Day 1 Agenda

Now
Intro to the fundamentals

This morning
Exit Strategies 101

Noon-1
Lunch

This afternoon
Intro to Finding Deals
Things to know about this class

1. We’ll begin at 8:30 sharp each day
2. We’ll take 15 minute breaks with door prizes for being in your seat on time
3. Questions can be asked via question cards, and will be answered as time allows
Things to know about this class

4. You really, really need to read the manual

5. Yes, there will be stuff for sale. Buy it or don’t, but don’t get offended about it.
Why are we here?

• To give you the most unbiased view of how and why real estate investing works that I can, so that you can make smart decisions FOR YOU
• To instill skills you’ll use every day for the rest of your life
• To make sure you “speak the language”
Why are we here?

• To give you the confidence to move forward and DO SOMETHING to improve your future

• To give you tools & resources to continue your education
DON’T Expect...

• To master every concept this weekend (that’s what the manuals/audios are for)
• Hear me say that x or y is the best strategy
• Learn about advanced or non-fundamental strategies
WHY REAL ESTATE WORKS
Have you ever asked yourself...

• Why real estate has made so many people so rich for so long?
• Why it has more practitioners than any other small business?
• How thousands of people can be doing it in your city, and there can still be opportunities for you?
Some reasons...

- The “product” is a commodity
- There’s plenty of product
- Low barriers to entry
- It’s easy to do due diligence before you buy
Here’s why...

• No “insider connections” are necessary to make it work
• REAL ESTATE IS AN INEFFICIENT MARKET
• It’s easy to do as much or as little business as suits you
Here’s why...

- It’s an easy asset to “leverage”
- It’s an asset that’s easy to get other people to pay for
- It’s an asset with a track record of long-term appreciation
- There’s no such thing as a “bad” market
Here’s why…

• Some strategies are very tax-advantaged
  • Tax treatment of rental, interest, and capital gains income
  • Depreciation
  • IRA investing
And there are so many ways to “do” real estate

Scenario 1: as a “active business”, trading hours & knowledge for dollars

Real estate is INVENTORY
There are so many ways to “do” real estate

You WORK to

• Find motivated sellers
• Evaluate properties
• Negotiate below-market price
• Sell the “deals” you create for cash to other investors
There are so many ways to “do” real estate

When you do this, you are a:
There are so many ways to “do” real estate

Scenario 2: as a “semi-passive investment”, trading your knowledge, continued involvement, and money/credit for long term benefits

Real Estate is an income-producing ASSET
There are so many ways to “do” real estate

You WORK to

• Find motivated sellers
• Evaluate properties
• Negotiate below-market price
• Find the money to buy and/or fix your properties
• Maintain and your properties
There are so many ways to “do” real estate

In return for:

• Equity
• Monthly income
• Significant tax breaks
• Ultimately, a paid-off asset
There are so many ways to “do” real estate

When you do this, you are a:
There are so many ways to “do” real estate

Scenario 3: as a fully passive investment, trading your money and/or credit for someone else’s work in finding, rehabbing, and managing properties

Real Estate is an ASSET
There are so many ways to “do” real estate

• You buy turnkey properties or shares in companies that own them
• You get a ROI based on the performance of the asset(s)
• The party doing the work gets the active income profit
There are so many ways to “do” real estate

Scenario 4: as a lender/money person, providing your money in return for a fixed rate of return or “part of the deal”, with or without ownership of the real estate

Real estate is SECURITY for an income-producing asset
Sometimes, all on one deal

Harry Wholesaler finds this estate deal
6 rm 3 br 1.5 ba
ARV $70,000
Needs $25,000 in work
Sometimes, all on one deal

Will rent for $825/mo

Harry signs a contract with the seller to buy it for $17,000
Sometimes, all on one deal

Harry markets the deal for $24,000 total.
Randy the retailer likes it.
Sometimes, all on one deal

Randy pays Harry $7,000 to step out of the deal, then Randy buys from the seller for $17,000
Sometimes, all on one deal

Randy borrows $50,000 from Laura the Lender at 12% interest

Spends $24K buying, $25K fixing
2 months later, Randy sells the property fixed up and with a tenant in it to Irv the Investor.
Sometimes, all on one deal

Randy makes:
$70,000 sale price
-$24,000 purchase costs
-$25,000 rehab costs
-$1,500 finance costs
-$2,000 holding costs
-$1,500 sales costs
$16,000 profit

Laura makes:
$1,500 on her
$50,000 investment in 3 months
Irv hires Mark the manager to deal with the tenants, maintenance etc. and holds it for the rest of his life
Sometimes, all on one deal

Irv makes:
$825/month rent
-$120/mo taxes
-$50/mo insurance
-$82.50 management fee
-$165/mo reserves
$407.50/mo

Irv’s return
6.9% cash on cash
(if he pays cash)

Plus appreciation
The difference between what these people did and got...  

- Is ALL driven by “exit strategy”
<table>
<thead>
<tr>
<th>Exit Strategy</th>
<th>Did</th>
<th>Got</th>
<th>Risked</th>
<th>Taxed at</th>
</tr>
</thead>
</table>
| Wholesaler    | • Found deal  
• Evaluated deal  
• Negotiated deal  
• Tied up deal  
• Found buyer | One-time cash payment of $7,000 | Time | Regular income tax rate + 15% |
| Retailer      | • Found deal  
• Evaluated deal  
• Found money  
• Oversaw rehab  
• Found buyer | One-time cash payment of $16,000 | Time  
Other people’s money | Regular income tax rate + 15% |
| Lender        | • Evaluated deal  
• Evaluated borrower | 12% annual return | Money | Regular income tax rate |
| Investor      | • Found deal  
• Evaluated deal  
• Got money to buy deal  
• Found/managed manager | •6.9% return  
• Long term appreciation  
• Long-term tax breaks | Money  
Credit | Less than regular income tax rate |
Remember the “Cash Flow Quadrants”?

- What we call ourselves is...
- What most of us actually are is...
Why Real Estate Works for So Many People, Continued

• We don’t all want the same outcomes from a deal
• We don’t all have the same resources to put into a deal
• We all have different tolerances for work and for risk
Why Real Estate Works for So Many People, Continued

• We don’t all have the same income goals
• We don’t all want our income now
• We don’t all have income as a top goal...
Which is...

Both why it’s so important to know what you’re looking for, and know which strategies most easily get you that thing
So begin with the end in mind...

• The most important decision you’ll make is about your exit strategy

• The only smart way to make it is to start with, “What do I want, and what am I willing to do to get it?”
Let’s begin with the end in mind...

- Until you know what you WANT TO get, you can’t choose an exit strategy
- Until you choose an exit strategy, you don’t know what properties to look for, how to evaluate them, etc.
There are 2 basic types of income in real estate...

- Quick cash
  - One lump sum per property
  - Comes from treating properties as inventory
  - “Active” income--Highly taxed
2 basic kinds of income...

- **Cash Flow**
  - Ongoing money from a single deal
  - Comes from owning the asset and collecting payments for its “use”
  - Semi-passive; USUALLY tax-advantaged
Which do you want?

- Because you get no cash flow from the quick cash strategies, and little quick cash from the cash flow strategies!
Assignment for tonight:

Write down the answers to these questions:

1. The most important thing I can do for my finances in the next 6 months is:

2. I am realistically willing and able to commit ___ hours/week to reaching this goal
Assignment for tonight:

Write down the answers to these questions:

3. I realistically have $______ to spend on further education, marketing, and resources, and/or property purchases.
Armed with this information

It should be relatively easy to choose and stick to an exit strategy (for now)
INTRO TO EXIT STRATEGIES
Why Start Here?

• Your exit strategy is the last thing you “do”...
1. Find the deal
2. Evaluate the deal
3. Negotiate the deal
4. Close the deal (funding)
5. Implement the exit strategy
Why Start Here?

- But it’s the first thing you DECIDE ON, before you ever DO a deal
Your Exit Strategy...

- Tells you what kind of deals to find: ie what properties and neighborhoods to focus on
- Tells you what kind of seller situations to look for
Your Exit Strategy...

• Tells you what, if any, rehab you’ll do
• Tells you what kind of financing you’ll need, if any
• Tells you what to offer on any given property
Your Exit Strategy...

• Determines what form of income you’ll make, and how it will be taxed
• Determines almost everything you’ll do on a day-to-day basis
How to choose an exit strategy without spending an fortune

1. Take a serious look at your financial situation and decide what MOST needs to happen, in the short term, to improve it
The right way to choose an exit strategy

2. Learn the basic exit strategies from a high level
   • What do they do?
   • What do they require?
The right way to choose an exit strategy

3. Chose the one that makes the MOST sense for you, and invest in studying it further

4. IMPLEMENT and master

5. Only then, chose and learn another
Good News: There are Only 5 Exit Strategies to Pick From!

- **Quick Cash Strategies**
  - Wholesaling
  - Retailing

- **Long term income/wealth building**
  - Landlording

- **Medium term income**
  - Lease/Options
  - Mortgages/Land contracts

All other exit strategies are either iterations or combinations of these!
And we’ll evaluate them based on…

• The most FUNDAMENTAL version of the strategy
And we’ll evaluate them based on...

- What the strategy is
- Who the customer is
- What the property and neighborhood is
- How & when you’ll get paid
And we’ll evaluate them based on...

• What skills you’ll need
• Pros and cons of each strategy
First, some background

Neighborhood types:
1. Warzone
2. Border zone
3. Bread and butter
4. Move up
5. Luxury
WHOLESALING
What it is

- Tying up investor-type properties with a purchase contract
- Selling your right to buy to another investor for a quick, cash profit
- A business-to-business strategy
Your customer

• Another real estate entrepreneur
  • Retailers
  • Landlords
  • Lease/optioners
• Who buys TO MAKE MONEY
Why your customers want your deals

• Because you do all the hard work
• Because they make money from your deals
• Why not? You’re just another deal source
Your properties

- Primarily single family homes
- Also 2 and 3 families
- In type 2-4 areas
- That need work
How and When You’ll Make Your Money

• In a single lump sum
• When you assign your contract (within 30 days)
• You’ll make the difference between what you’ve agreed to pay and what a buyer wants to pay
• Average will be 5% of the median house price in your area
The process:

1. Find the motivated seller
2. Evaluate the deal
   - ARV
   - Repair costs
   - Value to your buyer
3. Put the deal “under contract”
The process:

4. Find the buyer

5. Assign your rights in the purchase contract to the buyer, get paid

6. Buyer goes to closing and buys directly from the seller
What to offer on a wholesale deal

After repaired value

X .7

- Repair costs
- Your wholesale fee
Why:

Because you can SELL FOR
After repaired value
X .7
- Repair costs
Skills and resources you’ll need

For every strategy, always:

• Ability to generate leads on the right kinds of properties/areas
• Ability to find ARV
• Ability to estimate repair costs
• Ability to negotiate the deal with the seller
• Ability to market the deal to the customer
Skills and resources you’ll need

Specific to Wholesaling:

• Time to generate leads, talk to sellers, look at properties
• Willingness to make a lot of “lowball” offers
• Tolerance for ugly smelly houses and potentially iffy neighborhoods
Skills and resources you’ll need

- A buyer’s list (which you’ll build over time)
- A friendly title company
- A REIA membership
- Earnest money, if dealing with bank-owned or listed houses
- Transactional funding or cash, if closing and reselling the properties
Skills and resources you’ll need

- A marketing budget
- A good contract to purchase
- An “assignment of contract” form
The advantages of wholesaling

- It’s the quickest way to get cash in real estate
- It requires the smallest set of skills of any strategy
- It’s low risk
- It’s low hassle
The advantages of wholesaling

- It never **REQUIRES** any cash or credit
- It’s an easy way to “learn the ropes”
The disadvantages of wholesaling

- “It’s a hustle”
- You leave a lot of the money that COULD be made in any particular deal on the table
- It’s highly taxed
- There’s only 1 check per deal
Real Life Real Estate...

Contract to Purchase Real Estate

I/we offer to purchase from Bradley Campbell, Cincinnati, OH Hamilton County (Hereinafter called “Real Estate”) the real estate located at 802 Woodlawn Avenue.

This real estate will include all the land and all rights to the land and the property, and all buildings, fixtures, heating, electrical, and plumbing fixtures and facilities, window shades, curtain rods, screens, storm windows and doors, wall-to-wall carpeting, ceiling fans, landscaping, garage door openers, and any oven/ranges, refrigerators, washers/dryers, and window A/C units currently on the premises.

Purchase price will be: $10, payable as follows: All cash at closing.

At the closing, the Seller will give the Buyer a General Warranty Deed with release of dower. The closing will be no later than January 31, 2014. The title will be free and clear. The title does not have any easements or restrictions except: of record.

Seller will give buyer possession of the property At closing. Buyer to pay all closing costs, taxes, and fees associated with closing, including deed preparation and transfer tax. Taxes will not be pro-rated and Buyer will be responsible for any delinquent taxes.

Seller certifies that the Real Estate is zoned Residential single-family dwelling and is not in a historic district, not in a flood plain, and not in an Environmental Quality District. Seller agrees that at the time of closing, the Real Estate will be in the same condition as it is on the date of this offer.

Seller will allow Buyer and/or his inspectors complete access to the property for a whole-house inspection, a wood-destroying pest inspection, and any other inspections the Buyer deems necessary, all at the Buyer’s expense. If the results of these inspections are not satisfactory to the Buyer, the Buyer will not be obligated to close. Seller will provide Buyer with a key to the property for the purpose of completing these inspections, as well as a day and evening phone number for all necessary inspections.
Real Life Real Estate...
Anita’s Deal

PROFFITT REAL ESCROW ACCOUNT
3707 WARSAW AVE
CINCINNATI, OH 45205
(513) 471-5008

PAY TO THE ORDER OF Transitions Property Solutions LLC

NORTH SIDE BANK & TRUST CO.
CINCINNATI, OH

DATE 2/3/2014

$ **5,197.82

Five Thousand One Hundred Ninety-Seven and 82/100 DOLLARS

Transitions Property Solutions LLC
9378 Mason Montgomery Rd.
Suite 355
Mason, OH 45040

MEMO

VOID AFTER 180 DAYS
Wholesaling Continuing Ed

The Real Estate Goddess’s Guides to Wholesaling

$697 each or $997 for both

30 day moneyback guarantee
RETAILING
What it is

- Buying distressed homeowner-type properties
- Fully repairing and updating them
- Selling them at full retail price to homeowners
- Sort of like on “Flip this house”
Your customer

- A qualified homeowner
- Ready, willing, and able to buy
- Pre-qualified for financing
Why your customers want your deals

• Because they want ease of use and pride of ownership
• Because your houses are fully, newly renovated
• Because they’d rather spend an extra $23 a month to get the best house in the area
Your properties

- Primarily single family homes
- In type 3-4 areas
- That need work (when you buy them)
Your properties

- That are “homeowner friendly”
  - 3+ bedrooms
  - 2+ baths
  - Garage
  - Good schools
  - Quiet street/surroundings
  - No odd layouts
How and When You’ll Make Your Money

• In a single lump sum
• When you sell the property (usually 90-120 days after you buy)
• You’ll make the difference between what you’ve agreed to pay and what a buyer wants to pay
• Average will be 15%-20% of the ARV of the property
The process:

1. Line up financing
2. Find the motivated seller
3. Evaluate the deal
   - ARV
   - Repair costs
4. Put the deal “under contract”
The process:

5. Get the property professionally inspected
6. Close
7. Renovate
8. Sell
What to offer on a retail property

After repaired value \( \times 0.8 \)
- Purchase costs
- Holding costs
- Sales costs
- Finance costs
- Repair costs

OR

After repaired value
- $15,000
- Purchase costs
- Holding costs
- Sales costs
- Finance costs
- Repair costs
Skills and resources you’ll need

Specific to Retailing:

- Time to generate leads, talk to sellers, look at properties AND OVERSEE REHAB
- Willingness to make offers a lot lower than what the seller ideally wants
Skills and resources you’ll need

- Familiarity with rehab practices
- A team of skilled, reliable contractors
- A home inspector
- A high-volume sales agent
- A great mortgage broker
Skills and resources you’ll need

• A source of money
• A purchase contract for buying
• A purchase contract for selling
• An “agreement to do work”
• A release of lien form
• Lead disclosure forms
• State property disclosure forms
The advantages of Retailing

- It’s satisfying, or so they tell me
- It’s the most profitable of the quick-cash strategies
The disadvantages of retailing

- No ongoing income from any one deal
- You MUST have access to cash
- “Rehabber’s Surprise”
- Risk of losing money
Real Life Real Estate...
My last retail deal

• 5 rm 3 br 1½ bath
• Finished basement with 2\textsuperscript{nd} full bath
• Bank-owned, listed at $89,000
Real Life Real Estate...
My last retail deal

- ARV $115-$120K
- Repair estimate $15,000
- Purchase price $58,000
Real Life Real Estate...
My last retail deal

• Purchase and rehab costs borrowed from a private lender at 8% interest
Real Life Real Estate...
My last retail deal

- ACTUAL repair costs $18,000
- ACTUAL sale price $110,000
- Actual profit: $29,xxx
Retailing Continuing Ed

- Robyn Thompson’s course/bootcamp
  www.RobynThompson.com
LANDLORDING
What it is

• The leasing of the USE of an asset that you own (and are responsible for maintaining)
• The exchange of the right of occupancy in a property you own for a monthly payment (rent)
Your customer

- Tenants
Why your customers want your deals

- Because the rate of homeownership has dropped drastically since 2007
- And so has the rate of building of new rental units
Your properties

• Single families
  • Attract the most self-sufficient tenants and have the lowest operating expenses

• Multifamilies
  • Cost less “per door” and have “economies of scale”
Your properties

• Type 2 and 3 areas
  • Cheaper areas have higher returns on investment, but also higher management
  • More expensive areas have lower cash flows but more appreciation
How and When You’ll Make Your Money

• Long-term

• Through:
  • Monthly cash flow
  • Mortgage pay down
  • Appreciation
  • Low tax rates
The process:

1. Line up financing
2. Find the deal
3. Evaluate it and put it under contract
4. Do your due diligence
   - On the property
   - On any existing tenants/leases
The process:

5. Stabilize the property
6. Market for rent
7. Screen applicants
8. Fill the unit, keep it filled, maintained, and managed, and get rich
What to offer on a rental property

• This is a MUCH more complicated question in rentals than in deals where the entire profit is based on the difference between what you paid for it and what you can sell it for!
What to offer on a rental property

• Strictly speaking, you should offer whatever gets you the

• ROI
• Cash flow
• Equity
• You’re looking for
Semi-Passive vs. Passive Landlord

Semi-passive
- Willing to do upfront repairs on a property for a lower overall price
- Self-manages to get maximum cash flow

Passive
- Willing to pay full retail price to get turnkey situation
- Has property managers to deal with day to day operations
Skills and resources you’ll need

Specific to landlordship:

• Time to find, stabilize, and manage properties
• Saint-like patience, or a property manager
• A great insurance agent
The most important rental formula

Gross rent

- Taxes and insurance
- 20% of gross rents for maintenance, vacancy, and reserves (30% if a 2-3 fam)
- Any owner-paid utilities etc
- Management expense

= Net Operating Income
The most important rental formula

Net Operating Income

- Debt service

= cash flow (how much you’ll put in your pocket at the end of each month)

Cash flow/cash invested = cash on cash return
Skills and resources you’ll need

- A general handyman
- A tenant-screening service
- Access to cash or permanent financing
- Cash reserves
- A detailed lease
The advantages of landlordship

- It makes you rich, eventually
- It doesn’t have to be time-intensive
The disadvantages of landlordism

- It makes you libertarian
- It’s very over regulated
- It’s a complex strategy to master
- It’s not as passive as you think it is
Real Life Real Estate...

My First Rental

• 6 rm 4 br 2 bath
• Purchased in 1990 for $25,000
• Renovated for $5,000
• Paid for with a short term private loan
Real Life Real Estate...
My First Rental

- Refinanced in 1992 for $44,000 ($12,000 tax free cash out)
- Current value $65,000
- Current loan balance less than $20,000
Real Life Real Estate...
My First Rental

- Has made $36,000 after expenses
- I’ve never paid taxes on the income
- Sexy, huh?
Continuing Landlord Education

• Jeffrey Taylor’s newsletter and courses www.MrLandlord.com
LEASE/OPTIONING
What it is

- Trading the use of your asset for a monthly cash payment
- AND trading the right to buy it at a fixed price in the future for an up front cash payment
- Like leasing a car, or renting furniture to own
Your customer

• The 80% of Americans who can’t qualify for a loan due to
  • Bruised credit
  • Not enough time on job (or in business)
• But who DO have
  • Money down
  • Income to make the payments
  • A snowflake’s chance of qualifying for a loan
Why your customers want your deals

• Because the American Dream
• Financing is hard to get
• But Americans never want to wait for what they can’t afford
  • See: rent-to-own rims
• You let them “test drive” the house and live there while they work to qualify
Your properties

- Single families
- In type 3 and 4 areas
- Homeowner wannabes aren’t as picky as retail buyers, but like the same things
How and When You’ll Make Your Money

• Short and medium term
• Through:
  • The non-refundable option fee of 2-5% of the purchase price
  • The monthly cash flow
  • The payoff when the tenant actually buys at top dollar
How and When You’ll Make Your Money

• Note: for tax purposes, the property is a rental until the final sale
The process:

1. Line up financing
2. Find the deal
3. Evaluate it and put it under contract
4. Do your due diligence
The process:

5. Renovate, if necessary
6. Market as a “lease to own”
7. Screen applicants
8. Turn over the keys
9. Get the applicants into credit repair
10. Wait…wait…wait…CLOSE!
What to offer on a lease/option property

• You’ll need TWO “spreads”
  • What you’ve agreed to pay vs. what the tenant/buyer is paying you (equity)
  • What the tenant/buyers pays you each month vs. your outgoing payment
My favorite lease/option offer strategy

- Get AT LEAST 15% equity (more if there’s any work to be done)
- Get AT LEAST $150/mo cash flow (assuming tenant/buyer doesn’t buy, and I have to keep reserves for turnover etc)
Skills and resources you’ll need

Specific to lease/options

• All the same things a landlord needs, PLUS
• A great mortgage broker
• An option agreement
Notes on lease/options

- The deal should be a good one even if the buyer doesn’t buy
- Check local laws about lease/options
The advantages of lease/options

• It gives a combination of cash + cash flow + tax benefits that no other strategy does
• It helps people become home owners
• It allows you to “recycle” equity into additional wealth building
The disadvantages of lease/options

- Many tenants will never buy
- You ARE a landlord
Real Life Real Estate...
When Lease/options go bad

• This house has been lease/optioned for FIFTEEN years to 4 separate “buyers”, and still hasn’t sold.
But...

Each buyer has:
- Improved the property
- Paid a higher option fee
- Paid more rent
- Agreed to a higher option price
Real Life Real Estate...
When Lease/options go bad

• I really hope it sells this time. I guess.
DEAL FINDING 101
The importance of great deals

• Unless you’re a true “investor”, the profits in your deals are dependant upon, or are increased by, a lower-than-retail price
• Or better-than-retail terms
Why Finding Great Deals is Crucial

• "You make your money when you buy"

• Without a great deal, your other skills don’t really matter

• If your deal is at a deeply discounted price, it’s easy to borrow money for it
How Will You Know a Great Deal When You See One?

It depends:

• On your goals
• On your resources
• On your exit strategies
• On your personal preference
Are these great deals?

- A house in a borderzone that’s worth $45,000 fixed up, needs $40,000 in work, and you can get it for $1
- A $1 million apartment building that you can buy for $700,000
- Cash
Are these great deals?

- A 3 family with 2 units occupied at $1100 a month that you can get for payments of $300/mo
- It’s in Nome, Alaska
- A piece of land worth $100,000 that you can get for $20,000
Signs of an Objectively Great Deal

• You can buy it for a significant discount over what it’s worth
• You can get favorable financing and a high positive cash flow
• It has a high cash-on-cash return
Motivated Sellers Are the Source of All Great Deals

- A motivated seller doesn’t WANT to sell, he NEEDS to sell
- You don’t “get people” to sell you properties at great prices or terms—they do it for their own purposes
Motivated Sellers Are the Source of All Great Deals

- You don’t “take advantage” of desperate sellers—you provide a solution to problems you didn’t create
- They aren’t stupid
- They know what their property is worth
Motivated Sellers Are the Source of All Great Deals

- They understand that they have other options...
- ...and they choose you because you’re quickest, or easiest, or the best of a lot of bad options
The Reality of Making Deals

• MOST sellers of properties are NOT motivated
• Even when you deal only with sellers who “should be motivated”, you’ll only get 1 out of 20 offers accepted
• You’ll have to generate a lot of leads to do a lot of business
The Reality of Making Deals

- No one, ever, is asking what you want to pay
- YOU HAVE TO MAKE THE OFFER
Deal-finding strategies

There are 2 types of deal-finding strategies:

• Finding motivated sellers among the people who are advertising their properties for sale
• Marketing to sellers who should be motivated, but don’t have their properties advertised
Deal-finding strategy 1: MLS

What it is:

- A catalog of listed properties
- Created by agents, for agents
The advantages as a deal-finding strategy

- It’s simple
- There are lots of properties to choose from
- It’s basically free
The disadvantages as a deal-finding strategy

• There’s a LOT of competition, especially in a hot market
• It’s primarily residential real estate
• You HAVE to deal with agents
• You won’t get seller financing
Best ways to work it

• Get a buyer’s agent
• Focus on the properties that have signs of seller motivation
• Plan to make lots of offers and make them lots of times
Should you become an agent?

It depends:

• Are you making enough MLS offers to make the time and money worth it?
Deal-finding strategy 2: Bank-Owned Properties

What it is:

- Targeting “REOs”
- A subset of MLS properties, as most are listed
The advantages as a deal-finding strategy

• They’re widely available
• They’re easy to access
• The bank never “owes” anything, and can sell for...whatever
The disadvantages as a deal-finding strategy

- There’s a LOT of competition, especially in a hot market
- There are minimum earnest money requirements
- There are proof of funds requirements
The disadvantages as a deal-finding strategy

- Responses are notoriously slow
- You’re gonna HATE the addenda
- The offer process has become increasingly annoying
Best ways to work it

- Focus on properties that aren’t in “hot” segments of the market
- Read the addenda carefully
- Re-offer every 30 days
- Find banks that don’t list their properties
- Don’t depend solely on this strategy
Deal-finding strategy 3: Foreclosure and Tax Sales

What it is:

- Bidding at auctions forced by creditors who want the real estate sold to pay a debt
The advantages as a deal-finding strategy

- If you’re a cash buyer, you might buy some deals that others can’t
- Land sells very cheaply at tax sales
- Other liens are wiped off—usually
The disadvantages as a deal-finding strategy

- You MUST be able to pay cash
- “As is, where is” nature of the sales
- Some liens may NOT be removed by the sale
- Most properties in foreclosure sales sell for full price—to the bank
Best ways to work it

- Make sure you know WHAT you’re buying
- If you’ve identified a property you really, really want, try a short sale or buying the mortgage rather than waiting for the foreclosure sale
- Learn to do a title peek
Deal-finding strategy 4: For Sale By Owner/For Rent By Owner Listings

What it is:

• Finding FBSOs and FRBOs through public sources
  • Craigslist
  • Zillow
  • Trulia
Deal-finding strategy 4: For Sale By Owner/For Rent By Owner Listings

- Targeting sellers who think they have no equity and “involuntary landlords” for OWNER FINANCED DEAL
- And the occasional actual seller of a cheap junker property
The advantages as a deal-finding strategy

• They’re easy to find
• It’s cheap
• You get to deal directly with the seller
• The sellers who NEED to sell are open to creative solutions
The disadvantages as a deal-finding strategy

- You’ll have a lot of ‘splainin to do
Best ways to work it

- Target houses at and above the median price range for the area
- Think about a 2-step marketing program
Deal-finding strategy 5: Live Auctions

What it is:

- Bidding at in-person auctions by:
  - Receivers
  - Estates
  - Probate court
  - Law enforcement agencies
The advantages as a deal-finding strategy

- Easy to find
- Limited competition
The disadvantages as a deal-finding strategy

- You MUST be able to pay cash
- Limited inspection period
Best ways to work it

- Only attend “absolute” auctions or auctions “without reserve”
- Makes sure you understand the terms before you bid
- Don’t bother with retail-condition houses
- Don’t get “auction fever”
Deal-finding strategy #6: Wholesalers

What it is:

• Buying deals from people who’ve done much of the legwork for you
The advantages as a deal-finding strategy

- It’s easy
The disadvantages as a deal-finding strategy

• You MUST be able to pay cash
• “Wholesalers” don’t always know what they’re doing
• They aren’t always ethical
• They’ll be “needs repairs” deals only
Best ways to work it

- Locate them thru your REIA group, bandit signs
- Do your own due diligence!
- Don’t be greedy of focused on the wrong thing
SELLERS TO MARKET TO
What these have in common:

- Owners who SHOULD be motivated to sell, but who have not listed or otherwise advertised their properties for sale
- Sellers who must be marketed to
Deal-finding strategy 7: Pre-foreclosures

What they are

- Seller who are late on payments, but their property has not gone to sheriff’s sale
The advantages as a deal-finding strategy

• Easy to find

• Same properties as those at the foreclosure sales, BUT with opportunity for due diligence

• Possible owner financing?

• Helps sellers
The disadvantages as a deal-finding strategy

- Lots of competition
- Time constraints
- Most properties will be distressed
- Seller squirrliness
- SHORT SALES
Best ways to work it

• Market with multiple touches
• Learn short sales and subject to deals
Deal-finding strategy 8: Estates

What it is:

- Marketing to EXECUTORS (personal representatives, administrators etc)
The advantages as a deal-finding strategy

• Easy to find
• Less competition
• Properties tend to be clean and sound but outdated
The disadvantages as a deal-finding strategy

- Grieving sellers
- Probable cash sale
- Price floors set by court
- Can take a long time to close
Best ways to work it

- Contact executors via mail
- Make your offer easy on the seller
Deal-finding strategy 9: Driving for Dollars

What it is:

• Locating possible deals visually
The advantages as a deal-finding strategy

- Cheap to execute
- Minimal competition
- High response rate
- Likely owner financing
The disadvantages as a deal-finding strategy

• Owners can be hard to find
• Many properties will be bank owned or unknown bank owned
• Time commitment
• Ugly houses only
Best ways to work it

• Drive in the right areas
• Don’t mail to bank-owned properties
Deal-finding strategy 10: Out of town owners

What it is:

- Finding and marketing to owners who live more than 100 miles from the properties they own
The advantages as a deal-finding strategy

- Lots are motivated
- Owner financing is very possible
The disadvantages as a deal-finding strategy

- Lists cost money to buy or are time-consuming to make
- Medium-high competition
- Long-distance closings
Best ways to work it

• Contact multiple times at 6 month intervals
Deal-finding strategy 11: Frustrated landlords

What it is:

- Finding rental property owners who are
  - In eviction process with tenants
  - Long-time owners looking to liquidate
The advantages as a deal-finding strategy

- Often have lots of equity
- Understand investor pricing
- Open to seller financing
The disadvantages as a deal-finding strategy

- Mostly rental-type properties
- Inheriting bad tenants
Best ways to work it

• Locate via:
  • Set outs
  • Long-term ownership
  • Evictions
Deal-finding strategy 11: Referrals

What it is:

- Just telling everyone you know that you buy houses
BASIC MARKETING CONCEPTS
Shotgun Marketing

What it is:
• Putting you message in front of as many people as can
• Examples:
  • Bandit signs
  • Car magnets
  • Craigslist
  • Websites
  • Bus benches
Shotgun Marketing

Pros:

• Generates calls from “unknown” sellers
• No need to target marketing
• Cheap per impression
• Makes the phone ring
Shotgun Marketing

Cons

• More unmotivated seller calls
• Community complaints
Rifle Marketing

What it is:

• Marketing delivered to and messages targeted to particular kinds of sellers

• Examples:
  • Direct mail of all kinds
Rifle Marketing

Pros

• Messages can be very specific
• Opportunity to deliver more information
• More qualified responses
Rifle Marketing

Cons

• More expensive per lead
New investor focus group:

What’s it Worth?

How to Find the Value of Small Investment Properties
Some bad news about “value”...

• In real estate, there is no such thing.
What is a $100,000 house “worth”...

• If it needs $50,000 in work?
• If the seller won’t sell for less than $120,000?
• To someone who wants to rent it?
• To a landlord, if it will only rent for $200/mo?
• If the seller will let you make no payments and pay no interest for 10 years?
And yet, we have to establish a value to make an offer!

- So we use certain CONVENTIONS that are accepted in our business.
- The most important “convention” in single family homes is “ARV” or “After Repaired Value”
And yet, we have to establish a value to make an offer!

- When “appraising” properties, we are almost ALWAYS looking for ARV, no matter what the actual condition of the property.
- ARV is “the most likely price at which the property would sell IN after repaired condition in an arm’s length transaction.”
Step 1: Find a Source of Sales Data

- Free online services (*Zillow et al*)
- Professional subscription services (*Haines et al*)
- MLS
- Courthouse records
Step 2: Find the Comparable Properties (AKA “comps”)

True “comps” are properties that:

- Have SOLD
- have sold RECENTLY
- Are NEARBY
- Are of similar SIZE, AGE, & CONSTRUCTION
To really be comparable, comps MUST Be

• In the same school system
• In the same “neighborhood”
• In good condition for the area at the time of sale
• Same construction (frame vs. brick etc)
• Same era
• Arm’s length transactions
Good Comps SHOULD Be

• Same number of rooms, bedrooms, baths
• Within +/-10% of size
• Same number of levels
• Same utilities
• Same parking situation
• Same basement
• Same surroundings (busy street vs. quiet etc)
Use Your Head…

Characteristics of a property that would:

• Make most buyers want/not want it
• Make most buyers willing to pay a lot more/less for it
• Are difficult or impossible to change

Are important from a comping perspective
Step 3: Narrow the “Comps”

**ELIMINATE** those that:
- Were not “arm’s length transactions”
- Are not in average condition for the area
- Were sold with owner carryback financing
Step 4: Confirm the Comps

- Drive by
- Eliminate any that don’t seem to “fit”
Step 5: Evaluate the Comps

- There should be a “grouping” of sales prices that are within 20% of one another
- Make adjustments for any differences
- DO NOT AVERAGE
- Get to a value and MOVE ON!
What to do When There are “No Comps”

• Take a look at some of the non-arm’s length transactions.
• Consult a professional
• Take a look at the active, fixed-up listings on the market.
• Use the “trash flow analysis”
MAKING DEALS HAPPEN: INTERVIEWING, SCREENING, AND NEGOTIATING WITH SELLERS
Here’s the process of “negotiating” a deal

1. Know what YOU want and need out of a deal (set your limits)
2. Find out what the seller wants and needs (do your interview)
3. Tell the seller what you can do, addressing what you know he wants (make the offer)
4. If your wants and his wants mesh, make a deal (write the contract)
Your initial phone interview has 4 purposes:

1. To prequalify the seller and the property
   - Is the property even the right type, in the right area, in the right condition?
   - Does the seller really NEED to sell?
   - (If not, get off the phone)
Your initial phone interview has 4 purposes:

2. To build rapport with the seller
   • Making him feel like he’s really being listened to
   • Making him feel like you’re really interested in helping him solve his problem—even if that solution is something different than he thinks he wants
Your initial phone interview has 4 purposes:

3. To find out exactly what the seller’s “pain” is
   * How did he get into this situation?
   * What’s REALLY bothering him about it
   * What HE thinks will fix it
Your initial phone interview has 4 purposes:

4. To find out what the seller’s “limits” are (right now)
   • What is he willing to give up to solve the “problem”? His “price”? Getting all cash?
   • You’ll push on these limits to see how flexible they are
Approach your seller conversations with these philosophies, and you’ll be less stressed

1. He needs to sell this particular house. You don’t need to buy THIS PARTICULAR house
2. He came to you asking for help, not the other way around
Approach your conversations with these philosophies

3. You’ll do everything you can to help him reach his goal—as long as he’s cooperative in giving you the info you need to do that.

4. Sellers sometimes need help in admitting/realizing what their own limits are.
5. It’s always better to tell a seller what you can do for them than to let them think that they have options they don’t have.

IF YOU WILL INTERNALIZE THESE THINGS...

- Your whole negotiation “strategy” will change immediately
- Sellers will stop seeming like people you’re arguing with and start feeling like people you’re counseling
- You’ll make a lot more deals more comfortably
The Practical Aspects of Talking to the Sellers

#1: Get a “seller interview form”

- In some format that will allow you to easily access and fill it out—paper form? Online form?
- Remember, you must be able to use it wherever you might be taking a seller’s call
- It should be fairly detailed...
Phone Interview Questionnaire

Date:

Hi, my name is: _______ What’s yours? _______ Are you the owner? [ ] Y [ ] N
(If not, who is? Why are you calling for them?)

In case we get cut off, what’s your number?

What is the address of the property you’d like to sell?

[ ]

What neighborhood is that in? __________________________

What’s the school district? ____________________________

How did you hear about us? ____________________________

Please tell me about your property:

What type is it? (1 fam, 2 fam etc)? ______________________

Is it a rental, or do you live there? ______________________

How many rooms, bdrms, and baths does it have? ___ / ___

Do you know how old the house is? ______________________

What’s the construction (brick, frame etc)? ______________

Does it have a basement? [ ] Y [ ] N

Does it have offstreet parking? [ ] Y [ ] N a Garage? [ ] Y [ ] N

Does it have public water and sewer? [ ] Y [ ] N

What type of:
Roof: __________________________
Plumbing: ______________________
Foundation: _____________________
Heating: ________________________
Cooling: ________________________
Windows: _______________________

Approx Age _______ Leaks? [ ] y [ ] n

If the property is a rental:
Unit 1 B__ B__ / / Rent$ ______ Occupied? ___

Unit 2 B__ B__ / / Rent$ ______ Occupied? ___

Unit 3 B__ B__ / / Rent$ ______ Occupied? ___

Unit 4 B__ B__ / / Rent$ ______ Occupied? ___


Cooking gas? ______ Electric? ______

Check before sending:
Code violations [ ] Y [ ] N if yes, attach
Tax lien sold? [ ] Y [ ] N if yes, how much? ______
Taxes due now: $ ______

Like This...

Detailed questions about property, situation, and financing
Like This...

Please tell me about yourself.
Why are you selling? ____________________________________________
How long have you been trying to sell? ____________________________
Is it listed w/ a real estate agent? [ ] Y [ ] N if yes, when does the listing expire? ____________________________
When do you need to sell? ______________________________________
What will you do if it doesn’t sell by then? ________________________
How much are you asking? _________How did you decide on that figure? ____________________________
What’s the least you could take for all cash and a quick closing? _______________
How much do you owe on the property? _______Are your payments current? [ ] Y [ ] N
How much are they? ____________Does that include taxes and insurance? _______What’s the interest rate? _______
Is that fixed rate, or adjustable? __________________Would you consider a take over payments deal? [ ] Y [ ] N
Is there anything else you think I should know? ____________________________
The Practical Aspects of Talking the Sellers

Ask lots of questions

- Property/condition questions first, to help build rapport and get a feel for how the seller communicates
- These are easy questions for the seller
The Practical Aspects of Talking the Sellers

Ask lots of questions

• Situation/financing questions should be open-ended
  • Why do you need to sell?
  • What’s the situation?
  • When do you need to sell?
  • What will you do if the property doesn’t sell by then?
The Practical Aspects of Talking the Sellers

Don’t stick to the script if the seller doesn’t

• If they jump straight to telling you about the situation, listen and take notes

At the same time, make sure you have all the questions filled out before you get off the phone
The Practical Aspects of Talking the Sellers

Don’t think for the seller—and listen for the pain

• It’s easy to assume things if you know the general situation...
• Like that a seller who inherited a house just wants to cash out...
• When in fact, the real pain is that his ne’er-do-well brother has been living there rent free for 18 months, and he doesn’t want to evict his brother
The Practical Aspects of Talking the Sellers

LET THE SELLER KNOW YOU HEAR AND VALIDATE HIS PAIN!

• Seller: “If it weren’t for my ne’er-do-well brother not doing what he said he’d do, I’d just keep gramma’s house as a rental”
• You: “Yeah, family conflicts are the WORST. You’d think that given a chance like that, he’d appreciate it—but what can you do?”
The Practical Aspects of Talking the Sellers

Because you’ll circle back to it when making your offer...

• You: “Well, it sounds like what you really need is for me to buy your house and deal with the brother situation as an outsider. I can certainly do that, and since you were planning on renting it anyway, I can get close to your price by making you monthly payments”
How to ask the question:

1. Straightforwardly, in a non-nonsense, doctor-like manner
   - “And what do you owe?”

2. OR, as a followup to “what are you asking for your house?”
   - “Is that pretty close to your mortgage balance?”
And if the seller won’t answer?

- It won’t happen as often as you think
  - And if it’s happening a lot, you need to examine your demeanor
- Seller’s who won’t answer don’t tend to be very motivated
- Try “I’m just trying to get a picture here of what we can and can’t do for you, and without the whole picture, I’m not going to be clear on all the options”
In Summary:

1. The seller asked YOU for help
2. Your job is to get all the info you need to understand where they’re coming from
3. Because they don’t always know where they’re coming from—and certainly don’t know the creative options you do
4. Ask more than you tell
5. Always be asking yourself, “What’s REALLY bothering him?”
In Summary:

6. Repeat his pain back to him
7. Make sure you’ve asked ALL the questions and have ALL the information
8. Remember, and project, that YOUR ENTIRE GOAL IS TO FIGURE OUT HOW TO BEST HELP THE SELLER!
What Is “Creative Finance”?

• Any financing that’s NOT “conventional”
  • Not from a traditional bank
  • Not subject to underwriting “rules”
    • Minimum downpayments
    • Minimum interest rates
    • Credit/income checks etc
It includes

- Financing where payments are made directly to the owner
  - Owner-held mortgages
  - Lease/options
  - Land contracts
- Financing that is originated by the seller, but taken over by you
  - “Subject to” deals
- Financing provided by a 3rd party
  - Private loans
  - Cash and credit partners
Why is creative finance important?

1. Unless you have unlimited cash, deals have to be financed
2. Not every investor can qualify for traditional financing
3. Not every property can qualify for traditional financing
4. Not every deal “works” with traditional financing methods
Example

- You find a desperate seller who wants to unload a property for $100,000
- The property needs $15,000 in work to be worth $150,000
- You have $20,000 total
Example

Financed traditionally:

• You’ll need more money that you have just to pay the downpayment and closing costs
• You’ll have to find a way to make payments for the 6 months it takes to rehab and resell the property

Result: no deal, no profit for you, no solution for the seller
Example

Financed by the seller:

- You can negotiate no money down, use your cash for the repairs
- Closing costs will be minimal
- You can negotiate no interest or payments for 6 months

Result: You make a profit, the seller gets rid of a property he doesn’t want
How understanding creative finance techniques benefits you

1. It greatly lessens the importance of “having money” (or good credit) to doing deals
2. It allows you to solve more problems for more sellers, thus making more money
3. It lets you NOT be tethered to what banks want
How understanding creative finance techniques benefits you

4. It allows you to make more money on each deal by negotiating:

- Lower-than-market interest rates
- Flexible payment schedules
- Low or no downpayments
- Minimal closing costs
How Creative Finance Can Benefit the Seller

• He can get a higher price
• He can get a quicker sale
• He can get “Debt relief”
• He can get ongoing income
Some important things to know about creative finance

• Some kinds of creative finance strategies get you the deed to the property, and allow you to exercise any exit strategy:
  • Seller-held mortgages
  • Private mortgages
  • Subject to deals
Some important things to know about creative finance

• Some kinds of creative finance strategies give you a lesser form of control over the property and therefore LIMIT your exit strategies
  • Lease/options—you’re the tenant, not the owner
  • Land contracts—you have “equitable interest”, but not the deed
Some important things to know about creative finance

• Many kinds of creative finance deals trip the “due on sale” clause in the seller’s underlying mortgage
  • Subject to deals
  • Wrap around mortgages
  • Land contracts
Some important things to know about creative finance

• But the due-on-sale clause may not be much to worry about
  • It’s in every conventional mortgage
  • It says the lender CAN call the mortgage balance due if title transfers
  • Most institutional mortgages are securitized, and no one cares who’s making the payments
  • With high foreclosure rates, who’s going to call a performing mortgage due?
Some important things to know about creative finance

- In some kinds of creative finance, EVERY term is negotiable
  - The interest rate
  - The payment makeup
  - The payment schedule
  - The amortization period
  - The term of the loan
- But in some, it’s fixed by the nature of the loan
  - Subject to deals
  - Credit partner deals
Some important things to know about creative finance

- If you learn your techniques and keep your mind open, there’s a way to make almost ANY deal work creatively.

- Example: Would you buy a $100,000 house for $105,000?

- What if it was $105,000 with no interest or payments for 10 years?

- What if it was $105,000 at $10/mo for 10,500 months?
Some important things to know about creative finance

• In general, ONLY motivated sellers will do creative deals
  • Unmotivated ones will sit around and wait for their price AND terms forever
• Because these sellers are motivated by some crisis, they are vulnerable
  • Disclose all possible problems in writing
  • Do what you say you’ll do
Seller-Held Mortgages
Seller-Held Notes Are:

- NOT loans
- They’re installment sales—the seller trades his deed for payments
- The seller does NOT bring any money to the closing
Seller-Held Notes Are:

- Because there’s no “investment of money”, there’s not need to pay interest
When to Use Seller-Held Notes

- Any type of property or exit strategy
- Great when you want to hold the property for the medium to long term
- When the seller owns the property free and clear (in which case it’s a seller-held first mortgage) AND
- and the seller doesn’t need all of his money now
How they work...

• You offer a price and payments based on your goals and exit strategy
• You make an offer to the seller
• If the offer is accepted, the mortgage and note are drawn up and reviewed by both parties
• You complete your usual due diligence
How they work...

- The title company or closing attorney:
  - prepares the deed
  - holds the closing
  - records the deed and mortgage documents
Advantages of Seller-Held 1st Mortgages

- No “qualifying”
- VERY flexible terms
- Low or no interest
- Payments can start now, later, or never

To seller:
- Higher price
- Quicker closing
Case Study

• 3 row houses
• Out of town owner sick of dealing with management company
• Recent “neighborhood sweep” orders
• All rented at $625 (gross rent $1875)
• Asking “What he paid” -- $105,000
• Negotiated: $53,000 for all 3
• 3 individual Owner-held notes
• $3,000 down, $50,000 payable over 5 years at $833.33/mo
Seller-Held Mortgage DISadvantages

• Sellers are rarely willing to “carry” more than 10 years
• Depending on the exit strategy, property value, and property condition, seller’s willingness to take payments may not have much “value”
• You’ll have to get any money needed for rehab elsewhere
Creative buying strategy #1

BUYING “SUBJECT TO” THE EXISTING LOAN
Subject To, Defined...

• To purchase a property without paying off the underlying financing, then make the payments on the financing for the life of the loan
The “due on sale” clause

• Present in most post-1982 mortgages

• Allows the lender to call the mortgage balance due if any title interest is conveyed
The Truth About Due-On-Sale

1. The purpose of the clause is to insure that lenders don’t get “stuck” with low interest rate loans in a high rate environment.

2. In continuing low-rate markets, loans are almost never called due.

3. In a high-foreclosure market, loans are almost never called due.

4. If the loan is called due, it is NOT a crime.
• The terms of the underlying loan are favorable
  • Fixed rate
  • Low rate
  • No balloon or pre-payment penalty
• When equity can be captured and the property will cash flow
• The owner is not in immediate financial trouble
• You plan to hold the property medium to long-term
  • Rentals
  • Lease/options
  • Land contracts
Subject to Sample

- 8 room 4 bedroom
- Nice “move up” neighborhood
- ARV about $190,000
- Repairs about $10,000
- Loan balance $180,000
- Purchase Price $154,000
Great Deal Example 2: Good Terms

• Took over 5.25% mortgage, 12 years left to amortize, payments of $1400/mo PITI
• Lease/Optioned for $1,400/mo
• $5,000 & $9,000 Option fee
• Option Price $195,000
Subject to example

• Evaluation:
  • Paid 86.4% of value ($164K/$190K)
  • Cash flow=$0
  • Cash Invested=$5,000 ($10,000 repairs-$5,000 option fee)
Subject to example

• Evaluation:

• Equity=$26,000 ($190k-$164K invested)

• Annual Mortgage Pay down by TENANT first year=$8,400

• Annual tax savings from depreciation=$1515
Good for the Seller...

- Provides “debt relief”
- Quick sale
Good for the Buyer...

- Captures favorable “homeowner” rate
- Possible nothing down deal
- No loan fees
- No qualifying
How it Works

• You find a willing seller with a good loan
• You evaluate the deal and decide if it’s a good one
• Write an offer and the seller accepts it
• You do the usual due diligence
How it Works

• You go to a real closing, where you get the title but the mortgage remains in place
• You becomes responsible for paying back the loan
• Seller also remains liable
• Lender retains the mortgage against property as security
Quick negotiation tips

1. Don’t promise the seller a payoff
2. Keep your language simple
3. Don’t be afraid to ask for unusual things that will make the deal work for you
What can go wrong

• Seller declares bankruptcy—bank calls loan due
  • Stop making payments
  • Negotiate short sale with bank
  • Sell house
  • Give house back to seller
Private loans
Private Mortgages—the basics

• A private individual acts as “the lender” to finance the purchase and/or repair costs of a property for you
• The lender gets a note (promise to pay) and a mortgage against the real estate (security for the promise to pay)
• The transaction proceeds much as it would with a bank as lender—only no qualifying, downpayment etc.
How It Works

• You locate potential private lenders and ‘negotiate’ the general terms
• You find a deal that will work for you under the terms you’ve negotiated
• You approach the lender about the specific deal
• You complete your usual due-diligence (inspections, title search, etc.)
How It works

• The private lender gets the money to the title company for you to buy the property from the seller

• the title company or closing attorney prepares the deed, holds the closing, records the deed and mortgage documents, and holds any documents in escrow that are necessary to protect the deal into the future

• Any repair money is handled separately...
Who Private Lenders Are

- Not professional lenders
- Not rich people
- Not active investors
What Private Lenders Do What They Do

- high returns
- fixed returns
- Security
- Low hassle
Where they get their money

• IRAs
• Equity lines
• Savings
• ??
Private Mortgages—the Terms

- Vary from lender to lender
- Usual terms:
  - Loan amount—70% of ARV
  - Interest rate—6-10%
  - Balloon—6 mos to 5 years
  - Payment—P&I or I only
  - Loan costs—possible appraisal, lender’s policy of title insurance
Pros and Cons

Pros

• Quick and easy
• No seller participation required
• Availability of rehab funds

Cons

• Not “permanent” financing
• High rates of interest
• Can’t pool money
• Must pay off loans when property sells
• Securities issues
How to find private lenders

- Your friends, family and colleagues
- Educate them before trying to close them
Private Mortgages--Process

- You find a property
- You find a private lender
- At closing, lender brings or wires money to purchase the property
- Title company disburses check to seller
- You leave with the deed
- Lender leaves with a note and mortgage
Private Mortgage Example

- Karen Avenue
- 7 room 4 bedroom
- Bread-and-butter area
- ARV $140,000
- Repairs $25,000
- Purchase price $70,000
Karen Avenue, Bridgetown

• No Money, No Credit Financing:

Private 1st mortgage of $105,000 @ 8% interest payments $765.35/mo
<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase/repair cost</td>
<td>$100,000</td>
</tr>
<tr>
<td>Holding cost</td>
<td>$4,200</td>
</tr>
<tr>
<td>Loan amount</td>
<td>$105,000</td>
</tr>
<tr>
<td>Cash invested</td>
<td>$0</td>
</tr>
<tr>
<td>Monthly PITI</td>
<td>$874</td>
</tr>
<tr>
<td>Monthly rent</td>
<td>$1095</td>
</tr>
<tr>
<td>Monthly cash flow</td>
<td>$221</td>
</tr>
<tr>
<td>Option fee collected</td>
<td>$4,000</td>
</tr>
</tbody>
</table>
Important Tips About Private Loans

1. States regulate them as securities
   - Do NOT advertise, **ever**
   - Most states offer exemptions for mortgage or deed-of-trust backed securities: get one
   - Never borrow from someone who can’t afford it
   - Always disclose all the risks of and facts about the loan to the lender, in writing
Important Tips About Private Loans

2. Don’t take repair money in cash, ever
3. Don’t agree to terms you can’t meet
4. Over-protect the lender
   • Insurance policies
   • Properly drafted and recorded documents
   • True 70% or less LTV
Hard Money
“Hard Money”: What it WAS

• Asset-based lending: i.e., it didn’t matter what your credit or income looked like—the loan was based on the property

• High interest: 13-18%

• High cost: 5-10 “points”

• Short-term: 13-36 months

• Higher LTV: 80% of purchase price + 80% of rehab costs
“Hard Money”: What it IS

- **Credit-based lending**: whether you can get a loan and at what rate depends on credit score
- **High interest**: 13-24%
- **High cost**: 5-10 “points”
- **Short-term**: 13-24 months
- **Higher LTV**: 60% of ARV, including repair money if the numbers work
  - But...you may have to put 5%-20% of the purchase price down
Are these just private lenders who charge more interest?
• **NO**
• Hard money lenders are in the BUSINESS of lending money, private lenders aren’t
• Hard money lenders dictate terms, private lenders don’t
• Hard money lenders have a higher risk tolerance
• Hard money lenders have systematic underwriting standards
Pros and Cons of Hard Money

Pros
• Quick and easy
• No seller participation required
• Availability of rehab funds

Cons
• Not “permanent” financing
• VERY high rates of interest
• High costs
• Redlining of areas
• Credit score requirements
When Hard Money Makes Sense

• When you are holding a property short-term
  • Buying, fixing and selling OR
  • Buying, fixing, and refinancing

• When you’ve bought cheap enough to justify the additional cost
Example: Hard Money Would Make Sense

- Rod’s Deal
- 6 rm 3 br in College Hill
- ARV $100k-$110k
- Repairs: $10k
- Purchase Price: $55k
- Total cash investment: $65k
- Profit if paid for in cash: $35K minimum
Example: Hard Money Would Make Sense

• With a hard money loan:
  • 60% LTV=$60,000 loan amount
  • 5% purchase price+ rehab costs=$3,000 down
  • Loan amount: $57,000
  • Appraisal and misc costs: $500
  • Total cash up front: $6,250
  • Points: $2,850 (rolled into loan)
Example: Hard Money Would Make Sense

• With a hard money loan:
  • Interest costs at 15% for 6 months: $4,275
  • New profit:
    • $35,000
    • -$4,275 points
    • -$3,250 loan costs
    • $26,475
  • About $9,000 LESS
Who lends hard money?

- Many companies and individuals, now mostly local and regional
- Google or inquire at your association
Hard Money-The Process

• You find a hard money lender
• You find a property
• At closing, lender brings or wires money to purchase the property
• Title company disburses check to seller
• You leave with the deed
• Lender leaves with a note and mortgage
Partners
Partners—the basics

- People who have the money (or downpayment and credit) to buy deals BUT
- Not a loan—they take part of the profits of the deal
- 4 kinds of partners:
  1. Handholding partners
  2. Active partners
  3. Cash Partners
  4. Credit Partners
Pros and Cons

Pros

• Same as private lenders PLUS
• Often no debt service
• Can make deals work that wouldn’t work debt
• Psychological benefit

Cons

• Often costs more on the back end
• Can’t “cycle” money
• Securities issues?
When to Use Cash Partners

• When it’s desirable to have no payments for some period of time
• The property is of a nature that it’s unlikely to cash flow as with a loan
• You intend to hold the property indefinitely, and need permanent “financing”
• The cash partner is someone for whom tax benefits are crucial
Who cash partners are

- The same people as private lenders, only:
  - Tax benefits are important to them.
  - They are willing to take more risk to get more reward.
  - They are willing to invest their funds for a longer—perhaps indefinite—period of time.
The Process:

- You find a potential cash partner
- YOU find and evaluate the deal
- You present the deal to the potential partner
- You start an entity (usually an LLC) & get a good operating agreement
- Prior to the closing, the cash partner puts money in the entity
- The entity closes the deal
Variations

- Unequal distribution of tax benefits
- Unequal distribution on income
- Unequal distribution of equity/back end
- Unequal distribution of appreciation
Caveats

- Transparency is important.
- Professional accounting for tax preparation is also a good idea.
- The operating agreement of the entity is incredibly important.
Credit Partners
What It Is

• Using a conventionally qualified person to purchase a property, then buying the property subject to that loan
When It’s Used

- Properties that you intend to hold indefinitely
- Properties that are in after-repaired condition
- Often, to get permanent fixed-rate financing on a property you already own
About the Loan

• The terms are important
• The costs are important

Absolutely do NOT allow your partner to get a loan that is:

• Adjustable rate
• Subject to a balloon
• Subject to a pre-payment penalty
• In the form of a line of credit
Qualifying the Partner

• The partner must have a job with a w-2 income
• The partner must have 20% down
  • Not from an IRA
• The partner must have at least part of the approximately 5% in financing and closing costs
• The partner must have a high credit score.
• The partner must have fewer than 4 institutional mortgage notes
Pros and Cons

Pros

• It allows you to have favorable, fully amortizing loans created on your “keeper” properties
• It allows a person with good credit and cash to leverage that cash over multiple properties

Cons

• As when you use a cash partner, you will always give up some of the benefits to the partner to entice him to invest with you
• In theory, the lender could call the loan due
The Process

• You locate a potential credit partner AND GET HIM PREQUALIFIED
• YOU find and evaluate the deal (and often fix and rent it)
• You present the deal to the potential partner, showing him the profit potential and how you’d like to divide it
• If you plan to ultimately co-own the property with the partner set up an entity & draw up an operating agreement
The Process

• The credit partner will buy the property in his name.
• The lender will choose the title company and control the closing.
• Following the closing, you and the credit partner will follow the plan you agreed upon in advance for the ongoing ownership and management of the property
Qualifying the Partner

- The partner must have a job with a w-2 income
- The partner must have 20% down
  - Not from an IRA
- The partner must have at least part of the approximately 5% in financing and closing costs
- The partner must have a high credit score.
- The partner must have fewer than 4 institutional mortgage notes
Credit Partner Example

• Remember this?
• Private loan for $105,000
• Value=$140,000
• Monthly PITI payment with private lender: $874
• Monthly cashflow with private lender: $221
Credit Partner Example

- SELL TO A CREDIT PARTNER--
- $110,000 sale price
- Credit partner puts down about $27,000 with costs
- New loan is $88,000 at 5.25% interest
- New PITI payment is $648
Credit Partner Example

- After the closing, you have:
  - $5,000 cash-closing costs
  - ½ of $30,000 equity
  - ½ of $447 cash flow
  - ½ of tax breaks
  - ½ of future appreciation
Credit Partner Example

- After the closing, the partner has
  $27,000 cash invested
  $15,000 equity
  $223/mo cash flow (about 9.9% cash on cash return)
  ½ of tax breaks
  ½ of future appreciation
Real Estate Can be Broken Down Into Separate Rights...

- The right to live in the property
- The right to “quiet enjoyment”
- The right to change the property
- The right to convey the property
- The right to pledge the property
- The right to farm, dig for gold, drill for oil, etc etc
Any right you HAVE, you can SELL or “SANDWICH”

- (assuming the contract that coveys you the right doesn’t prohibit you from doing so)
- WHOLESALING is selling ONE right—the right to buy
- SUBLEASING is “sandwiching” the rights to possession, occupancy, and private enjoyment
- There are 2 creative buying strategies that take advantage of this fact...
Land Contract (Contract for Deed)

• A financing instrument in which:
  • Seller (vendor) remains “on title” until final payment is made
  • Buyer (vendee) gets “equitable title”
  • Buyer is the owner in the eyes of the IRS and the state
Good for the Seller

• Higher sale price
• Quicker sale
• Ongoing income
• AND seller gets to remain on title
Good for the Buyer

• Possible low money down deal
• Possible low rate of interest
• Can be done on property with underlying loan
• SOMETIMES easier to talk the seller into than sub to or owner held mortgage
How it Works:

• At the closing, vendor and vendee execute a land contract
• Land contract is recorded
• Vendee makes monthly payments to vendor (or his lender)
How it Works:

• At date of last payment, vendor transfers title to vendee
• Although title does not pass from seller to buyer at the closing, “equitable title”
Lease/Option

• NOT a financing instrument, but a dual contract in which:
  • The Seller & buyer enter into a tenant/landlord relationship (with right to sublease) AND
  • The seller & buyer agree on a future price and terms for sale
Good for the Seller

• Provides “debt relief”
• Unlikely to trip the due on sale clause
• Owner retains much control, tax advantages
Good for the Buyer

• Gives enough control to allow cash flow and medium term gain

• Creates little obligation on the part of the buyer
How it Works:

• Buyer and seller sign a lease (with right to sublease) and option
• Buyer pays monthly rent to seller
• Seller transfers title when (if) buyer exercises option
• Because only the right of possession and occupancy+the right to buy passes, EXIT STRATEGIES ARE LIMITED!
Some Warnings about Control Without Title

• When you don’t have the title to the property, your investment/control is AT RISK from activities of the seller/owner.

• There are advanced strategies to reduce this risk.

• Land contracts and lease/options are generally used ONLY as pretty-house strategies (to minimize your investment).
Learn all there is to know about creative buying...

- The Transactioneering Mastery Course
  - How to negotiate creative deals
  - How to do the math
  - How to market for creative deals
  - How to document creative deals
  - How to decide which deal is best for which seller

$997
What to do next

1. Decide on an exit strategy.
2. Get a detailed education about that strategy.