **Networking events.** You can attend or host them. Its like having your team their ready to work as well. If you are novice, be novice. Hand out your cards and say what you and the team do.
- **Hardware stores.** They usually have a bulletin where you can put a flier.
- **2 line ad** in largest Sunday paper, city magazine, or local real estate association newsletter It can look like this.

CASH FOR PROPERTY!!!

ANY CONDITION – PHONE#

MODULE 2, CHAPTER 3

HOW TO ATTRACT DEALS

Who to Talk With

- Real estate investor clubs. People go not always for speaker, but the 45min of networking beforehand
- Talk with other property owners close to your properties
- Ask a property seller if they have any other properties for sale
- UPS/FedEx/couriers. They know the neighborhoods inside out. Know where things are good and bad
- Relatives and neighbors
- Someone calls you to ask about your property for sale, ask if they have a property for sale
- Property management companies, and owners are often at odds with property management
- Call For Sale By Owners, if they aren't sharp the property could be on the market for a while
- Ask tenants who their landlord is, sometimes they are looking to get out
- Subcontractors like painters. People often paint a house before selling it. you pay them a finder's fee.
- A person who brings deals to investors is called a bird-dog. They are paid a fee upon closing for their service usually in the range of $500-$5,000

MODULE 2, CHAPTER 3

HOW TO ATTRACT DEALS

Where to Look

- **Legal Sections/Legal Papers**: homes may get listed for foreclosure and then they go to auction. Until the point where the bank repossess however, -the pre-foreclosure phase- the owner has complete control of the house and you have an opportunity to buy it here.
- **Short Sales**. The bank doesn't want to take the house back because the mortgage is worth more than the house. These have lots of potential profit because you are often the only bidder and bidding only against the bank. People hate the wait to work through a short sale. There is a lot of specialized knowledge needed here about local law so make sure to do it with someone who knows.
- **Expired/Cancelled/Withdrawn Listing**: Have your realtor get a list of all the expired/cancelled listings and call them. They were just looking to sell their property and it didn't work out.
- **Fixers**. If you can do the fixing, then you have advantage. The less work a home needs, the more competition and hire price it draws.
- **The Internet**

MODULE 2, CHAPTER 4

BUYING REAL ESTATE PORTFOLIOS

BUY THE PORTFOLIO OF A RETIRING/RELOCATING LANDLORD

- You haven't seen motivation until you've met someone wanting to retire or relocate.
  - They don't want to list with a real estate agent.
  - These investors will even finance the whole shot with a tiny down payment.
- Retiring landlords typically have the properties paid off. Those who are relocating are typically desperate.

BUY THE PORTFOLIO OF A BANKRUPT LANDLORD

- Just because a landlord is going bankrupt doesn't always mean that his properties are non-performing.
- He could have mismanaged his money. Also, he could have mismanaged his property.
- Typically when someone is not making one mortgage payment, they're not making any mortgage payments.
  - If one is overdue, they're all overdue. When you encounter one property being foreclosed upon, be sure to ask what else he owns.

MODULE 2, CHAPTER 4

BUYING REAL ESTATE PORTFOLIOS

BUY THE PORTFOLIO OF AN OUT-OF-STATE OWNER

- Once in a while, the owner will advertise in the city where the properties are located.
  - Sometimes you can tell by the out-of-state phone number.
  - Most of the time, however, they'll list it with a real estate agent.
  - Each property will be listed in the MLS as part of a package, and will usually say: "Must be sold together."

BUY INTO AN EXISTING LANDLORD PORTFOLIO

- These investors are the easiest to find. They advertise in the "Money-Wanted" section of the Sunday newspaper.
  - Not all of the investors are in trouble. Some simply want to expand and don't have the cash.
  - This is also where you find the investors who are in arrears on their mortgage payments.
- Both those who want to expand and those in trouble are candidates for a partner with cash and credit.

MODULE 2, CHAPTER 5

BUYING UNFINISHED HOMES

- Unfinished homes present a great way to save a lot of money.
- Normally, unfinished starter homes leave the upstairs area unfinished.
- The question is, how much equity do you want to put into an unfinished area?
- Sometimes though, an unfinished home may leave the roofing, framing, plumbing, or electrical portions unfinished.
  - Before you make a purchased, you should always decide how much money you have to finish what needs to be finished.
  - Unfinished homes may have additions as well, in which you can save a lot of money just by leaving them out.
- When looking at unfinished homes, you also need to look at what banks are willing to accept.
  - If you are planning to get a mortgage, most banks will require that the home is up to local codes and in livable condition.

MODULE 2, CHAPTER 6

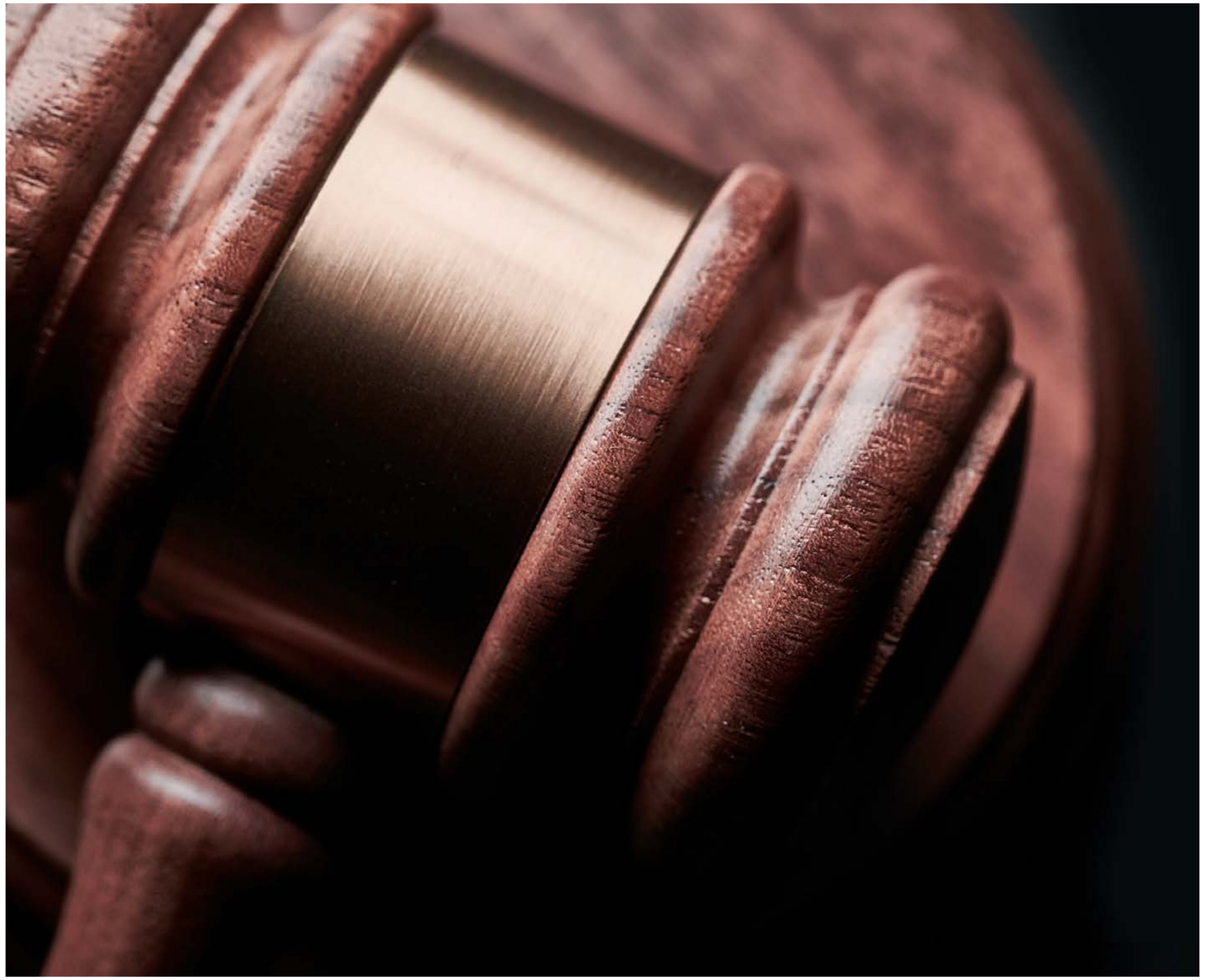
REAL ESTATE AUCTIONS

- An auction is held by banks that want to sell foreclosed properties. The property is sold to the highest bidder.
  - A lot of foreclosure auctions are held at the courthouse steps and sold sight unseen—you as an investor cannot inspect it before the sale.
  - It’s very dangerous proposition, especially for a beginner.
- When real estate property values are down, the easiest way to unload a home is with a real estate auction.
  - You can work a real estate auction as an independent auction company who obtains its own properties to sell or partner with a real estate broker who provides you with properties to sell.
  - The benefit of being an independent is a full commission.
  - Follow local laws. Some states require a real estate license.
- As an investor, you may find you are often outbid by retail buyers. Given that the foreclosure process has completed at this point -at auction- sometimes the bank buys it back and then sells it as an REO.

MODULE 2, CHAPTER 6

REAL ESTATE AUCTIONS

- When you buy properties at auctions, plan on worst-case scenarios.
  - Assume that the heating system is junk. Assume that the last owners wrecked the place.
  - If the numbers still work, then buy it.
- Auctions are becoming more popular for a couple of reasons.
  - As the seller, you have an assured date of sale and in the right market the price can be driven up.



MODULE 2, CHAPTER 8

FIVE STEPS TO CLOSING A DEAL

- Once you find a good potential deal, you will need to move through five steps to close it.
- The most critical is to evaluate the property, to make sure you even have a deal.
- You need to know you will make a sufficient profit to be worth going through the rest of the steps.

MODULE 2, CHAPTER 8

FIVE STEPS TO CLOSING A DEAL

The Five Steps to Closing a Deal:

1. **Run Evaluators** – You will evaluate the deal for both flips and cash flow. *The Flip Evaluator and Cash Flow Evaluator* (explained below).
2. **Make Yes or No Decision** – Based on the evaluations, you decide whether the deal is worth pursuing. If not, drop it and move on to the next deal. If yes, move on to the next step in this sequence.
3. **Choose Your Exit Strategy** – Decide if you want to 1) wholesale, 2) flip retail, or 3) cash flow the property. Your exit strategy is based on the profit-potential of the deal, which you will know by running the evaluators. You will know the exit strategy to use yourself or which another investor might use if you wholesale the deal.
4. **Make Offer** – You make an offer based on the numbers you need to make the deal profitable. Before or during the process of making an offer, you may need to negotiate with the seller. You would need to justify any low offers to the seller, so the seller does not balk at your number. Negotiation will be discussed in a later section of this module. When you write up your offer, you include contingencies, so you can safely back out of the deal if the property does not pass your due diligence process. More on contingencies later.
5. **Seller Responds** – The seller can respond to your offer in one of three ways: reject, counter-offer, or accept

MODULE 2, CHAPTER 8

FIVE STEPS TO CLOSING A DEAL

Evaluators

- Evaluate every property using these 2 formulas.
  - Evaluate the property as both a flip and as a cash flow property.
  - Someone could bring you ten great deals, but it could be the eleventh deal that works.
  - Using both evaluators can help you determine if you have an additional exit strategy if you are forced to hang onto the property
- There are two formulas to use when evaluating a potential deal—The Flip Evaluator and the Cash Flow Evaluator.
  - Your offers will be based upon the results of your evaluations.
- The Flip Evaluator builds in a profit margin and other costs to determine the highest price you can offer on a property and still make a healthy return.
  - This is used when you want to exit as a wholesale or retail flipper.
- The Cash Flow Evaluator tells you how much money you will make on your capital investment, also called return on investment or ROI.
  - This is used when you want to buy and hold the property for cash flow from rental income.

MODULE 2, CHAPTER 8

FIVE STEPS TO CLOSING A DEAL

- To run the Flip Evaluator on a potential deal, follow these steps.

  1. Determine the after-repair value (ARV)
  2. Minus 20% of the ARV for your profit margin
  3. Minus 10% of the ARV for miscellaneous costs
  4. Minus the cost of repairs
  5. Arrive at Maximum Allowable Offer for Ownership

- Here's an

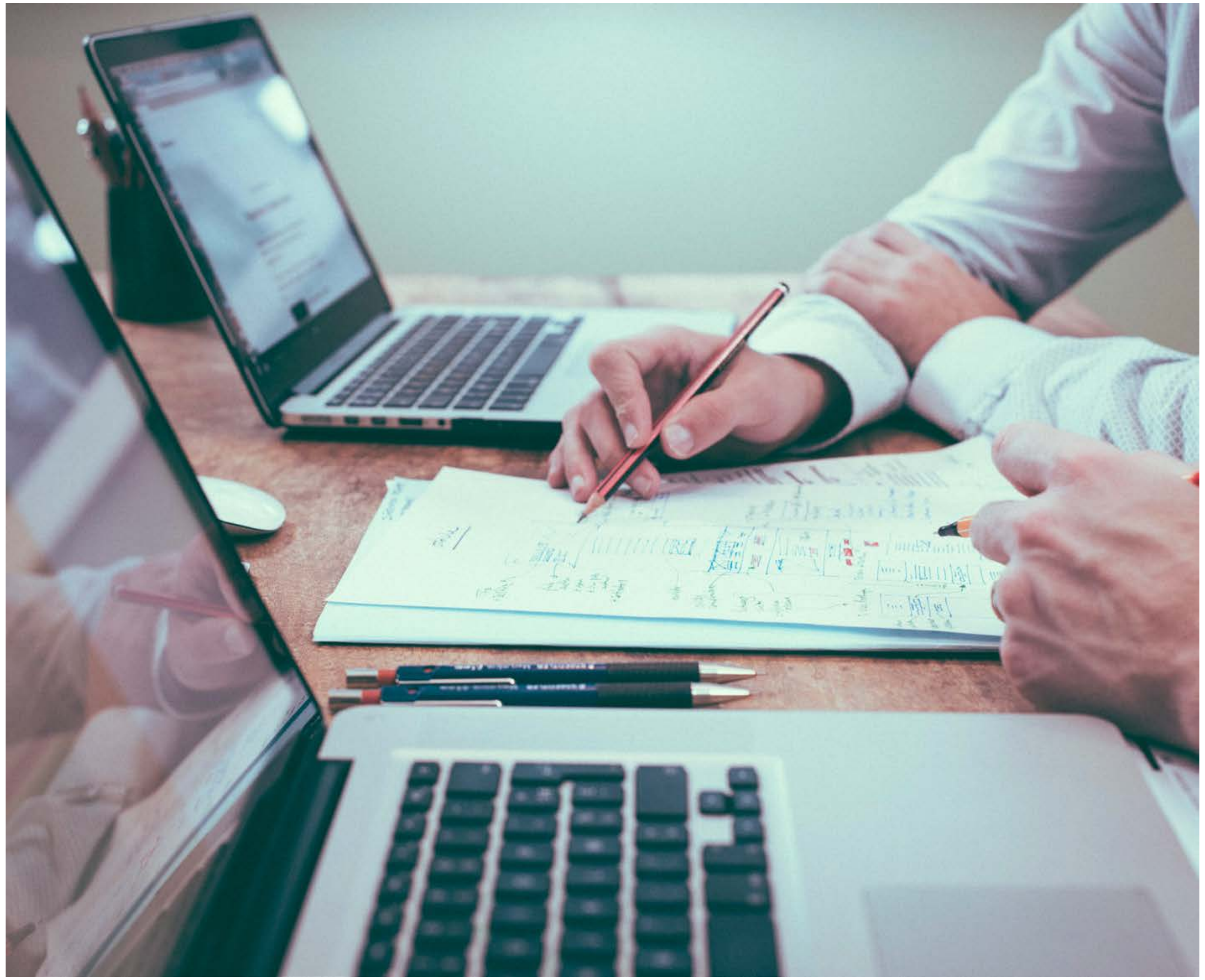
  example: ARV

  $250,000

  - $50,000 profits (20% of $250,000)
  - $25,000 miscellaneous fees (10% of $250,000)
  - $30,000 repair costs (based on 3 contractor's bid)

  = $145,000 Maximum Allowable offer for Ownership

- For this deal, $145,000 is the highest number you can offer.



MODULE 2, CHAPTER 8

FIVE STEPS TO CLOSING A DEAL

- You get the ARV figure by looking at recently sold comparable properties in the neighborhood.
- The deal has to be worth the risk, money, and energy. 20% is a healthy number to use.
  - You can find deals with larger margins, but 20% is the minimum.
- 10% miscellaneous costs. This includes the costs of:
  - Lender costs and points, Insurance
  - Taxes, Carrying fees
  - Attorney fees, Real estate commissions
  - Closing costs (for both buying and selling the property in a flip)
  - Builder’s insurance, An “uh-oh” amount for unexpected expenses or overruns
- Determine repair costs.
  - Do some research, but see if you can get 3 quotes from contractors and choose one.
- Wholesale fee: If a bird-dog found you the deal. Pay them. Perhaps their fee is $1,000.
  - Work it into your purchase price if you can instead of eating from your profit margin

MODULE 2, CHAPTER 8

FIVE STEPS TO CLOSING A DEAL

- Run the Cash flow evaluator.
- This formula is a way to determine if the property is worthwhile as a rental property producing cash flow.
- In this case, you or an investor would buy, fix and hold the property long term.
- You are checking your return on investment.

1. *Determine the total gross monthly rental income.* Do this by multiplying the gross rental amount of each unit by the number of units in the building.
2. *Subtract 5% for vacancies.* Multiply the gross monthly rent by 5% and subtract it from the gross monthly rent.

MODULE 2, CHAPTER 8

FIVE STEPS TO CLOSING A DEAL

3. Subtract monthly operating expenses. These include:

- Repairs
- Mortgage payment
- Property taxes
- Insurance
- Water
- Sewage
- Property management costs (Assume that the property management costs for smaller buildings with four or fewer units will be approximately 8 percent to 10 percent of the gross rental income. 5 or more units will be approximately 10 percent to 15 percent of the gross rental income.)

**Whatever remains is your monthly net profit

4. Determine annual net profit. Multiply the monthly net profit by 12 to determine the annual net profit.

MODULE 2, CHAPTER 8

FIVE STEPS TO CLOSING A DEAL

- 5. *Calculate you return on investment (ROI)*

$$\text{ROI} = \frac{\text{Annual Net Profit}}{\text{Cost of Investment}}$$

- For example, let's say that you have four units renting for $1,000 each. The gross monthly rental income is $4,000.

  $4,000 Gross monthly income

  - $200 Vacancy (5% of gross income)

  - $2,087 Mortgage Payment

  - $100 Expenses (water, sewer, taxes, insurance, etc.)

  = $1,613 Monthly net profit

  $1,613 x 12 = $19,356 Annual net profit

Investment amount $60,000 = 20% down on $300,000 purchase.

$$\text{ROI} = \frac{\text{Annual Net Profit } \$19{,}356}{\text{Cost of Investment } \$60{,}000} = 32\%$$

- In general, we're looking for a minimum ROI of 20%. Anything above is outstanding. Anything below is not worth doing the deal.

MODULE 2, CHAPTER 8

FIVE STEPS TO CLOSING A DEAL

Make a Decision. If the numbers work, move to the next step. If not, look for another property.

Choose an Exit strategy. If the numbers work. Choose an exit. These are the 3 most common:

- *Wholesale* is when you put the property under contract so that you control the contract, and then sell the contract to another investor.
  - The new investor then closes on the property. The investor may decide to fix and sell the property at the retail level, or simply hold it as a long-term cash flow property (which is why you run the deal through the evaluators).
  - You can generally make $500 to $10,000 on this type of exit.
- *Flip* is when you plan to buy it, fix it, and then sell it to a retail buyer(regular homeowner) paying market price.
  - You can generally make $20,000 or more with this type of exit.
- *Cash Flow* is when you fix and hold the property for long-term rental income.
  - You make cash flow for as long as you hold the property.
  - The Cash Flow Evaluator helps you determine how much return on investment you make with this type of deal.

MODULE 2, CHAPTER 8

FIVE STEPS TO CLOSING A DEAL

Make an Offer. With a strategy chosen and the numbers working, make an offer.

- For most deals, especially when dealing with FSBO sellers, you should identify yourself by writing your name, followed by the phrase, “and/or assigns.”
  - This means that you can “assign” or transfer the contract to another buyer.
  - If you are wholesaling the property, this enables you to sell the contract to someone else who will close.
  - Even if you plan on rehabbing the property yourself and then flipping it, circumstances may change and you may end up wholesaling it instead.
  - So making the contract assignable allows for this additional exit strategy.
- If you are working an REO property, you may not be able to include an assignment.
  - Check with your coach and the bank to clarify the policy

MODULE 2, CHAPTER 8

FIVE STEPS TO CLOSING A DEAL

- Contingency clauses - Contingency clauses are one of the most important elements of your offer.
  - They help increase your chance of success by creating ways for you to get out of bad deals before they cost you money.
  - We highly recommend that beginning investors use contingencies for their own protection.
- A contingency can be anything that allows you to gracefully bow out of the agreement.
  - Some of the more common contingencies are, “subject to acceptable financing,” “subject to approval of buyer’s partner,” “subject to acceptable home inspection,” or any other points that allow you to back out.
  - This gives you time to thoroughly complete your due diligence before pulling the trigger on the contract.
- You may find including a contingency stops you from getting deal.
  - As your coach - be prepared if you choose to offer without one. And if someone comes in with all cash and no contingency, there isn’t much you can do.
- Justify low offers - When you are bidding low on a property, put together an informed offer supported by evidence.
  - Don’t assume that the real estate agent will handle that for you, because he or she might not build your case as well as you can. Be sure to attach a contractor’s bid so that the sellers understand the rehab costs.
  - Include color photos, a brief summary of your plan and rent prices in area if you will rent it out.

MODULE 2, CHAPTER 8

FIVE STEPS TO CLOSING A DEAL

Seller Response. The seller will simply reject, counter-offer, or accept.

- On a counter-offer, re-run the evaluators and see if the deal still works for you
- When your offer is accepted, you typically have 5-10 days to do an inspection of the home.
  - You should also get your contractor bids completed inside this time frame and if rehab is too much, you may still be able to back out of the deal.

MODULE 2, CHAPTER 9

NEGOTIATION

- Most people are not used to negotiating when money’s involved, yet we live in a world of negotiation.
  - If you and your significant other are debating what movie to see, it’s likely that the winner is the more powerful negotiator.
- When you understand that concept, the idea of going in and showing that a house is only worth 40, 50, or 60 cents on a dollar is a no brainer. It’s comfortable.
- There is only one real price on a piece of property.
  - The real price is the price that a buyer and a seller agree upon.
  - Everything else, including sales comparable and appraised values, are estimates or approximations based on some existing evidence, but they are not real value.
- To negotiate a good deal based on the Flip Evaluator and the Cash Flow Evaluator, you have to know the seller’s motivation.
  - That’s critical in every negotiation.
  - Regardless of whether the seller is a homeowner or a bank-- as long as you understand their motivation, you can learn to negotiate successfully.

MODULE 2, CHAPTER 9

NEGOTIATION

- To negotiate a good price, you have to know the seller's motivation whether it is a person or a bank.
  - Has there been a divorce, a foreclosure, a death in the family? What is prompting that homeowner to want or need to sell?
  - Once you have that information, you can see if there is a possible win-win scenario in which the seller gets the stress of the sale over with, and you get a deal that you can make money on.
- Be a good guy. Etiquette: don't just go in and offer 20 cents on the dollar. You should build a relationship with the homeowners which allows you to ask leading questions that help in the negotiation process.
  - "Mr. and Mrs. Jones, I can see that this was a wonderful place to grow up, and I'm sorry for your loss. I can see that there is a lot of love in this house, but you know things have changed over the years. Do you agree that this house needs a lot of love and attention?"
  - In negotiation, always tell homeowners that your goal is to give them fair market value. Oftentimes the seller has a number in his head that is not based on reality. Your job as an investor, negotiator, and ethical individual is to gently show them why you believe that their number is not accurate.

MODULE 2, CHAPTER 9

NEGOTIATION

- Unenthusiastic heirs.
  - Some people aren’t excited about having the property and some want it but cant afford to keep the property.
  - They are looking to get out.
- If you are buying an REO from the bank, timing matters.
  - They want their books to look good so try near the end of the month, the quarter, the year.
  - The homes go to the highest bidder, but don’t go above the numbers that work for you.
  - Increase your chances by offering all cash and no inspection (but include a 3-day due diligence which gives you a space to do the home inspection without saying so)

MODULE 3

MODULE 3
INTRODUCTION

- You have a deal, now it's time to fund it.
- More important than any other part of the real estate business are the financial arrangements that make it possible.
- Take lots of time to become familiar with the various financing options that are available to you.
- The most common type of arrangement is a loan, but there are many others
- If you can't come up with all the money on your own, you need to create an investor package that explains the deal and why people want to invest in it

MODULE 3, CHAPTER 1

DEALS ATTRACT MONEY

- A common hang up of people getting into real estate is not having enough money to do a deal, but the key to remember is that the deal will attract the money.
  - A good one attracts money and a bad one does not.
- Here's what real estate investors understand: You do not need money to find deals.
  - All you need is time and knowledge, and someone to show you what a deal is.
  - Once you find a deal, you will find the money.
- So if you can run the numbers and you find a deal, you can re-assign it to someone who can close and collect a finder's fee or bird-dog fee.
- The key here is to keep networking

MODULE 3, CHAPTER 1

DEALS ATTRACT MONEY

Unconventional Lenders

- If you are looking for money only from banks, it’s going to be hard to ever do a deal.
  - They are conventional and use conventional measurements to evaluate risk
  - The banker is going to say to you, “What have you done before? Sorry, you do not have experience. You can’t get in.”
  - They invest primarily in the individual and less on the deal, unless it’s a commercial deal, which is based on cash flow. That’s why they pull your credit and check your net worth and income.
- Professional real estate investors rely on unconventional lenders, called hard money lenders and private investors.
  - They invest on the deal, not on the individual.
  - They don’t need to pull you credit; they just want to see a proper return on the money they have in the deal.
  - Their loans are secured by the property, not by your income producing ability from the job you have.

MODULE 3, CHAPTER 1

DEALS ATTRACT MONEY

Private Investors

- 9/10 times your first deal will be funded by friends and family
- You will need to show them an investing package that presents the deal, opportunity, comps, and everything the investor needs to know
- Treat it as a business deal, secure their loan with a note against the property, and paper the deal with an attorney so everything is square.
- Don't let the investor take over the deal or force you to deviate from what you know.
  - If they ask for too much of a return then find another investor

MODULE 3, CHAPTER 2

HARD MONEY LENDERS

- Hard money lenders are basically lenders who see opportunities to get phenomenal returns on their money.
  - They lend on the value of the deal. They do not depend on your personal credit.
  - They want to make sure you have what it takes to close the deal.
- Hard money lenders are in business to lend money. If they don’t lend any, they don’t make any.
- If you used The Flip Evaluator correctly, your numbers will be right. There’s enough profit in the deal.

Hard Money Lending Criteria

- Typically, hard money lenders will loan up to 60% to 65% LTV (Loan-to-Value), based upon the property’s ARV valuation.
- This means that if the ARV value of a property is $100,000, a hard money lender will usually loan up to $65,000.

MODULE 3, CHAPTER 2

HARD MONEY LENDERS

- In either case, you will be expected to provide a down payment of around 20% of the purchase price and the cost of any rehab expenses if they exceed what the hard money lender will lend.
- This ensures that there is a 35% equity buffer to protect the hard money lender in case you mess up the deal.
  - That equity buffer is the lender’s guarantee that if all else fails, the property could be quickly sold at a fire sale price and the lender would still get back his original loan amount plus any associated selling expenses.
  - The hard money lender will have the property appraised by a professional

MODULE 3, CHAPTER 2

HARD MONEY LENDERS

Here is a typical example of how a hard money loan may be constructed.

- Let's suppose that you find a property on which you calculate an ARV of $100,000. You've negotiated a purchase price of $55,000 and your contractors have submitted rehab bids, that total $15,000.
- Applying the Flip Evaluator formula we come up with the following results:

ARV	$100,000
Less 20% Profit	$ 20,000
Less 10% Misc. Fees	$ 10,000
Less Cost of Repairs	$ 15,000
Maximum Offer for Ownership	**$ 55,000**

MODULE 3, CHAPTER 2

HARD MONEY LENDERS

- After you talk to your hard money lender you are informed that the hard money lender will lend up to 65% of the ARV (a maximum of $65,000), but that you are expected to come up with a 20% down payment, based upon the purchase price of $55,000.
  - The hard money lender won’t lend unless you have some “skin in the game” to prove your commitment.
  - You would need to come up with $11,000 ($55,000 X 20% = $11,000)
- What do you do if you don’t have $11,000? This is the point where many beginning investors get discouraged, give up, and walk away from the deal. Don’t do that.
- Unlike banks, hard money lenders don’t care where you get the $11,000 needed for the down payment.
  - You could borrow that amount from a friend or family member, secure their loan with a second mortgage (the hard money lender will require the first mortgage position), and now you can complete the deal with the hared money lender.

MODULE 3, CHAPTER 2

HARD MONEY LENDERS

Now our money picture looks like this:

Cash Requirement	
Purchases Price	$55,000
Rehab Expenses	$15,000
Misc. Fees	$10,000
Total Cash Needed	**$80,000**

Source of Cash Funds	
Down Payment (Gap Funding)	$11,000
Hard Money Loan	$65,000
Total Cash Available	**$76,000**

MODULE 3, CHAPTER 2

HARD MONEY LENDERS

- At first glance it appears that you don't have enough cash to complete the transaction. You need $80,000 but you only have $76,000. You are $4,000 short.
  - That's okay, because the bulk of the $10,000 in Misc. Fees is not needed until you resell the property to the retail buyer.(agent commission, closing costs, $2,000 cost buffer)
- The real estate agent's commission will come to $6,000 and the closing costs will come to about $2,000. That means that of the $10,000 allocated for Misc. Fees, $8,000 will be deducted from the proceeds of the sale at closing.
  - So in actuality, you only need $72,000 to do the deal
- Hard money lenders are practical, worst-case scenario types.
  - They make sure they are covered and can make money no matter what happens.

MODULE 3, CHAPTER 2

HARD MONEY LENDERS

Cost of Hard Money Loans

- Hard money lenders charge a tremendous premium when you borrow money from them. In addition to their interest rate of 10% to 20% they also charge 1-4 points.
  - Points are charged as a type of loan origination fee. One of the reasons that they charge points is that hard money loans are typically loaned out for very short periods of time. Frequently you will pay back a hard money loan in 90-days (after you fix up the home and resell it to someone who will live in it).
  - In that case, even though the lender may charge you 12% as an annual interest rate (1% per month), you will have paid it back in only 90-days. So the lender won't actually earn 12% interest, he'll only earn 3%. To compensate for the low earnings on the interest charges, he will also charge you points.
- In the example above, let's suppose that the hard money lender charged you 4 points and 12% interest.
  - If you had borrowed $65,000 and paid it back in 90-days then you would have paid a total of $4,550 ($2,600 in points and $1,950 in interest) to the hard money lender. But you would have made a total of $15,450.

MODULE 3, CHAPTER 2

HARD MONEY LENDERS

Hard Money vs. Partner Loans

- If you partner with someone, they will typically want 50% of the deal's profits. That means you don't have the traditional interest expense, but you have to split the profits down the middle.
  - In the above example, the total profit came to $20,000 (without any financing expenses). Splitting that 50/50 with a partner means that you would walk away with only $10,000.
- So would you rather make $15,450 or $10,000? It really doesn't matter which route you take, as long as there's enough money on the table to make it interesting for everyone.
  - It's up to you how you want to carve it up or which funding source is easiest for you to obtain.

Where to Find Hard Money Lenders

- To find hard money lenders go to places where like-minded people are, such as a real estate investment club (REIA). You can also Google "hard money lenders (your city)." There are also several online sources such as ScotsmanGuide.com which offer contact information for hard money lenders.
- You can find hard money lenders by talking to attorneys, mortgage brokers, loan officers or financial planners.
- How do you choose which hard money lender to work with? You probably won't.
  - If the deal is good, they will lend, if it's not, they won't.

MODULE 3, CHAPTER 2

HARD MONEY LENDERS

Comparing Hard Money Lenders

- Just like you would do when getting a contractor repair bid, always get three quotes when looking for a hard money lender.
  - Compare their terms to see which one works best for you.
  - For example, one lender may offer 13% interest with a 1-point fee. Another may offer 12% interest with a 2-point fee. Others may have a higher or lower loan-to-value or down payment requirement.
- Do not do business with a hard money lender who asks for an upfront fee other than for points.
  - Upfront or processing fees are typically charged by brokers who are merely middlemen who pass your loan request on to the actual hard money lender.
  - Their fee should be paid by hard money lender, not you

MODULE 3, CHAPTER 2

HARD MONEY LENDERS

Short Term Loans Only

- Hard money loans are best used for quick rehab flips.
- Because of high interest rates, they should only be used for short-term loans of no more than one year.
- If you haven't sold the property by then you'll need to pay off the hard money loan and replace it with a cheaper loan, such as a traditional bank mortgage loan.

MODULE 3, CHAPTER 3

PARTNERSHIPS FOR INVESTMENT

- You don't have to do investing alone.
- There are many people who would like to get into the real estate market, but who don't have the proper resources to begin the process. Building partnerships is a great way to start building your business.
- One of the benefits of having a partner is that the workload can be shared.
  - It also helps prevent things from being overlooked.
  - If you decide to team up with a partner, be sure to clearly delineate each person's tasks and responsibilities and how the profits will be split.

Forming Partnerships

- There are two forms of partnerships that you should never do: never enter into a partnership on a handshake; and never enter into a general partnership agreement.
- Always have your partnership agreement prepared by an attorney.

MODULE 3, CHAPTER 3

PARTNERSHIPS FOR INVESTMENT

- From a legal perspective there are four types of business structures to consider: a general partnership, a limited partnership, a corporation, and an LLC.
  - For simplicity sake an LLC is probably the most flexible and easiest to use.
- The entity structure you choose will be designed to protect you from potential lawsuits, but the IRS does not tax each of the entities the same way.
- You and your partner, or partners, must sit down together and very clearly determine the role that each partner will play, their specific duties and responsibilities, what assets they bring to the table (money, equipment, property, etc.), how much salary each will be paid (if any), and how the profits will be divided.
  - All of these should be formally written into the Operating Agreement of your LLC, or into the By Laws if you use a corporation.

MODULE 3, CHAPTER 3

PARTNERSHIPS FOR INVESTMENT

- Ask your attorney if other options are more advantageous for you
- Some people like to work alone, others with a team.
  - If you question your own ability to use work with others, consider each party creating an LLC and then doing a joint venture on the project so it is easy to part ways if needed.

Promises and Follow Through

- If you choose to work with a private money partner as an investor, rather than as a lender from whom you borrow money at a specified interest rate, it is crucial that you never promise anything to them in the way of what they may expect as a rate of return.
- Real estate is an investment opportunity. As is true of any type of investment, the investor could lose the money invested.
  - There simply are no guarantees of a profit.

MODULE 3, CHAPTER 4

30-SECOND PITCH AND PROPERTY PACKAGE

- A 30-second power pitch, sometimes called an elevator pitch, is a short, verbal presentation about what you do and why the listener may want to invest with you.
- If they are interested then follow it up with a written presentation package showing all the details of what they might expect from investing with you.

MODULE 3, CHAPTER 4

30-SECOND PITCH AND PROPERTY PACKAGE

- For your presentation package use a binder with your company name on the cover and include the following information:
  - the numbers for the deal , the cost
  - the carrying cost, construction cost
  - projected sale price, projected profits
  - returns to the investor, the timeline
  - photos of the property as is, colored schematics of how you're going to upgrade it
  - neighborhood information
  - school statistics
  - rental statistics
- Remember: you're not begging for money; you're showing an opportunity.
  - Act like a professional and look like a professional.

MODULE 3, CHAPTER 5

WEBSITE FOR INVESTORS

- As you continue in this business, you will come across many properties that you will not be interested in acquiring for any number of reasons – but it could be right for someone else
- These are properties that you many wholesale flip to other investors.
- One of the best ways of attracting other investors is to create a website where they can leave you their contact information as well as indicate the types of properties they are interested in.
  - This way you get to network with lots of other investors.
- You can create a proprietary website to gather the information on other investors, or you may simply create a Google Form and embed its link in a Craigslist ad (check out YouTube for instructions on creating a Google Form).
  - The important thing is that you gather the contact information for other investors in your area and create a list of the types of properties they want to buy.

MODULE 3, CHAPTER 6

BANK FINANCING

- You will get to the point where you will not need a hard money lender one day.
  - It is ideal to be able to go to a bank and get phenomenal interest rates and not use hard money lenders anymore.
- You’re getting 5 percent interest rate on a bank loan, versus 15 percent for hard money. That adds a huge value to your bottom line.
- Before you apply for a bank loan you should review your credit report to check for errors and correct them because they could have large impact
- If you have a low credit score, consider working with a reputable credit repair company which could improve your score by 100pts in as little as 1-month

MODULE 3, CHAPTER 6

BANK FINANCING

- The bank looks at 4 factors when they consider giving you a loan

1. Down payment - Lenders require you to have enough money for a down payment.
    - Depending upon the type of loan you need, the amount of the down payment required can be quite substantial. VA loans require 0% down payment, FHA require as little as 3%, and conforming loans which are backed by Freddie and Fannie may require 20%.
2. 2 years of steady employment
3. A good credit score
4. Debt to income ratio. Ideally, Fannie and Freddie like to see ratios under 28%

- If you don't meet all these criteria, don't worry, its just the conforming loan that may be harder to obtain. But there are other options

MODULE 3, CHAPTER 7

LEARNING THE BANKERS LANGUAGE

Mortgage Payments: Strictly speaking, the mortgage payment contains two components: the amount paid each month toward the principal (the outstanding loan balance), and the amount paid for interest.

- More commonly, however, to term “PITI Payment” is used to refer to the mortgage payment (Principal, Interest, Taxes, and Insurance).

Mortgage Interest Rates: Interest rates play a very important part. A good lender (bank) will inform you of all your options. These may include Fixed Rate Loans, Adjustable Rate Loans, loans for various Amortization Periods (such as 30-year, 15-year, or 10-year amortizations), and Negative Amortization Rate Loans.

- *Fixed Rate*: is where the interest rate remains the same throughout the duration of the loan. Fixed rate loans are also considered to be “Amortized.”
  - This means that as long as the borrower pays the payment on time every month, then by the end of the loan time period, both the interest and the principle will be totally paid in full and the loan will be paid off.

MODULE 3, CHAPTER 7

LEARNING THE BANKERS LANGUAGE

- *Negative Amortization:* is a loan where the payment is less than the full interest and none of the principal is covered. When this occurs the unpaid interest accumulates and is added to the principal.
  - That means that the loan will never get paid off.
  - This type of loan is a debt time-bomb waiting to detonate if the length of the loan is for any appreciable period of time.
  - However, if an investor knows that he will sell the property in a relatively short period of time, in perhaps a couple of years or so, then these types of loans may serve a useful purpose by ensuring a positive monthly cash flow.
- *Adjustable Rate:* When the market interest rates are low, a lender will try to sell you a loan where the interest rate can change as the market changes, according to terms and limitations contained in the loan documents.

Private Mortgage Insurance:

- If you do not have a sufficient down payment saved up you can purchase what is called private mortgage insurance, or PMI for short.
- The way it usually works is that the borrower would get two loans, one for 80% of the purchase price and the second mortgage for the difference between the 20% down payment normally required and the actual amount of the down payment.
- The insurance premiums are added into the monthly mortgage payment. Once the borrower has 20% equity in the home, the PMI is discontinued.

MODULE 3, CHAPTER 7

LEARNING THE BANKERS LANGUAGE

Closing Costs: Closing costs consist of the various fees that are charged for the process of buying the home.

They typically include things like:

- The fee the lender charges for processing the loan for the for the home, points,
- the fee for the paper work charged by the title company,
- a mandatory inspection and assessment fees,
- appraisal fees,
- survey fees,
- title insurance fees,
- and fees for the local governmental office for recording the deed and other miscellaneous fees that are required to seal the deal.

- These fees usually remain within 2% - 3% of the price of the home, but in some circumstances can be as high as 6%-8%. (Ask your lender for an estimate beforehand so you know what to expect)

MODULE 3, CHAPTER 8

CREATIVE ACQUISITION STRATEGIES

The Truth About Rent-To-Own

- Most of us are very familiar with the term “rent-to-own.”
- Businesses such as Prime Time and Rent-A-Centre have built an empire with rent-to-own merchandise, although the buyer normally ends up paying double what the merchandise, is actually worth.
- Did you know that investors can use the Rent-To-Own concept to sell houses?
- Renting with this method will usually generate higher-than-market rental rates.
  - Many tenants feel that rent-to-own is a better alternative than renting an apartment. If they have bad credit and can’t get approved for a mortgage, then rent-to-own could be the only way for them to buy a home.

MODULE 3, CHAPTER 8

CREATIVE ACQUISITION STRATEGIES

Get the Option to Purchase

- Many students want to know the easiest, least risky, lowest cost, and most fun way to start investing.
  - The Option to Purchase is by far one of the most gratifying and easiest methods to make money known to real estate investors (second only to inheritance).
- With the Option to Purchase, you can flip any real estate entity: land, houses, farms, multi-units, or commercial buildings.
  - When you use an option to tie up a property you have what is called, “equitable interest” in it.
  - This is a legal term that basically means that you have certain rights to the property as if you were the owner, even though you are not the owner. For example, the property cannot be sold to anyone other than to you.
  - However you don’t have any of the headaches of ownership.
- Options are a tremendous way of controlling property without the responsibilities of ownership.
- To enter into an option you would sign an Option To Purchase agreement and give the seller what is called “option consideration.”
  - Consideration is most commonly given as cash, but it can also be anything else of value (but must be at least $1.00) If you don’t buy the property, the option is non-refundable

MODULE 3, CHAPTER 8

CREATIVE ACQUISITION STRATEGIES

- When I acquire option rights I typically give only $1.00 as the consideration.
  - It would be a good idea to record a “Memorandum of Option” or a copy of the option agreement at the country recorder’s office.
  - This will act much like a lien against the property ensuring that the seller cannot go around you and sell the property to someone else for a higher price without your permission.
- Options always specify a date by which you must purchase the property or you will forfeit the right to buy (and you will lose whatever you paid for consideration).
  - The time frame is negotiable, but it would generally be a minimum of ninety days
- Know the laws. In some places you can’t re-sell that option or property to a 3rd party

MODULE 3, CHAPTER 8

CREATIVE ACQUISITION STRATEGIES

Assignment of The Option to Purchase to You

- There may be times when you find an investor who has used an option to control a property which you want to acquire. There are a number of ways you could handle this transaction:
  - The investor could exercise his option and then resell the property to you at a wholesale price.
  - The investor could enter into a joint venture project with you and the two of you together may exercise the option and then resell it to a third party buyer and split the profits between you.
  - The investor could sell the option to you for a cash payment now, whether or not you resell the property to someone else (not a wise thing to do).
  - The investor could grant you an option on his option, in which you only pay him a finder’s fee if you either exercise the option to buy the property yourself, or resell the property to someone else (a wise approach).
  - The investor could share his option with you for a 50/50 split if you find a third party who buys it (a very wise approach).

MODULE 3, CHAPTER 8

CREATIVE ACQUISITION STRATEGIES

Sandwich Lease

- **Sandwich Leases** are where you sign a lease with the owner/manager for a low lease amount and then you sub-lease to someone else for a higher price.

Example

- You lease the property for $500 per month
- You sub-lease to someone else for $700 per month
- You net $200 per month
- Repairs belong to the landlord and/or tenant

MODULE 3, CHAPTER 9

NEVER SAY YOU CAN'T

- If you are thinking, "I can't do this." "I can't ask, I don't know what to say." "How am I ever going to raise money?"
  - Our advice would be for you to find someone you can team up with who won't turn into mulch when standing in front of a private investor.
- Start leveraging what you're good at.
  - If you're an incredible analyst, if you've got that engineering mentality, go find a salesperson, someone private investors in such a way that the investors will eagerly want to lend money to you.
- Never give up based on the thought, "I can't."
- If you say, "I can't," then you're correct. If you say, "I can," then you're also correct.

MODULE 4

Some Before and After Photos


51

MODULE 4

INTRODUCTION

- Even when you tackle home improvement projects by yourself, you don't have to do it completely on your own. Some jobs may take two or more people to be accomplished.
- Hire a professional for certain parts of the job.
  - For example, when remodeling your kitchen, you might want to install the flooring and cabinets yourself but bring in a plumber for the installation of new piping.
- Any home remodeling project, whether it be a simple replacement of fixtures or a major addition, involves at least some pre-planning, including a determination of the budget and arranging for the financial resources.
- Be aware that home improvements can sometimes be like a Chinese puzzle with interlocking portions that must proceed in exactly the right order.
  - If you are not absolutely comfortable with a project, then hiring a contractor to do the job for you may end up actually saving money—after all, if you do something wrong, you'll have to pay for it twice.

MODULE 4, CHAPTER 1

PLANNING FOR SUCCESS

Do Your Research

- The most important part of real estate investing is, knowing your market, your competition, and your customer.
- I recommend that you have a real estate agent show you a house that sold with thirty days of being listed. Then compare that house with a house with a house that's been on the market for ninety days and ask yourself, "Why hasn't this one sold? What's different about it?" That's where you get most of your education.
- Go to open houses. Make that part of your lifestyle
  - Your market is always changing so you need to stay up to date for your houses to sell
- If you go to an open house in an area where you are doing a rehab, don't pretend to be a buyer and snoop around.
  - Approach the real estate agent and say, "This is a really nice home. I'm working on one around the corner. I wanted to come in and see what you guys are doing. Do you have any buyers looking for houses in this neighborhood other than this one? I'm right next door."
  - It's a better approach to have, and you are marketing for free.

MODULE 4, CHAPTER 1

PLANNING FOR SUCCESS

Know Your Market

- You have to rehab according to the market you are in.
- If your plan is to sell the property for $200,000, you have to see what buyers expect to get for the amount. If you go out there and see everyone is doing granite - stick with granite.
- Talk to agents and go to open houses to see what the market is demanding

Set Up Your Systems

- It is typically a good idea to rent a dumpster and have it delivered before any major demolition starts.
- If contractors or other professionals will be involved, it is best to set up a meeting to discuss logistics, the work that needs to be completed, daily schedules, and ground rules such as use of bathrooms, working hours, and so on.
- You are the primary person for planning; get the cell phone and other contact numbers for all the key players.
- Some home remodeling projects may involve structural adjustment or changing plumbing and electrical; these bigger jobs typically require a city permit so speak with your contractor on obtaining these.

MODULE 4, CHAPTER 1

PLANNING FOR SUCCESS

Budgets and Schedules

- You must know what your repairs are going to cost, before you get started. You already know the big numbers—maybe $6,000 on the kitchen $5,000 on plumbing, $3,000 on electrical.
- Give yourself a budget for appliances and a budget for fixtures. When you go to a lighting store, you might have a $500 budget for lighting. To stay on budget you might have to spend $20 for each fixture in the bedroom so that you'll have $150 for the dining rooms.

Creating Your Budget

- Budget! Make sure you have factored in all the costs. Also, don't try to cheap out on some parts of the process. Good work doesn't come cheap. You have to be willing to pay for quality.
- The extent of the repairs you do will depend upon the condition of the home and the neighborhood where it's located. You certainly want to significantly raise the value of the property, but you also need to make sure it fits in. If it looks way nicer than all the others on the block in a blue-collar area, it probably won't sell well.

MODULE 4, CHAPTER 1

PLANNING FOR SUCCESS

- The first step is to research costs by making a list of prices of the products you plan to install and/or purchase which you can find but research on the internet, going to home depot, etc
- Ask contactors for bids on the project based on your selection of products and finishes. Examine the bids to ensure they include enough details on items that can affect the cost.
  - There should be a list of all the functional components—framing material, drywall, and plumbing and electrical systems, and details on what type of fixtures and appliances will be included.

Cheap Repairs Can Equal Big Profits

- Since a home inspection will almost always be done by your buyer, take the opportunity to make those inexpensive plumbing repairs BEFORE showing the house. Some of the more expensive ones might wait, to be used as a bargaining chip.
  - Fix that leaky sprinkler head that sprays the sidewalk and replace that dripping bathroom faucet.

MODULE 4, CHAPTER 1

PLANNING FOR SUCCESS

- The cost of replacing the carpet throughout an entire house, or even in just one room, can be expensive. But getting it cleaned costs very little.
  - Repair any small damaged spots in the carpet or try to cover them with furniture. You'll need to make full disclosure of the problems when you received a firm offer.
- New screens are low priced and can make the exterior look fresh and new. To save even more, you can remake the screens with mesh and rubber kits, provided the frames are still in good shape.
- Replace any cracked or broken windows. You'll usually have to do this anyway as part of closing the deal.
  - All the windows should be cleaned thoroughly to give that shiny new feel. Even a brand new house that's dirty will fetch a lower price.

RENOVATION PROCESS

A. **Planning, Design, Purchasing**
B. **Demolition**
C. **Framing**
D. **HVAC**
E. **Plumbing**
F. **Electrical**
G. **Insulation**
H. **Drywall**
I. **Flooring**
J. **Kitchen/bathrooms**
K. **Trim**
L. **Paint**
M. **Finishing Hardware**

MODULE 4, CHAPTER 1

PLANNING FOR SUCCESS

Remodelling Budgets Fall Into Three General Categories

- Mechanical (electrical, plumbing and heating/cooling)
- Labor
- Materials

- Each category typically accounts for 20-25% of the total budge. You also should set aside 10-20% of the total budget to cover unexpected construction costs, price increases for materials, or project changes.

Staying on Your Budget

- Once the project begins, keep track of budget changes and decide whether you will increase the total cost of the project or scale back in another area to stay within the budget.
- Inexperienced investors often exceed their budgets because they ask the contractor to add little projects that are outside of the original bid estimate. Avoid using the words, “While you are here, you may as well…” Using that phrase can cost you big time.

MODULE 4, CHAPTER 1

PLANNING FOR SUCCESS

Make a Timeline

- Another key for proper planning is to allocate sufficient time to get the work done. Then, set specific milestones for completing the work phase within the framework you've determined.
- Make sure the right people are working in the right order. You cant have the framer and the electrician working at the same time

Diminishing Returns

- There is never enough time or money to do everything to a home that could be done. Your goal is to make it as nice as possible within the budget you have to work with.
  - There comes a point of diminishing returns in every rehab. That's when you have to make the judgement call that it's good enough.
  - You have to know your market. You have to know what the other houses in the area are like. You need to know when to stop.

MODULE 4, CHAPTER 2

WORKING WITH CONTRACTORS

- As a general rule, if you have time and a little know-how you can save money by taking care of the simple improvements yourself. In other words, if you want to get your hands dirty… do it.
- Choosing a competent and reliable remodelling contractor is a key step to a successful and satisfying home improvement project. Most investors find that home improvement companies vary widely in terms of cost, professionalism, availability, and expertise in a particular area.

Getting Contractor Bids

- Always have three contractors look at everything you do. I'd rather spend time up front getting proposals, than spend dollars down the line and have to change contractors
- Make sure your bids are pricing apples to apples. If your communication is not clear, you might have one contractor submit a price of $9,000 for the entire job, while another contractor may price it at only $8,000, but his bid may not include a $1,500 in materials or supplies that were not discussed.
  - Make sure that you thoroughly understand what is and is not included in each bid you receive.

MODULE 4, CHAPTER 2

WORKING WITH CONTRACTORS

- Use independent contractors. The guy with 20 trucks and company shirts sells to retail buyers and typically charge 20% more. You buy real estate at wholesale prices and you buy wholesale carpentry, wholesale electrical, and wholesale plumbing.

Scope of Work

- Once you walk through the home with a home inspector to ballpark the scope of work, bring in contractors one at a time. Get an idea of how long it will take and the price of each project.
- By asking for the exact number of hours required for each task in the rehab, we can create a tight construction schedule. You are also helping the contractor to see the project through, because a lot of contractors don’t have that vision.
- If your contractor is vague in setting a timeline, ask how many people will tackle the job to assist him in scheduling and pricing.
  - The contractor might say, “After we remove the cabinet and prep everything and do some joint compound work on the wall, we’re talking three days.”
  - By the time I’ve walked through the property, I have developed a very detailed scope of work with the number of man hours required, and I give that to the contractor.

MODULE 4, CHAPTER 2

WORKING WITH CONTRACTORS

Choosing the Right Bid

- Use your intuition, don't just choose the cheapest bid
- Make sure to see a copy of the contractors license and certificate of insurance
- Don't be afraid to call a contractor's references and ask specific questions like: "Were you satisfied with the work?" "Did they start and finish on time?" "Was there ample communication between the contractor and homeowner?"
  - Sometimes a contractor will think he did a great job on a project and use the customer as a reference. You may find, however, that the customer feels differently about the quality of the job.
- Your best resources are friends, neighbors, or co-workers who have had improvement work done. Get written estimates from several firms. Ask for explanations for price variations.
- Make sure you are comfortable communicating with your contractor, otherwise, it is likely problems could arise

MODULE 4, CHAPTER 2

WORKING WITH CONTRACTORS

Contracts

- Put as much protection in the contract as possible.
- We don't pay a contractor for what he hasn't done.
  - If the contractor wants fifty percent of the job upfront, he's not your guy. He's probably trying to finish another job before yours and needs your money to pay his men.
- It should be as close as possible to - You do some work, I'll give you money.
- There is a disbursement plan along with the scope of the work and the contract. Your contracts will break down the work and payment schedule, which the contractors sign.
  - As they execute each assignment, they get paid.
- The contract also gives them a bonus if they finish on time, and invokes a penalty if they are late.

MODULE 4, CHAPTER 2

WORKING WITH CONTRACTORS

Material Costs

- I keep material costs separate from labor costs. So the contractor or subcontractor can't pad the costs. I pay for the materials and they invoice us separately for labor.
  - If I've never worked with the contractor before, I buy the materials with my own credit card. That way, I know where the money is going.

How Does a Disbursement Plan Work?

- Let's say a subcontractor needs to put in the heating and air-conditioning. The total job cost is $8,000. Maybe the subcontractor has said he has a three-guy crew and they need two weeks to do this.
- Then I ask how much it will cost him to have three guys going for a week. He might estimate that his labor cost is $3,000 for the week.
- I would say, "Great. Let me pay you that $3,000 when you are done. If you want $1,000 upfront for that week, thirty-three percent of your week's labor, I'm okay with that. But I'm not going to pay for a job that's not done yet."
- When they are done, pay them immediately

All rights reserved. Protected under international copyright laws. 2023

MODULE 4, CHAPTER 2

WORKING WITH CONTRACTORS

Show Up on the Job Site

- We recommend that you stop by the job site nearly every day to check in on your general contractor (GC) and subcontractors.
- Show up on the job site to see how they manage it. Is it neat, with everything in order? Is it messy, with tools and materials all over? If a job site is a mess, then I don’t want to work with them.
- If it’s your first experience with the GC and you see that everything is disorganized, you’ve got to point it out. They could be a great carpenter or a great general contractor, but disorganized. Tell them to clean up at the end of the day.

MODULE 4, CHAPTER 3

REMODELING FOR MAXIMUM PROFITS

- The key is to find out who’s the best in your market and then outdo them.
  - If the best house in the market is right in front of me, it’s like cheating. I go into a rehab and knock it out of the park with design.
  - Design is cheap if you know what you’re doing.
- I always do something unique to the place – what I call “bragging rights.”
- If you use the Flip Evaluator correctly, you will have budgeted for a ‘bragging rights’ feature
- The final part of the formula is to undercut the price of the best house in that market. So if the best on the market is selling for $300,000, redesign your property to blow that one out of the water and then price it at $299,000.

MODULE 4, CHAPTER 3

REMODELING FOR MAXIMUM PROFITS

Bragging Rights

- Bragging rights makes our property better than someone else's
- It can be anything. such as a flat-screen TV, an iPod docking station with speaker integration
- Another of the bragging rights items to include in the kitchen could be a wine cooler, an island, tiled backsplash or pendant lights. Do the same with…
  - The bathroom: nice tile, double sinks, good mirror, a good vanity and granite vanity top all earn bragging rights.
  - Landscaping can also earn bragging rights. People like the privacy of a yard.

MODULE 4, CHAPTER 3

REMODELING FOR MAXIMUM PROFITS

Priorities for Bragging Rights Features

- Maybe you only have the budget to do one or two bragging rights features. What's the priority?
  1. Paint color (two colors per house, one is for accent walls)
  2. Kitchen (make sure it's set up well)
  3. Master bathroom
- If you are going to be making a healthy profit on the property, such as north of $50k, then include a speaker system for $2k because that is a good and right thing to do.

Colors

- The best color palette to use is earth-tones. Potential buyers walk in and say, "This just feels right." Those colors work for nearly everyone.
  - Remember your goal is to appeal to the masses, not customize your home
  - Pick neutral colors, a main color and accent wall color. Don't use white.

MODULE 4, CHAPTER 4

DIY GUIDES FOR KEY PROJECTS

- Before beginning a DIY (Do It Yourself) project, it is wise to ask yourself, “Am I capable of performing this home improvement project myself?”
- One thing to remember is that even a simple replacement of bathroom or kitchen fixtures requires some background knowledge of safety factors.
- Even something as simple-sounding as wallpapering or interior painting are areas where do-it-yourselfers may find themselves in over their heads.
- Before tackling any form of remodeling plan, invest some extra time into reading some home improvement books or watching videos produced by professionals.
  - There are also many home improvement stores that offer free in-store demonstrations of basic remodeling techniques.

MODULE 5

MODULE 5, CHAPTER 1

YOUR EXIT STRATEGIES

When you're first getting started, you may want to start with wholesaling. But as your knowledge and confidence grow you may move on to retail fix-and-flip transactions. Lastly, you may end up buying, fixing, and holding the property for long-term rental income.

- *Wholesaling:* The first way you can flip a house is through wholesaling. Wholesaling involves finding a home for sale then flipping it to an investor for a fast, yet small profit. To do this, you'll need to know the real estate investors in your area, the types of homes that flip the best, and how to fund your property so you can flip it to them.
- *Retail Flip:* This is what most people think of when you say house flipping… you buy a house in bad shape, do the repairs to fix it up, then turn around and resell it to someone who will live in it.
- *Cash Flow Properties:* Using this method, you will rent properties to tenants to create a monthly cash flow. Using the Cash Flow Evaluator, you will know what kind of income you can generate before you even do the fix. Although the money is less, it adds up every month. You can easily make back your investment in a few years.

MODULE 5, CHAPTER 1

YOUR EXIT STRATEGIES

Capital Gains Versus Long Term Cash Flow

- In determining which exit strategy to use, ask yourself: “Do I want to flip the property and have the profits be taxed as ordinary income (the highest tax bracket), or do I want passive income from long-term cash flow on a property that I buy and hold?”
    - In addition to the other factors, the exit strategy you choose will depend on which stage of growing your wealth you are at.
- With cash flow properties, you may not need to get financing from a hard-money lender. Instead, you will probably be able to get financing from a conventional bank because the property generates income.

Flip and Cash Flow Properties

- Occasionally you may buy a property with the intention of flipping it then change your mind and decide to hold it for cash-flow. Before doing so, however, you should run both the flip and the cash flow evaluators to ensure that the numbers work both ways.
    - While it sometimes makes sense to turn a projected flip into a cash flow property, it usually does not work the other way around.

MODULE 5, CHAPTER 1

YOUR EXIT STRATEGIES

How to Transition a Flip Into a Cash Flow Property

- First, make sure you run the numbers. Let's say you've invested $200,000 in acquisition and repairs. Maybe your mortgage payment is very small, like $800 a month. But the ARV valuation of the property may be as much as $300,000.
- Calculate how much the mortgage payments would be based upon the retail value of the house at $300,000. Then add monthly pro-rated property taxes and insurance. If the total came to $1,900 then you would have to rent it out for $1,900 just to break even. You'd have to charge even more in order to make a positive cash flow. Make sure you account for the total value.
- Sometimes the market cannot handle a rent that high, so maybe it only rents for $1,600. You will be losing $300/month but you think I will hang on until it the market goes up.
- Unless you have some information indicating that the market is going up, don't count on it. You don't do things based on hope.

MODULE 5, CHAPTER 1

YOUR EXIT STRATEGIES

- Losing $300 a month comes to $3,600 per year, which is $36,000 over the next 10 years while waiting for the market to come back. Next thing you know, you've lost $36,000 in addition to paying expenses, managing, dealing with tenants, aggravating yourself.
  - You'll say "Why did I do this?" I would rather take a small loss now – maybe $5,000 or $10,000 and say "I'm out of here."
- Use this as a learning experience. Ask yourself, "Where did I go wrong?". Find out what you did wrong, learn from it, and then cut your losses.
- Regardless of which exit you choose, you will need to find buyers. Where the buyer is a retail home buyer (flip exit) or the buyer is a tenant (cash flow exit), you need to find the right people.
- It's critical to market the property effectively, so you find the right buyer and exit quickly.

MODULE 5, CHAPTER 2

MARKETING YOUR PROPERTY

- Having a buyer is what leads to your payday. Do not underestimate or neglect the significance of your buyer.
  - Grabbing the buyer’s attention is the most important factor in bringing money to the table, closing the deal, and ultimately allowing you to change your lifestyle for the better.
- Marketing is not something you start when you are ready to sell your house. Marketing is the force that should be driving every one of your decisions from deciding in which neighborhood to buy, all the way down to what color(s) you paint the walls.
  - It is all done in order to attract the most number of potential buyers and to receive the highest selling price possible.
- If you truly believe that you have done the best that you can and have stayed within budget, then you can sell that property with pride. This will also lead to branding yourself and the quality of work that you do.
  - Have a standard and signature that people can expect to find from your company when you flip a home.
- If you are not marketing, you are not doing business. If your budget only allows email marketing, then that is what you must do. Do whatever types of marketing you can afford. But don’t get stuck thinking that you can’t afford to market. Marketing doesn’t need to be expensive

MODULE 5, CHAPTER 2

MARKETING YOUR PROPERTY

- NEVER show a house under construction, It is hard for buyers to get past the debris, nails, contractors standing around smoking cigarettes, coffee cups on the floor, open walls, open plumbing, etc.
  - Even when the come back to see the finished product, they'll still remember the way it looked when it was under construction.

Build a Sense of Anticipation

- Another reason for waiting to show a finished product is that it builds a sense of anticipation.
- As the house nears completion people have a habit of lingering and peaking in. Shoo them away so they anticipate the finished product.

Stick to the Program Even if the House has Custom Features

- The closer you follow the Program, the more likely you are to be successful.
- By following the program, you know what your exit numbers need to be.
- Remember that if you spend more money than your budget allows, it does not mean that you will get more money for the property when you sell it.

MODULE 5, CHAPTER 2

MARKETING YOUR PROPERTY

Marketing Online

- There are numerous free options for marketing online from things like craigslist.com, backpage.com, facebook, Kijiji and more… make sure you take excellent pictures because people have to envision themselves in the home you are selling

QUICK LIST OF ONLINE MARKETING RESOURCES

- Here's a quick list of online marketing resources you can use:
  - Social media (Facebook, Twitter, LinkedIn, etc)
  - Video marketing (YouTube)
  - QR Codes
  - Craigslist.com, Backpage.com and other free websites
  - Email
  - Your business website
  - Newspaper ads online

MODULE 5, CHAPTER 2

MARKETING YOUR PROPERTY

Video Marketing

- Video marketing has gained popularity so if you choose to do this, use a high quality video.
- Other forms of marketing include QR Codes which can be scanned by your phone and lead the user to a website with more information, pictures, and videos of the home
- MLS and other websites like Zillow are very useful marketing tools. A strategy to consider is releasing on these websites after the broker open house.
- Email marketing
- Newspaper Ads Online: Your ad needs to stand out from the rest, so it shouldn't fit in with the rest of the ads that say, ""Friend, I have a 3-bed, 2-bed, 1,800sqft home, located in nice neighborhood for $249,990."
  - Instead, get creative. If you were wholesaling you could be creative like this, ""Boy, she's ugly! You make her pretty and she'll make you money. Multi-family asset. $50,000 will enable you to start cash flowing. Call me now. First come, first served."

MODULE 5, CHAPTER 2

MARKETING YOUR PROPERTY

Marketing Offline

- Talk to neighbors - Even offer them incentives. Sometimes they even say, “I’m trying to get x person to live here”
- Fliers - Distribute them throughout the neighborhood telling everyone what your plan is and projected price. The flier just needs to include the company name and something such as, “Renovating, 123 Main Street. The finished product will be high-end quality, consisting of new bathrooms, a new kitchen, etc.”
- Word of mouth - Word-of-mouth buzz is a powerful marketing tool. When you speak about your property, remember that you are doing the neighborhood a service by removing an eyesore from the community.
- Create buzz with private open houses - Do this for neighborhood families. People are curious and then they talk when your house is on point.
- You can put banners in front of the house to draw attention to the property.

MODULE 5, CHAPTER 2

MARKETING YOUR PROPERTY

Marketing Strategy: Broker Open House

- Run a broker open house for all kinds of real estate professionals before doing one for the public, and releasing the property on MLS and other websites.
- Feed them at the event - Have them enter a draw by writing down what they think the house would sell for on the back of a business card and dropping it in a bowl.
  - Then you can choose a price realtors expect and they respect your choice if you are in their expected range and try to find offers for you.
- Use high quality paper invitations, have them hand delivered, then email them, and call them for a 3-touch approach

MODULE 5, CHAPTER 3

STAGING (FOR PHOTOS, OPEN HOUSES, AND SHOWINGS)

Reasons to Stage Your Home for Sale

- If you are ready to sell your property, you should make sure that you take full advantage of home staging trends.
- One of the best things about staged homes is that they typically sell in less time.
- Research has shown that a staged home can sell as much as 40% faster than other homes on the market.
    - Staged homes also tend to sell for more money.
- Contrary to popular opinion, staging isn’t just for the inside of the house.
    - How your house looks from the outside, a.k.a. “curb appeal,” is absolutely critical.
    - The outside of the house is the first thing potential buyers see when they pull up. A staged exterior will also draw viewers.
    - When home buyers first arrive at the home, they instantly make up their mind whether they should get out and look around, or drive off.

MODULE 5, CHAPTER 3

STAGING (FOR PHOTOS, OPEN HOUSES, AND SHOWINGS)

- Once buyers have stepped inside, they will know within a matter of seconds whether or not they like the home.
- To get the buyer’s attention, you’ll need to stage your home to the buyer’s liking.
- Buyers love to see kitchens, living rooms, and bathrooms that are staged… these areas are absolutely essential to flipping your property.
- You want people to see themselves living there. You want the staging to tell the story of a typical day.

Tips on How to Make a ‘First Good Impression’

- The little details are things that will add to or take away from the buyer’s experience.
- The trick is to identify the things that are distractions and either minimize or eliminate them altogether.

MODULE 5, CHAPTER 3

STAGING (FOR PHOTOS, OPEN HOUSES, AND SHOWINGS)

Outside

1.Mow the grass and trim the edges

2. Weed the garden and grass

3. Clean the driveway

4. Trim the shrubs and trees

5. Power wash the house from the outside

6. Clean and sweep the garage

7.Stage the porch, deck, patio, balcony, etc. (if applicable)

MODULE 5, CHAPTER 3

STAGING (FOR PHOTOS, OPEN HOUSES, AND SHOWINGS)

Inside

Kitchen

1. Clean the water taps, they must sparkle!
2. Polish the counters and cabinets
3. Clean the floor. If it is a high-gloss type flooring, make sure it shines.
4. Clean and polish all appliances inside and out, most notably the refrigerator, oven, and dishwasher.

Bathroom

1. Sinks need to be cleaned thoroughly. Water attracts dust and detracts from the bathroom's overall appearance.
2. Take care of the vanity unit. If it is made of high gloss material, polish it well.
3. Clean the toilet
4. Scrub the bath tub thoroughly to remove any stains.

Throughout the House

1. Turn on the lights
2. Make sure the curtains and drapes are washed and drawn back to let in natural light

MODULE 5, CHAPTER 3

STAGING (FOR PHOTOS, OPEN HOUSES, AND SHOWINGS)

How and What to Stage

- You need to make an empty house look like a home. You need to put furniture and furnishings in it to make a house look like it might when someone is living there. It gives the potential buyer a sense of what a house could look like, rather than just staring at blank floors and walls.
- The goal is to use the staging to create a beautiful story in a home without spending a lot of money on furniture and other expensive items.
- E.g. Plasma TV above a fireplace and decorate the walls around it. Then take a zoomed-in photo of that space. Or I stage a kitchen with flowers, a fruit bowl, and attractive lighting.
- E.g. Take photos of the landscaped yard or decorated accent walls. Artwork helps too and can be done on a budget.
  - You can create a story about the house's elegance, without spending too much money.
- Light staging consists of candles, some faux fruit, soap dishes, olive oil bottles in the kitchen, cookie jars, and things like that. Faux fruit bowls on the kitchen table or counter just add color.
  - Only do full staging if your have the budget, and the market requires it. Probably a rare occurrence.

MODULE 5, CHAPTER 3

STAGING (FOR PHOTOS, OPEN HOUSES, AND SHOWINGS)

Special Features for Bragging Rights

- It looks nice when a good flat screen tv is above a fireplace or some other great setting.
- Remember during the construction phase to wire these key areas with CAT5, infrared and other electrical/audio/video cabling so they are hidden in the wall and not an eyesore of chords hanging everywhere.
- If you do it right, you can hide the DVR, receivers, and speaker system(if you chose to install them in an area of the house) so it doesn't clutter the space.
- Since the buyer may not know how to use all the bragging rights items you provided, you can work out a deal with your electrician where you pay him for 1-hour of his time, and he can explain to the homebuyer how to use the entertainment and other systems.
  - Any time over 1-hour the buyer pays as them as needed.
  - It works for the electrician too because they now have a relationship where the buyer can ask them to do more work.

MODULE 5, CHAPTER 4

A PICTURE IS WORTH…

- One of the foundations of my marketing is outstanding photos. People shop with their eyes.
- By taking outstanding photos of a house, I put it in the best light possible.
  - I want photos that show the design, beauty and warmth of a home, so it stands out from other properties on the market.
- These photos become the centerpiece of all my marketing, from fliers to online ads to websites.
- Your photos will tell the story of your house. You’ve got to take at least twenty photos for websites.
- Focus a majority of your pictures on the kitchen.
- Also create a nice series of photos in front of the house, and the back of the house, if there’s a yard.
- One of our major rules of thumb is never shoot a picture of the exterior of the house unless there’s a lot of blue sky.
  - That one subliminal element makes people smile or frown.
  - To get a beautiful exterior shot with a wide angle lens, take a photo where 70% is the house, and 30% is the blue sky.

MODULE 5, CHAPTER 4

A PICTURE IS WORTH…

Interior Photos

- If you're going to take photos yourself, you will need a tripod, a regular camera with a 3-second button or a plunger. Consider a wide angle lens too.
- During the rehab I created a kitchen that has cabinet lighting, pendant lights, and recessed lighting. That picture's going to look really, really nice.
  - I use that lighting to enhance the natural lighting which comes in through the windows.
  - A good time to take interior photos is around sunset, because more of the natural light streams into the rooms.
- Take a picture of your flat screen tv – it's a must. There's got to be something on the screen, you cannot have a black tv. Color makes your things look good.
- When you're taking pictures in the bathroom, show three to four pictures if you can
- Four basic tips – camera, tripod, take the flash off, and use the three-second timer or a camera plunger. You want these items so your camera is stable, you take in natural light, and the pictures will come out clear.
  - You don't need an expensive Nikon. Phones take amazing pictures nowadays

MODULE 5, CHAPTER 4

A PICTURE IS WORTH…

- Make your pictures interesting. Don't take pictures straight on particularly reflective surfaces.
  - E.g. if you're shooting the TV, shoot it from angles; don't shoot in the center of it. Shoot everything from an angle. It just gives it depth when you're shooting from an angle.

Getting Great Photos Inexpensively

- If you are not the best photographer, one way to get great photos is to hire a photography student.
- You can pay the student significantly less than you would pay a professional photographer, and still get great photos.
- Let the student know that it is a wonderful opportunity for him or her to make a quick $50 – or however much you want to pay – while building his or her portfolio.

Putting Photos Online

- Put quality photos on MLS, Zillow, your own website, and everywhere you post online
- You can also create a PDF or JPEG file and it should contain the property address, listing price and a map, along with your photos.

MODULE 5, CHAPTER 5

SELLING YOUR PROPERTY

- A huge reason for working with your team is the massive amount of information they have at their disposal.
- Professionals know market trends, houses in your neighborhood, and the people most likely to buy there
- Another person's point of view will help you begin thinking of your house as a commodity, with positive and negative selling points.

MODULE 5, CHAPTER 5
SELLING YOUR PROPERTY

Setting Your Selling Price

- Once you've completed rehabbing the property, it's time to put it on the market. Because you followed the formula, and started with the end, you have an idea of the ARV (after-repair-value) of the property
- When you acquired the property, you wanted the appraisal to come in low. But when it's time to flip the property you want that number to be as high as possible.
  - You definitely want it to exceed the amount your buyer has offered(you want them to feel like they got a deal)
  - When the appraiser comes, be sure to point out the improvements you made to the property to increase the perceived value of the property you are selling
- The appraiser will use three comparables (comps) to determine the retail value of your home.
- It is important that when you set your price, you don't price yourself out of the market.
- It is almost certain that none of the comps you select will be perfectly comparable to your property, so make sure to adjust your price points according to the differences that may arise (such as a 2nd bathroom or an unpaved driveway)
- Listing price is very important. It may actually determine whether or not you sell the property.

MODULE 5, CHAPTER 5

SELLING YOUR PROPERTY

Negotiation

- Whether you are buying or selling real estate, you will want to ensure that you have all the facts straight.
- If you are working with a negotiator, make sure that they have your best interests in mind.
  - Sometimes, negotiators try to sell someone on a deal just so they can receive a commission quickly.
- Once a buyer wants to see your home, chances are you have found the individual who will buy it.
- You should never make the buyer feel pressured, but instead make him feel that you are interested in his thoughts and opinions.
  - Practice the give-and-take principle.
- Develop the extra sense to know when to stop negotiating

MODULE 5, CHAPTER 5

SELLING YOUR PROPERTY

Real Estate Negotiation Secrets

When you bought your home, you offered less than you were willing to pay, right? That's the most common negotiation technique. For experienced investors, there are a few more techniques.

1. When buying a property, offer an odd amount, like $161,793. This gives the impression that you know something the seller doesn't. When selling, this tip can work too. They may think you have a good reason for that particular price.
2. Play dumb. Ask questions, talk slow, ask for help, and never show off your real estate expertise. Buyers are afraid to budge if they think a smarter person may be taking advantage of them.
3. Use the "limited authority" ply. Say "I'll have to check with my wife (or partner)." It's easier for buyers to accept that you can't do something, rather than that you won.t
4. Refer to precedent. "My father sold his house this way." If the offer is at all unusual, buyers will feel more comfortable if they know it has been done that way before.
5. Ask for things you don't want. This lets the seller win concessions when negotiating. If you can say, "I guess I don't need the refrigerator, if I can get my price," you're more likely to get your price.

MODULE 5, CHAPTER 5

SELLING YOUR PROPERTY

6. Be reluctant. “Well, I don’t know…” Reluctance gets the buyer looking for ways to motivate you, and lets him feel like he’s won something when you settle the point.
7. Make the offer their idea. “Are you saying you’d like a later closing, and lower earnest money? Well let’s do it your way, then. I just need…”
8. Get a yes before the offer. “What if you got your price, but I got my terms? Would that work for you?” Even with a few changes, it will be hard for the buyer to say no to an offer he more or less already agreed to.
9. Flatter the seller. Flattery has been proven to be worth an average of $1,962 in real estate negotiations. (That’s a joke, by the way, but you know if he likes you, you’ll probably get a better deal.)
10. Pass over problems, and return to them later. Agree on every agreeable point first. It will feel like the property is sold then, and it will be difficult for a buyer to lose the deal over an issue or two that you need to go in your favor.

MODULE 5, CHAPTER 5

SELLING YOUR PROPERTY

What Keeps Homes From Being Sold

- This is a basic checklist you should refer to when you show a property to prospective buyers. You need to take care of these things so that you do not put them off,
- Make sure the property is…
  - clean,
  - well lit (both natural and artificial light),
  - clean yard,
  - no smells,
  - make yourself accessible,
  - regularly check the property to ensure it is in a state you want it to be

What To Do When Your Home Isn't Selling

- Make sure it is clean, highlight the best features of the home (they all have some), the front door and entrance is in good shape (with paintings, plants).
- Do some more subtle staging to make the house look lived in.

MODULE 5, CHAPTER 6

QUALIFYING BUYERS

- When I sell a property to a retail buyer, I make sure that the buyer gets qualified by our mortgage broker or mortgage-lending company.
  - In our advertising and marketing I stipulate that the buyer needs to be qualified by our mortgage/ lending company.
  - The buyer does not have to use our mortgage broker, but the person does have to be qualified by our broker.
- This way we know whether or not the buyer is a good, qualified buyer.
  - The sad thing is that there are a lot of home buyers running around with pre-qualification letters that are supposedly from a bona fide mortgage broker but in reality, the buyers cannot qualify for a loan.
- You don’t want to sign a purchase contract, and spend a lot of time with the buyer as they complete their inspection period, only to find out that they can’t get financing and have to back out of the deal.
- Remember: Take the strongest buyer, not necessarily the strongest offer. That is because the strong buyer will get to the closing table.

MODULE 5, CHAPTER 6

QUALIFYING BUYERS

The Cost of a Bad Close

- The buyer could be pre-qualified, but if the buyer still doesn’t get financing, you may have had the money earmarked for another deal and you have to find another buyer for the current house.
- So you have actually lost 2 deals, and the buyer who couldn’t close may have given his notice to his previous landlord. Now you have to find another buyer and this could tack on another 60-90 days in holding costs.
- Lesson: be vigilant. Have your team do the research.

How the Mortgage Broker Wins

- Our mortgage brokers wins because it creates a funnel of leads for the broker.
- If the home buyers end up going with their broker, our mortgage broker still gets his name out there. If the other broker falls through, our broker closes on the deal.

MODULE 5, CHAPTER 6

QUALIFYING BUYERS

Types of Loans and Buyers

- The most prevalent loan is the Federal Housing Administration's (FHA) 3-percent down loan because many people do not have savings for 10%-20% down payment that conventional lending institutions require.
- VA loans are strong because they are also government backed.
  - It may take longer to get through the approval process and to the closing table with this type of loan. So if you have a VA buyer, I would suggest that you budget your time and money for a 50-day close rather than a 30-day close.
- My favorite type of buyer is obviously a cash buyer or a buyer with a 50-percent down payment.

Contingency Period

- In addition to getting my buyers pre-qualified by my mortgage broker, I make sure that all my contracts have a "contingency period" written into them.
  - This means that the buyer must put a deposit on the property, and that the buyer has a certain period of time to find financing and do other due diligence.
- If the buyer does not secure financing in that time or backs out of the property after that timeframe, he or she forfeits the deposit. Without this, I would have no recourse against a buyer who walks away from a deal at the eleventh hour.

MODULE 5, CHAPTER 7

PAID AT CLOSING

As a real estate investor, I get paid when I get to the closing table. So it’s extremely important to have all the puzzle pieces in place.

The Domino Effect

- Being able to close a deal is the key.
- When I first started, closing one deal allowed me to move to the next deal and then to the next deal and then to the next deal. Closing one deal leads to a domino effect.
- If you do not do your due diligence in pre-qualifying your buyer or making legally required repairs, then your deal may quickly blow up on you.
  - Because of the domino effect, not only will that ruin the deal at hand, but it may also blow up future deals.

MODULE 5, CHAPTER 7

PAID AT CLOSING

A Contract Does Not Mean a Sale

- A lot of people are under the mistaken impression that once a property is under contract, or there is a purchase agreement, that the deal is going to close.
  - That's not the case.
- Many deals fall apart during the contingency or due diligence period.
- Don't mentally cash that check until it is physically in your hand.

Escrow Pitfalls

- Just because a contract is in place or a house is under contract does not mean that the property is sold. Here are some of the pitfalls that could delay the process:
  - Title issues,
  - buyer financing,
  - you did sloppy work

MODULE 5, CHAPTER 8

HOME INSPECTION

- After the contract is signed, the contingency period of a home inspection begins.
- Most Purchase & Sales agreements will have a seven to ten-day home inspection period for the buyer to look at the property.
  - It is always a good idea to have the buyer do this because it injects a layer of protection between you and the buyer.
- You as the seller or someone who represents you – your real estate agent or whoever – should actually be at the house during the home inspection while the licensed home inspector (typically hired by the buyer) reviews the property.
- The home inspector should also inspect all the mechanical systems and other aspects of the house, including: the roof, attic, ventilation, wiring and electrical systems, plumbing, water pressure, as well as possibly checking for the presence of hazardous materials such as asbestos, lead and radon.

MODULE 5, CHAPTER 8

HOME INSPECTION

Home Inspections Lead to Seller-Buyer Negotiations

- Many times you will get a punch-list of needed repairs from the buyer via the home inspector.
  - Sometimes the seller and buyer can negotiate these items after you have already signed a Purchase & Sales agreement.
- There are a few times when you as the seller cannot see everything that the home inspector can. If there are items on the buyer's negotiation list, the buyer may want you to fix the items. Or the buyer may want a financial exchange for the faulty item.
  - E.g. the buyer may ask for a $5,000 credit at the closing table in lieu of fixing loose tile in the flooring.

Act Like a Home Inspector

- To eliminate or minimize these issues, think like a home inspector yourself.
- It is a good idea to get a standardized checklist of items to inspect from a home inspection company. Then use it as a guide, depending on your level of expertise.
- As a rehabber, you need to do your due diligence too. Do not make repairs or renovations that a home inspector would not approve of.
- Do it right the first time

MODULE 5, CHAPTER 8

HOME INSPECTION

Clear To Close

- Once the house passes inspection and you have agreed to a price with the buyer, you wait for what is called a ‘clear to close’ from the title company or bank’s closer.
- A ‘clear to close’ is a verbal or written notification that all the parties’ paperwork is in line (including the buyer’s mortgage documents if applicable), the deed has been researched and the title is clear.
    - It usually takes from thirty to forty-five days for all parties to get all the pieces in place.
- Your closing escrow company, the title insurance company or the closing attorney (depending on your state) will make sure that the title is clear and insurable.
    - A property cannot be sold unless the title is clear.
- As you get closer to the closing date and you receive the ‘clear to close’ authorization, you as the seller must put together an HUD-1.
    - This is the Housing and Urban Development’s standardized form that tallies the expenses and profits that both the seller and buyer have agreed to in negotiations.

MODULE 5, CHAPTER 8

HOME INSPECTION

Closing Funds

- When you close a sale, the title company, escrow company, or attorney will hold and disperse some of the closing funds to pay for several items, including:
  - Real estate broker commissions – up to 6 percent, depending on the state
  - Taxes and fees – you can check the registry of deed or county records for the amounts
  - Title company closing costs
- If you remember earlier, these costs are included in your Miscellaneous fees from the evaluators

At The Closing Table

- At the closing table, the real estate agents get a check.
- At the closing table, the funds are released from escrow and deposited into the seller’s account.
- If there are extra monies coming back at the closing table, then the extra funds go to the buyer

MODULE 5, CHAPTER 8

HOME INSPECTION

Documents to Protect You

- **Due on sale clause:** If you do any form of owner-financing such that your defer receiving part of your money for a period of time you should receive a promissory note signed by the buyers. The note should contain a 'Due on Sale' clause.
  - The 'Due on Sale' clause states that if the property is sold at some future date that any amounts still owning to you will be paid in full upon closing the sale. Use whatever verbiage is deemed appropriate in your state by your attorney or financial advisor.
- **PAY-OFF LETTER**
  - The escrow company will provide a pay-off letter to all parties involved in the transaction.
  - The pay-off letter is part of the due diligence period that gets you to the closing table. It allows everyone involved to see how much money they are supposed to get at closing.

MODULE 5, CHAPTER 9

USING REAL ESTATE FOR RESIDUAL INCOME

- What happens when a property doesn't sell? The longer it stays on the market, the more you have to spend (carrying costs, interest payments, maintenance and other costs associated with keeping the property).
- One of the questions I frequently get is how can you keep from losing money on your investment?
  - One alternative to flipping the property is to rent it out.

Profiting with Real Estate Investments

- One of the most, if not the most important thing about real estate investing is to make sure that you have consistent cash flow. In addition to having cash flow, there are other ways that you can profit from real estate investments.
- Having rental properties and getting income from them is one of the best known ways to profit and keep a consistent cash flow going. The more rental properties you have, the better chance you have of creating sufficient wealth streams for you and your family
- If you qualify for an equity loan, the money could be used to invest in other properties. Just be sure that the rental income is sufficient to pay the increased debt service
- If you want to get a higher rent for your property, you may want to spruce it up a bit. Make some upgrades to it so that it will look presentable.

MODULE 5, CHAPTER 9

USING REAL ESTATE FOR RESIDUAL INCOME

Buying a Property to Generate Positive Cashflows

- When looking at real estate properties as financial investments, you will have to decide whether appreciated values or positive cash flow is your main goal, and there are some things you need to consider before you make that decision.
- Since you will more than likely be looking at both single family homes and multifamily homes, it's important to understand the difference between the two.
- With single family homes, the value of the property usually appreciates quicker.
  - However, since more expenses are attached, you may not obtain the positive cash flow from rental income that you want.
- On the other hand, multifamily units (i.e., duplexes, triplexes, etc.) can generate more positive cash flow. There are also fewer expenses involved.
  - However, they may not appreciate quickly like single-family homes do.

MODULE 5, CHAPTER 9

USING REAL ESTATE FOR RESIDUAL INCOME

Changing Negative Cash Flow to Positive Cash Flow

- Negative cash flow robs you of your profit. You cannot successfully operate your business by spending more money than you take in.
- Here are some ways that you can change negative cash flow to a positive one:
  - Implement a rent increase to bring your rental rates up to the current market rate. Don’t charge more than the market rental rate or you may not have any tenants.
  - Make the tenants pay some or all of the utilities. This would relieve a burden from you, but again, be careful not to overdo it.
  - Petition your county to lower your property taxes. Sometimes they will. Taxes are one of the major expenses for income properties.
  - Contact your insurance company about raising your deductible limit. Then make inquiries about getting a better deal for coverage on the property.

MODULE 5, CHAPTER 9

USING REAL ESTATE FOR RESIDUAL INCOME

Calculating Monthly Rent

- Obviously your best case is to choose how much money you want to make and divide it by the number of units, but many things determine rent price.
  - You might have to lower your rent because some rent is better than none.
- Foremost, you have to look at the supply and demand for rental units within the local real estate market.
- You may know of other real estate properties similar to yours, but determining how many there are can be important.
  - You may have a difficult time raising rents if you learn that there are a lot of vacancies in your area. A high vacancy rate may even force you to lower the rents you are already charging.

Get to Know Your Cash Flow Property

- Do drive-bys and look online at other rental properties in your area to see what features they have, how they look, get a sense of vacancy, and the prices being charged.

MODULE 5, CHAPTER 9

USING REAL ESTATE FOR RESIDUAL INCOME

Respect Your Tenants

- You'd be amazed by how many landlords think that their tenants are not important.
  - That attitude is not correct.
- Your tenants pay your mortgage; your tenants pay off your house. You have to take care of them. You have to respect them.
  - If you respect your tenants, they will respect you in return.

Bragging Rights For Tenants

- With cash flow properties, go light on amenities. But your tenants need some bragging rights.
- You can accomplish a lot in this area through cleanliness and with color.
- Focus on the kitchen. Give people the bragging right of having a nice, clean kitchen – new, if you can. And if it is not new, give it a fresh coat of paint, and make sure that everything operates correctly.
- You should give tenants nice appliances. That's what people want; they want to feel proud that they have a nice home and that it's clean.
  - Give people a place that's nice and that you would rent yourself – that's the approach to take.

MODULE 5, CHAPTER 9

USING REAL ESTATE FOR RESIDUAL INCOME

Ready to be a Cashflow Owner?

- If you are going to own cashflow properties, you'll need to realize that going into this requires great patience and understanding.
- Along with that being a landlord also means you will:
  - Work together to solve problems regarding the property
  - Learn to communicate effectively with your tenants
  - Make decisions that are in the best interests of the renters and your investment properties
  - Want to stay in it for the long haul, especially if you're looking to create wealth
- You will also deal with repairs, tenant complaints of the property, complaints of other tenants, and late payments

MODULE 5, CHAPTER 9

USING REAL ESTATE FOR RESIDUAL INCOME

It's important to:

- ➡ Be respectful to your tenants. They are the ones that are helping you to create wealth (monthly rent).
- ➡ If they call you, return their phone calls as soon as you can. If repairs are needed, get the appropriate people to do them.
- ➡ Let your tenant know that you care about them, and that you appreciate them selecting your property to live in.
  - Remember, they can always find somewhere else to live, and make another landlord wealthy. Effective communication is the key.

Finding Tenants

- Online through craigslist, kijiji, facebook, and other mobile apps and portals
- Real estate agent (they charge a fee usually equal to 1-month rent)
- Make fliers and put them on grocery store and college bulletin boards

MODULE 5, CHAPTER 9

USING REAL ESTATE FOR RESIDUAL INCOME

SECTION 8 TENANTS

- You might have Section 8 tenants applying to live in your property. Section 8 housing is a government subsidy program to help low income tenants afford housing.
- The Section 8 Housing Office will approve places for tenants to live, and send rental checks directly to property owners and landlords.
  - Depending on the tenant’s financial situation, the government checks may be for the full amount of the rent, or they may only cover a portion of the rent with the tenant making up the difference.
- Section 8 allows a landlord to report tenants who are not following rules and other generally accepted good behavior, and the tenant can loose the voucher. This gives a lot of leverage to the landlord.

MODULE 5, CHAPTER 10

SCREENING TENANTS

- Real estate investors now have to use modern technology and other tools to screen potential renters.
- Along with the screening come legal issues that you need to know about upfront before you start the process. These would include:
  - How the screening is done
  - Housing laws (both state and federal)
  - Advertising without deception
- When a landlord screens potential tenants, some of the things to consider include:
  - Employment
  - Current income
  - Credit history
  - Previous rental history (including any evictions)

MODULE 5, CHAPTER 10

SCREENING TENANTS

- The prospective tenant needs to fill out an application.
- On the application, include a code of conduct that they are to adhere by should you allow them to rent from you.
  - The code of conduct will explain what is expected of you, and what is expected of the tenant.
  - Make sure it is explained in a manner that they can understand it.
- Ask the applicant to provide you with character references that can be checked, and then be sure to check them.
  - Ask for a photo ID to make sure that the person is who they say they are. The ID, such as driver's license, should be valid.
  - Copy the driver's license number on the application.
- Let the prospective tenant know that you will have a background check as well as a credit check done.
  - This can help you to weed out any potential problem renters. They will have to provide their written consent for the credit check.

MODULE 5, CHAPTER 10

SCREENING TENANTS

Check Credit

- Check the credit of each prospective tenant, whether there will be three roommates living in your unit or a husband and wife.
  - This way, you make sure that all the people living in the property are responsible for the rental agreement, in case you have to go after all of them if the situation goes downhill for whatever reason.
- Just be honest and upfront with prospective tenants. Disclose on the application that you are going to pull a credit report.
  - Ask prospective tenants to sign an authorization form for you to do so.
  - Also, ask them if there is anything on their credit report that they want to disclose upfront.
  - It's important to communicate with people and approach them, not from the standpoint of "I'm out there to catch you," but from the standpoint that you simply want all the information upfront.
- One of the biggest mistakes that people make is to surprise prospective tenants with a credit check.
  - There are many reasons that a person may have a derogatory mark on his or her credit report. If you scare someone, they may get embarrassed and back away from renting your property.

MODULE 5, CHAPTER 10

SCREENING TENANTS

- The credit check is just a reference point because a lot of people are renting that have just gone through a short sale or a foreclosure.
- Anyone with a late mortgage payment is going to have horrible credit right now.
- Maybe they had a mortgage that was $2,900 per month, but lost the job that supported that amount, causing them to lose the home.
  - But now they found a new job that pays a bit less but can support a rental amount of $1,200.
  - Because he or she is downsizing, they can certainly afford to pay rent consistently.

MODULE 5, CHAPTER 10

SCREENING TENANTS

#1 Concern to Keep in Mind When Screening Tenants

- Your main concern when renting to someone is that the person has money to pay the rent – that's the #1 concern.
- Your application for prospective tenants should ask questions such as: "What is your job? What is your employment? How long have you been there? And do you have a pay slip?"
- You'll want to see the pay slip to verify that the person has employment.
  - When you look at the pay slip, look for the year-to-date earnings to verify that they haven't been jumping from job to job.
- You need the security of knowing that these tenants are going to pay their bills.
- Also be sure to mark on your lease or rental agreement the number of people that will live in the property.
- Unless you have to, make the renter pay for utilities because they will be more aware of potential waste and cost since it is coming out of their pocket.

MODULE 5, CHAPTER 11

MAINTAINING YOUR RENTAL PROPERTY

Tenant Move-In Inspection

- Before a tenant moves into the property, walk through the property with the, using an inspection checklist. You should even take photographs of the place as you do so, and show them to the tenant.
  - It's also smart to have the tenant sign a statement confirming that the photos of the unit represent the actual condition of the unit.

Security Deposits

- Check with your local laws, so you know how much of a security deposit you're allowed to collect.
- Generally, taking a security deposit in the amount of one month's rent, plus first and last month's rent will do. Take that security deposit and deposit it into a bank account for that tenant.
  - Do not use the money from the security deposit; typically it is illegal to do so. Keep it in the bank, so it can be used for the tenant; that's what it is there for.
- You can be flexible on the amount if you find good potential tenants, however, you need to collect some sort of security deposit so the tenant feels a sense of responsibility toward the property.
- Make sure that the tenant knows that he or she will get the security deposit back.
  - If people think that they are never going to see that money again, they may stop caring about the property.

MODULE 5, CHAPTER 11

MAINTAINING YOUR RENTAL PROPERTY

Tenant Move-Out Inspection

- When the tenants move out, make sure that either you or a representative is there.
  - That way if there are new scuffs on the wall, you or the representative can point them out to the tenants so there are no surprises about how much of the security deposit they are going to get back.
- It is up to you and your tenant who is responsible for small repairs. If you leave it to the tenant make sure they know what they're doing or it could end up costing you more in the long run.

Eviction

- When drawing up a lease agreement, you have options.
  - You can draw up a one-year lease, or you can draw up a tenancy-at-will lease, among other options.
  - A tenancy-at-will lease allows the landlord to terminate the lease at his or her discretion, usually giving the tenant 30 days notice (depending on state law).
- Depending on the state or the type of lease, it may be easier or harder to evict a tenant if needed.

MODULE 5, CHAPTER 11

MAINTAINING YOUR RENTAL PROPERTY

- **Talking Directly to Tenants:** If there is a problem with certain tenants, I like to communicate with them directly.
  - I don't like having attorneys do it. Because if I get an attorney, that pisses them off. It just makes them mad and they get offended.
  - So, I pick up the phone or I go by the place and say, "You are not paying the rent. What's going on? Just talk to me. Just tell me the truth. What's up?"
- Usually they have a problem with money. If that is the case, you need to see it for yourself and evaluate the situation.
  - If you have a tenancy-at-will lease, you may want to give back a tenant's security deposit and last month's rent and tell them to find another place to rent.
  - It seems harsh, but if they don't pay for 4 months and it costs you $2k for a lawyer, you are out $6k instead of just 1-month rent at $1,000.

Having Repairs Done

- Even before you purchase the real estate property, you need to include repairs.
  - Something will eventually need to be repaired. Not even counting the things your tenants will break, things will deteriorate over time: that's just the nature of the real estate investing business.

MODULE 5, CHAPTER 11

MAINTAINING YOUR RENTAL PROPERTY

- Many investors skip this part as a small issue, but these things can add up and break the bank
- As a real estate owner, you are obligated to make sure that your tenants are reasonably safe.
  - First, before you rent a property out to a tenant, look at the property carefully to see if there is anything that needs to be fixed.
  - A good rule of thumb is to ask yourself, “Would I feel safe living there?” If the answer is no, something needs to be fixed.
  - Remember to be thorough: if your tenants are injured by something you overlooked, you will be responsible.
- There are things you are going to miss; namely, things outside your realm of knowledge.
  - So hire professionals to inspect and alert you to issues. Once identified, fix them quickly.
- Ask yourself, “Would I be happy living here if my “X” didn’t work?” Put yourself in the tenant’s shoes for a moment.
  - Obviously, you would want repairs done as fast as possible.
- Set aside money for repairs

MODULE 5, CHAPTER 11

MAINTAINING YOUR RENTAL PROPERTY

Cash Reserves for Vacancies and Repairs

- You should budget some money for vacancies and repair. A general guideline for cash reserves is 20% of the annual rental income.
- One way to build instant cash reserves is to properly time the closing of your purchase transaction.
  - When you close a new mortgage transaction, you typically do not have a mortgage payment for the first month of ownership.
  - E.g. if you close the transaction in September, you will not have to make the first mortgage payment until November 1st (versus October 1st). In this way, you can think of the missing October mortgage payment as extra cash reserves.

Property Management Companies

- Some investors may want to hire a property management company to oversee the cash flow property. That is fine if you have evaluated the scenario and it makes sense for you.
- If you choose to use a property management company, you should set aside money for the company’s management fee. This will probably come to about 10% of your rental income.

MODULE 5, CHAPTER 11
MAINTAINING YOUR RENTAL PROPERTY

Taking Calls From Tenants

- If you choose to take on the property management duties yourself, be sure to set some guidelines for tenants.
- Make sure that you have a separate phone number (that is not your cell phone) where they can contact you. You may want to get an 800 number that has a voicemail service.
  - That way you can record a message that gives instructions, such as “If this is an emergency, call so-and-so.”
- You want tenants to be able to get in touch with you without bombarding your cell with calls.
- **Role of Assistants in Managing Properties**
- Another option is to have your business assistants help you with non-crucial tenant matters.
  - For instance, if a tenant needs to have a toilet plunged, that’s a non-critical matter that you may want to avoid.
- One strategy is to give your assistant authority to make decisions up to a certain dollar amount.
  - E.g. you can authorize your assistant to make decisions that will result in spending $100 or less to fix the problem.

END