Transactioneering Mastery Academy
Week 1 Homework Answers

Please do not read until you've completed the homework on your own!

Assignment 1: Set your limits

Review chapter 1 of the Transactioneering Guide, especially the section called "Setting Limits".

Remember that setting limits is the best way for you to quickly decide which potential deals are actually opportunities for you, and which are not right for your exit strategy(ies), which are beyond your current resources, which will end up taking a huge amount of your time without resulting in an appropriate profit for your efforts.

Example: if your exit strategy is to lease/option, getting involved with a commercial property like a truck stop that you don't know how to evaluate and for which there are limited buyers is a distraction likely to end in nothing, no matter how "cheap" it is or how much time you put into it.

There's a tendency for real estate entrepreneurs to say, "I'll do ANY deal as long as there's a way to make money from it", and not want to set real limits on when they'll simply say, "No thanks" to a particular opportunity and move on to something more familiar/profitable/likely to succeed. Please don't fall into this trap; it ends in wasting a huge amount of time.

Answer, for yourself (there are no "right" answers here—these are your personal preferences and needs) these questions:

These are Vena's answers for the purpose of example, not necessarily the "right" answers for you

My property limits:

I will only pursue properties of this type

[x] Single family
[x] Two family
[x] 3 family
[x] 4-family
[x] 5-40 units
[ ] 40+ units
[x] Condominium
[x] Mobile home
[ ] Vacant land
[ ] Commercial properties
[ ] Other:

I will only pursue properties within this area: (can be a distance, city, county):

Within 50 miles of downtown Cincinnati, but not in the City of Cincinnati

I will only pursue properties in areas where these exit strategies can be successfully implemented:

[x] Low income rentals
[x] middle-high income rentals
[x] Lease/options
[ ] Retail (fix and flip)
[x] Wholesale
[x] Sell and carry back "paper"
[x] Repair for Equity
[ ] Other:

I will not pursue properties that need this KIND of work:

[ ] Any
[ ] Mechanical (HVAC, plumbing etc)
[x] Structural/foundation
[x] Flood damage
[x] Fire damage
[ ] Other:

(for keeper properties. Wholesale properties can need any of these)

I will not pursue properties that need more than $_25,000_ in work (for keeper properties. Wholesale deals can need any amount of work)

I will not consider properties smaller than 600 square feet or larger than _no limit___ square feet

I will not consider properties with fewer than __1__ bedrooms or more than _no limit___ bedrooms

I will not consider properties built before __1960__ (date) for keeper properties. Wholesale properties can be any year.

I will not consider properties that have:

[x] Functional obsolescence
[ ] Flat roofs
[x] No garage*
[ ] No dining room
[ ] No offstreet parking
[ ] Other:

*unless in an area where garages are extremely uncommon. These do not apply to wholesale deals

Financial Limits
(note, none of these apply if I plan to wholesale the property)

I will not consider properties with an after-repaired value of under $_80,000__ or over $_500,000_ for keeper properties.

I want to get at least this much equity any time I do a deal: $_____ (or _20___% of ARV)
Unless: the property needs little to no repair AND has net monthly cash flow of more than $200/mo.

I want $__200_ in minimum net cash flow from any deal I keep
Unless: The property needs little to no repair AND has more than 20% equity
OR the principal paydown on the financing is so fast that it will be paid off in 10 years or less

If I have cash invested in a deal, the minimum return on cash invested I want is _12__%
Unless: The property has at least 30% equity after all repairs are made

If a deal MUST contain a "balloon payment" the minimum term I will accept before the balloon is _10__ years
Unless: My exit strategy for that property guarantees that it will be sold and the loan paid off at least 1 year before the expected balloon
OR the paydown on the loan is so quick that the balloon can easily be paid off from cash reserves or a high-interest mortgage at the time of the balloon

I'd like to have all "keeper" properties paid off within _10__ years of the start of the deal (in other words, what is the maximum fully-amortizing loan term you'd like to negotiate)
Unless: The loan is fixed rate, less than 5% interest, and creates cash flow of at least $200/mo, in which case I'd like it to be as long-term as possible

Control Limits:

1. [ ] I always want to "get the deed"
   [x] I always want to "get the deed", unless: 1) I'm not sure that I really want the property long-term 2) The seller needs to keep the deed for tax reasons—ie capital gains effect—and the lease/option agreement is backed by a recorded option AND a "mortgage to secure option"
   [ ] I never want to "get the deed"

These are the benefits I most want, and am never willing to give up to the seller, a buyer, a private lender, or a partner:

[ ] The equity captured at closing
[ ] The appreciation
[ ] The amortization (mortgage paydown)
[] The tax depreciation
[ ] The cash flow

These are benefits that I care less about, and am willing to give up to make a deal to get the ones I really want, above:

[x] All or part of the equity captured at closing
[x] All or part of the appreciation
[x] All or part of the amortization (mortgage paydown)

[x] All or part of the tax depreciation
[x] All or part of the cash flow

I can tolerate and am willing and able to take on these risks/responsibilities:

[ ] Any rehab needed (this must be done and managed by others)
[x] Management of the property
[x] Ongoing maintenance of the property
[ ] Personal liability for the debt payments and expenses (taxes, insurance, utilities etc)
[x] Corporate liability for the debt payments and expenses (taxes, insurance, utilities etc)
[ ] Personal liability for legal damages
[x] Corporate liability for legal damages

Other “limits”:

Section comprehension:

What is the key question that Transactioneers always ask themselves when approaching an opportunity?

[ ] a. How can this deal be structured to be the most profitable?
[ ] b. How can I best help the seller?
[x] c. What do I want, what does the seller need, and in what ways could these things be achieved?
[ ] d. What is the best strategy (subject to, lease/option, owner financing) for this deal?
[ ] e. None of the above

Which of these are benefits of owning real estate?

[x] Tax depreciation
[ ] Taxes and insurance
[ ] Rehab
[ ] Maintenance
[x] Appreciation
[x] Right to transfer
[x] Cash flow
[x] Use of the property
[x] Mortgage paydown

Check all that are true:

[x] The responsibility to maintain/rehab a piece of real estate can be legally separated from the benefit of cash flow with the right contract

For example, in a master lease or lease/option, some or all of the maintenance/rehab costs can be made the responsibility of the legal owner, while the optionee gets any cash flow they collect over the payment to the owner

[ ] The benefit of tax depreciation can be legally separated from the legal ownership of the property with the right contract

The IRS says that the owner gets the depreciation, whether it's the deed holder or the holder of the equitable ownership in a land contract

[x] The cash flow from a property can be separated from the legal ownership of the property with the right contract

Both lease/options and land contracts can do this

[x] You can be the legal owner of a property, but not get the benefit of any appreciation in its value

When you sell a property on lease/option or land contract, you've typically fixed the price of the final sale. The buyer gets the benefit of depreciation

True or false:

You should always decide how much you want to make on a deal on a case-by-case basis [ ] T [x] F

You should set your limits up front

Low money down, no-qualifying deals are basically always good deals [ ] T [x] F

Deals can be low money down, no qualifying, and still have serious negative cash flow or be too much hassle for the profit

You should always try to pay no more than 70% of the ARV of a property less repair costs [ ] T [x] F

With good terms, you can pay much more—even over 100% of the ARV, in some cases

Your goal should be to complete EVERY deal you run across [ ] T [x] F

Your goal should be to do deals that make sense for you and benefit the seller

The key to a successful deal is giving the seller what he wants [ ] T [x] F

It's giving the seller what he NEEDS.

Learning Transactioneering means you can find the one right solution to any "situation" [ ] T [x] F

There are often several "right" solutions. Learning Transactioneering lets you see what those are, weigh them, and then discuss with the seller which one might work best for him

You can Transactioneer deals, even with sellers who aren't particularly motivated to sell [ ] T [x] F

If you got this wrong, please go back to Real Estate 101

The sellers who are most likely to do creative deals are:

[ ] Landlords
[ ] Homeowners
[ ] People who are behind on their payments
[x] People who have a property they don't want and are flexible in how their problem is solved
[ ] People who need cash to solve some other problem in their lives