my RealEstate Wealth

Tips and Secrets of Real Estate Investing

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INTRODUCTION

What It Takes To Become a Successful Real Estate Investor

Real estate investing is not rocket science. All it really requires is a determined individual who is willing to take the time and learn the business. Real estate investing does not require large sums of money, inside contacts, or a magic touch. All that is really necessary is knowledge and that is what you will find in the pages of this book.

Tips and Secrets for Real Estate Investing was written with the aspiring real estate entrepreneur in mind. This book is designed to provide you with a no-nonsense approach to real estate investing. Everything you read is of importance and has found its way onto these pages for a specific reason. What you will not find in this book is wordy explanations and complicated information that simply waste your time. We all know that time is money, and I am here to help you make money, not waste it.

With that said, let's return to the original statement of this introduction, real estate investing is not rocket science. I assure you that as long as you have a will, there is a way. Sure, investing isn't for everyone, but you are not like everyone else. You have an objective and you are searching for a way to obtain it. This factor alone separates you from the rest of the crowd. In other words, if you are reading this, it is proof that you are motivated.

In addition, it is crucial that you have the ability to make decisions. I know this sounds simple, but for some people, decision making is a difficult task. There may be times that you must make difficult decisions. If you are unable to do so, then maybe this isn't the investment opportunity for you.

There are several traits in a person that can make investing easier. For example, it is helpful if you are organized, computer savvy, and a people person. But none of these things are required of you. Therefore, your first step toward successful real estate investing should begin by studying this book. The more you know and the better you understand the real estate market, the more likely you are to be successful in it. So, what does it take to become a successful real estate investor? Knowledge and the ability to make decisions, it is as simple as that.

Why Invest in Real Estate?

Without argument, there are plenty of ways to turn a profit in today's economy. So what makes real estate the right option? There are several answers to this question. However, for the purpose of this book, we will focus on one primary answer. Real estate investing consistently offers a better return on your money than other traditional forms of investing such as stocks, savings certificates, commodities, life insurance policies, consumer merchandise, and bonds. Property is extremely versatile. Most pieces of real estate come with a handful of options or different ways to generate a profit. Not only that, but real estate is almost always appreciating, and when it is not, you can use that to your benefit.

Now don't get me wrong, there are plenty of disadvantages and advantages associated with investing in property. Let's take a closer look at those factors before moving on.

The Advantages of Real Estate Investing

High Returns

As previously mentioned above, one of the major advantages that come with investing in real estate is the prospect for high yields. It is not uncommon to see a profit average of 20 percent when investing in a piece of property. In fact, depending on the market, it is possible to experience an even higher yield.

High Leveraging Opportunities

Real estate investing offers the investor the best leveraging opportunities. For example, the cash requirements are not the same as they are with other investing alternatives like stocks and bonds that require the purchaser to borrow 50 percent of the value of the securities. In real estate, it is more common to invest between 20 and 40 percent of the value of the property. Furthermore, based on the market and particular situation, it is possible to invest with as little as five percent down.

Flexibility with Income Tax

Who doesn't appreciate flexibility when it comes to income tax? When investing in real estate, the investor enjoys certain allowances and deductibles. Most notably, common expenses such as insurance premiums, property taxes, management fees, maintenance feeds, and other operating costs can effectively reduce your taxable income.

Personal Control

Not all investing opportunities are created equal. When putting money into real estate, the investor is able to appreciate a higher level of personal control than when investing in alternative options. Each purchase can be crafted to fit the current situation and property. Property can be refinanced, terms can be adjusted, and investors can rent or sell. Essentially these details are left to the investor. Therefore, the investor gets to decide when and how to move forward with the investment. Maybe it's not a good time to sell. The investor can opt to rent instead. There are several examples, but the point is, when you invest in real estate, you reserve the right to invest and sell under your own terms as determined by what personally and economically satisfies you.

The Disadvantages of Real Estate Investing

Unpredictable Liquidity

Buying real estate is usually fairly easy. Sometimes it is harder to find a sound investment, but overall there are always houses or property for sale. The downfall to real estate is you never know how liquid your asset will be. This is because the market greatly affects and is greatly affected by the overall economy. If the economy is in a slump and lenders are not approving loans, it may be harder to sell a house than say during the housing boom in and around 2006.

With that said, you don't have to sell your property to make a return on your investment. In fact, there are several ways to earn a profit aside from selling or flipping a house. We will review these methods in full detail shortly. For now, just know that by preparing for the worst, you can overcome the challenge of unpredictable liquidity. Remember, in the long run, investing in real estate is still your best shot at a higher return on your money. You need only know what you face going into the situation.

Capital Requirements

Another primary disadvantage to real estate investing can be attributed to poor liquidity. Depending on the investment, you may be required to come up with a large amount of capital to put down. This very factor makes it difficult for consumers to purchase property and thus makes your investment hard to liquidate. The good news is I will share with you my techniques on how to avoid the need for a large amount of capital when investing. You will find this information in an upcoming chapter.

Risk

More than likely you already know that in order to make a big game, you must be willing to accept a certain amount of risk. Like all investments worth your while, real estate has some associated risk.

It is important that you take a moment and reflect on this fact. Real estate investing is not risk free. While there is potential to earn a great deal of money, there is also the chance that you will lose money.

It is for this very reason you need to educate yourself on the market and investing techniques before diving in. It is also for this reason that you need to be an accomplished decision maker. If you can't evaluate the situation and make an educated, fast decision, your risk of failure increases.

The market is volatile and heavily dependent on numerous factors. While there are many things you can control as an investor, you have no say in the fluctuation of interest rates and how they respond to laws of supply and demand. At any given moment everything is up in the air. Risk is not be downplayed. Know it, understand it, accept it, if not, it's time to move on.

The Art of Landlording

Ask just about any landlord and he or she will tell you, it's no easy job. When you invest in real estate, you almost always run into a situation that requires you to become personally involved with the tenant or manager. How you handle landlordism will depend primarily on your interpersonal skills and the other individuals you interact with.
Being a landlord can be time consuming and emotionally taxing. While it is possible to have pleasant relationships with your tenants, it is just as possible to have the opposite. In fact, landlording is a major deterring factor for some potential investors. It is simply too much hassle. Your feelings on this topic should be taken into consideration when looking into investing. If you have an opportunity that requires landlord duties, perhaps that is not the investment for you. Either way, always make sure to keep this in mind.

Management and Maintenance

Another downfall to investing in property is the requirement for near constant management and maintenance. Investing in real estate is a busy business. You have to keep up on everyday living expenses such as the cost for a new roof, electrical repairs, plumbing expenses, etc. In order to get a sound return on your investment, you may need to enhance or upgrade your property. Management and maintenance can be a major burden, especially if you didn't invest in a sound project.

As an investor, you may also need to hone your handyman skills. From driving nails to patching holes, your role hat will increase significantly. Most real estate investors are hands on. There presence is required for the upkeep and successful sale of the property.

Summary

In summary, real estate investing is not for the faint of heart. To become a successful investor, one must boast a certain amount of determination and take the steps needed to become educated on the topic. With the right amount of knowledge and understanding, anyone can thrive at investing.

Real estate investing is a popular form of investment because it offers a high return on the investment. In addition, investing in property is a flexible venture that leaves the investor in charge 90 percent of the time. Lastly, investors enjoy certain tax breaks associated with operating costs that help reduce their taxable income and thus reduce the amount of income tax they must pay.

Real estate investing also has a down side, most notably, there is a certain amount of risk that comes with investing in property. This is because there are factors that are out of your control including the health of the economy, interest rates, and supply and demand. Additionally investing can sometimes call for a large amount of capital. This can be difficult if you don't have a healthy cash flow. When you invest in real estate, you may be required to personally assist with the management and maintenance of your investment. This means your hands are going to get dirty. Finally, investors often find themselves playing the role of landlord. This position requires keen interpersonal skills and patience. If you aren't interested in interacting with tenants, landlording is not usually a good investment option.

THE SECRETS YOU NEED TO KNOW

Now that you know the basic advantages and disadvantages of real estate investing, we can review the top five secrets you need to know when making the decision to become an investor. These secrets will answer many of the questions that have gone unanswered up to this point of the book.

In just about any investment industry, you will find there are people who reap major rewards. They are the over-achievers. The investors you aspire to emulate. Without appearing to project effort, these investors seem to always make the right decisions, be in the right place, and always at the right time. They are the tycoons, they make it look easy, and undoubtedly, you want to know how they do it. The truth of the matter is these individuals have done their homework. As you are doing, they have researched their field and know when and how to make decisions. The following secrets are what successful investors already know and what you need to know to follow in their footsteps.

Secret 1 – You Need A Lot Capital to Invest

It is a common misperception that you need a lot of capital to successfully invest in real estate. While it is easy to see why this may be the case, it is simply not true. Investing is very different from say buying your first home. You don't need to enter the market after making a fortune somewhere else. Investing is not reserved for high rollers. You don't even need a hefty bank account to make your investment dreams come true. All you really need is a well-researched investment opportunity that has profit potential backed by solid financials.

There are several ways to break into the investing market with little or no cash in your pocket. We will go into depth regarding funding options in the Financing Chapter. One of the best ways to earn a profit via investing is to form partnerships with other investors who already have the capital you need to make the purchase. Perhaps the idea of seeking out investors to partner with is not ideal for you, keep in mind that it is probably easier than you think.

If you have the right deal, there are plenty of wealthy individuals who are willing to make a profit off of your hard work. Think of it from this perspective, if you already had all the money you needed, but wanted to find ways to make more money with little effort, how would you do it? Doesn't it make sense to let someone do the dirty work for you and simply had over funding and receive a paycheck in return?

Keep in mind, the first investment using this method will most definitely be the hardest one. After that, as you build your portfolio of success, you will have investors hunting you down wanting a part in your next deal. The key here is to stick it out for the benefit of the long run.

Now if you simply are not willing to work with another investor to make your dreams a reality, there are other options. One way to invest in real estate without a large amount of capital is to being as a bird-dogger. A bird-dogger does all the leg work it takes to find the perfect investment. This person knows the market and knows a good deal when he sees one. The bird-dogger is constantly searching for new investments and either sells those leads to a real estate investors or contracts with an investor to earn a finders fee when the property is purchased as an investment.

Secret 2 – You Don't Have To Start Small

While there is nothing wrong with starting small, understand that you don't have to. Many people think that because they don't have a lot of capital, they must start with small investments. The previous secret reveals that this is not the case.

In addition, it is often a misperception that big deals are simply too risky, especially for new investors. Again, not true. It is not impossible to invest in a $250,000 home, nor is it out of your reach to show interest in a $500,000 duplex.

Now surely you are thinking these high ticket items are not for you, but hear me out. While small investments usually ride on the investors earning potential, larger investments are often secured by the asset itself. In other words, it may be easier to get invest in a multi-million dollar commercial complex than a single family home. Therefore, the larger investment actually poses less risk than the home.

Larger properties are also less risky because they have the ability to house more occupants. For example, when a home is leased out, it is 100 percent leased. In turn, when it is not leased, it is 100 percent vacant. However, when a 10-unit building is leased at 50 percent, there are tenants paying rent. Unlike its counterpart, you have more tenants to rely on and thus the risk factor is lowered.

Secret 3 – You Cannot Get Rich with "No Money Down"

Contrary to popular belief, you cannot get rich buying into the "no money down" philosophy. In reality, no money down is another way of saying "100 percent financed." When someone finances 100 percent of an investment it calculates into high monthly payments and thus stops up cash flow. You don't want that.

Take a moment here and note the terminology. Just because 100 percent financing is not a good idea, this doesn't mean you have to fork over the down payment straight from your checking account. As you already know, you can utilize investors for upfront capital and down payments. In other words, "no money down" doesn't necessarily mean what you originally thought it did.

Another common misconception is the idea that you can get rich quick by "flipping" houses. If you haven't heard of this term yet, "flipping" entails purchasing a piece of property and then selling it for a higher price in a very short amount of time. The flipping concept works in certain markets. During the recent housing boom, homes were appreciating at such an enormous rate that investors were buying homes from builders and by the time the home was done – nine months later – the house was worth thousands more than the original loan. But in the real world, flipping isn't a sound investment strategy. Sure some people pull it off, but it is not easy and it is definitely risky.

Secret 4 – The Magic Touch Is a Myth

While it's an easy theory to buy into, there really is not such thing as the magic touch. You may see investors who are quite successful in the real estate market and think their profits are built upon luck, but that is simply not the case. The primary difference between successful investors and mediocre investors is vision. The successful investor, as I have already stated, knows the market and how to make decisions. This person can take everything they know about real estate and use that information to find gems in the market. Accurate vision is one of the keys to success. Without it, your odds of multiplying your wealth dwindle.

By utilizing common sense, investors gain a clear understanding of a property and the opportunities that come with it. For you, the question is, "how do I know my common sense is on track?" The answer to this question is actually simple. If you have a vision for a piece of property, share that idea with others. If you find your colleagues do not understand your concept, then perhaps you are off track. Keep this in mind, because if you are unable to sell your vision of the property, it is likely to be hard to sell the property. This will cost you money, and you don't need to do that.

Secret 5 – You Don't Have To Have Connections

Now before you jump to conclusions, don't get me wrong. Having connections in the real estate industry is a definite plus when venturing into investing. However, you do not have to be connected to the market as you first enter the industry. Too many people believe that you have to know someone before you can break into investing. Don't be one of these people.

The only thing that stands between you and success is you. You can know all the people in the world and still not be successful. This is a hard truth. Success comes from you directly. Not the people you know. Sure, friends and colleagues can be a major asset in your business, but if you don't have any do not fear.

This secret is not to downplay the importance of networking. Obviously it's going to be easier to sell property if you know people. On the other hand of business, it is going to be equally easier to find good investments if you have a support group. Surround yourself with people you trust. People you know who understand the industry and have demonstrated their knowledge by making successful business moves.

As an investor, it should be a primary objective to build your network. This can be done a number of ways. First and foremost, join a local REI, attend your area chamber of commerce meetings, and become a member of a local civic group. Commit yourself to these meetings and attend them on a regular basis. While you are there, introduce yourself. Learn as much as you can about the people around you. What they do, who they are, who their families are, etc. Connect with others by identifying commonalities, such as hobbies and business interests. Building your network is constant, be sure to always carry business cards and pass them out. Furthermore, make sure you are asking others for their cards. Store their information in an Excel spreadsheet so it is accessible and easy to sort.

There are also other ways to network. Volunteer during public events, attend auctions and introduce yourself to other investors, the opportunities are endless.

Summary

In summary, there are five secrets that separate successful investors from everyone else. With these secrets you too can achieve your goals. These secrets are as follows:

1. You Need A Lot of Capital to Invest – By utilizing other investors, you can generate enough capital to invest in property without pulling money from your own pocket.

2. You Don't Have To Start Small – Small isn't always better. In fact, it may be wiser to invest in larger ventures, such as multi-units, because these types of property hold a lot of value. In addition, if you go the landlord route, renting our a multi-unit complex is less risky than a single family home because you have more tenants to rely on for monthly payments.

3. You Cannot Get Rich with "No Money Down" – Purchasing a piece of property for no money down is simply not feasible. If you truly financed a venture for 100 percent of its cost, this would turn into large monthly payments and no money to help with improvements. In addition, flipping houses – buying and selling on a fast track – is also not feasible in most markets. There is no fast way to get rich. You must build your wealth.

4. The Magic Touch Is A Myth – There is no such thing as a magic touch. Successful investors aren't lucky, they are well educated, can make decisions, and have common sense. This is all you need to be successful too.

5. You Don't Have To Have Connections – You don't have to have a major network of colleagues who are already in the industry to break in yourself. Who you know isn't as important as it seems. However, you will need to build a network as you grow your business as there are several advantages to know other people.

BUILDING WEALTH

There are several ways to make money investing in real estate. Some methods don't even entail you actually purchasing the property or selling it. Simply finding leads on investment-worth properties is enough to keep some people in business full time.

How you decide to build your wealth will depend on a few factors, the first of which is the market. The market determines your investment strategy. In some markets, it may be feasible to flip homes and in others it might be smart to put your money into commercial real estate. Where you put your money is for you to decide. You must track the trends, understand what is and isn't selling. Know where the deals are at and be able to identify where you can gain money.

The second factor is based on you, your goals, and personality. Being a landlord isn't for everyone. If it's not for you, then perhaps you need to look at another investment option. How much profit you hope to generate will also help you in deciding where and how to invest. Finally, the amount of risk you are willing to take is another thing to take into consideration.

The following a five four common ways to build your wealth in the real estate market. When reading these methods, keep in mind your personal goals and what seems most realistic to you. Remember, you don't have to do or understand all of these strategies. You need only identify what you think is best for you personally and move forward in that direction.

Bird-Dogging

In real estate, the term bird-dogging refers to an individual who seeks out quality investment properties and sells the information to investors and realtors. The term itself derives from an actual bird dog that is trained to hunt waterfowl. This dog is typically a pointer. Real estate bird dogs are also pointers in this regard.

Here is how it works. Matt is a bird dog. He locates a piece of property that has a market value of $200,000. However, the homeowner is looking to sell the property for personal reasons. Because he needs to sell the home quickly, the homeowner is willing to accept less than market value for the house. Therefore, he is only asking $170,000. Matt researches the situation and determines the home is a good fit for one of his investors. Matt contacts the investor to tell him about the property. Prior to releasing any relevant information, however, Matt negotiates a finder's fee. If the investor decides to purchase the home, Matt will receive an agreed upon amount of money for his efforts. The investor opts to buy the property and Matt puts money in his pocket without spending any of his own cash.

Bird-dogging is a great way to make a profit in the housing market without investing a lot of money. Bird-doggers are not required to have good credit or financing capabilities. In fact, more than anything, to be a bird dog simply requires time and attention to detail. Therefore, there is very little risk involved.

Some people use bird-dogging to turn a profit while learning the real estate ropes. Others opt to make bird-dogging a career. Bird-dogging is also a good way to increase your finances and investing abilities. The choice is up to you.

Lastly, and perhaps most importantly, bird-dogging is flexible. You determine how much time and effort you have to invest as a bird dog. Some bird-doggers continue to work a full-time job until it is financially feasible to leave their main employer.

In short, a real estate bird dog is someone who makes money in the real estate industry by scouting for quality properties and selling those leads to investors and realtors. Bird-dogging requires more time than money and does not require a major financial contribution. Bird-dogging can be a full or part time job.

Investing in Residential Property

Investing in residential property is the most popular form of investing in terms of types of properties. There are several different forms of residential property. They include single-family homes, duplexes, and multi-complex units.

The most important thing to consider when investing in residential property is the landlord/tenant relationship. As I've already discussed, landlording is not for everyone. More than likely if you invest in a home or apartment complex, you will need to serve as a landlord or at the very least hire a management company to tend to these duties for you. Either way, you are a landlord and with that comes serious responsibilities.

In the United States, more than 60 percent of nation's families own their own homes. That leaves approximately 40 percent of families who rent homes. The market will determine what areas or regions are best for investing. Certain areas boast high employment and sound wages. These areas tend to feature a demand for property. If you can invest in foreclosures or find a good deal on a home an owner needs to get rid of, you can either resell the home or rent it out for a fair profit gain. When investing in residential homes, you must do your homework.

There are several ways to go about narrowing down potential investment homes. You can start by scouting a designated area, for example a small suburb or neighborhood. For each area you farm, there are several key questions you want to ask yourself so that you better understand the marketplace.

Starting out, you will probably want to begin your search in a middle-class neighborhood. Keep your investigation small and focused to begin with. Then, as you learn about the community and its amenities, you can build a catalog and slowly expand your knowledge base. Middle-class neighborhoods typically feature homes with two to four bedrooms and one to two bathrooms. The yards in these neighborhoods are nicely kept, but don't go over the top when it comes to curb appeal. Ideally, the neighborhood will have both homeowners and renters residing in the area.

Once you have identified a target neighborhood, scour the classifieds to see if any of the homes in the area are for rent or sale. Take note of what the homes are selling for and how much the going rental fee is.
In regards to rent, typically the monthly rate should be one percent of the home's value. For example, a home that is worth $100,000 should rent for approximately $1,000.

If you notice that rents are low and the home prices are high, this particular neighborhood would be ideal for investors looking to rehab and flip a home. On the other hand, communities with low rent and high home values are not a good option for investors looking to purchase and lease the property.

As you continue your investigation, take the time to drive through the neighborhood and find homes with for rent or for sale signs. Whenever possible collect information pamphlets located in a container attached to the for sale or rent sign. You want to gather as much information as possible, and this is a great way to do so.

Furthermore, write down addresses of homes that appear empty. These houses may have stacks of newspapers or phonebooks piling up on the step. Empty houses also tend to have neglected yards. Remember, any home that is empty is a potential hardship on the owner. It may be that you locate the owner and find he or she is willing to part with the home even though the property wasn't originally for sale. It can't hurt to ask.

Another good way to learn about the area is to stop and strike up a conversation with a local resident. If you find yourself talking to someone who recently moved to the area, find out what they like most about their new home and neighbors. If the individual has lived in their home for several years, ask how the community has changed over the years. This will give you clues about the community's lifecycle.

Speaking of lifecycles, every community has one. A lifecycle begins when the neighborhood is constructed.

Lastly, attend open house events in the neighborhood. This will give you the chance to walk through homes for sale in the area. You will also have the opportunity to introduce yourself to other realtors and tell them about your services.

With the information you collect, develop your database. The database should tell you what homes in the area are selling for along with how many square feet, bedrooms, baths and other amenities they have. Amenities may include kitchen and laundry room appliances, a heating and cooling system, underground sprinklers, hot tub, swimming pool, garage, fence, etc.

In short, there are several ways to begin the search for locating quality properties:

- Locate one or two neighborhoods to farm.
- Review local newspaper ads to find homes for sale or rent in the areas you choose to research.
- Build a database of information that details what the going rate is for rent and home sales. Don't forget to include specific details about each house including square footage, number of bedrooms and bathrooms, and amenities.
- To gain more information, drive through the community to find more homes that are for sale or rent.
- Also identify and take note of empty homes.
- Talk to residents in the neighborhood to learn as much as possible about the area's qualities and disadvantages.
- Attend open house events in the neighborhood to research the home and meet new realtors.

Investing in Commercial Property

As the economy has grown over the years, so has the demand for commercial property. From office buildings to shopping centers, people need a place to do business. But don't count on my word, take this fact into consideration. More than 75 percent of the workforce requires some type of office space.

There are a few ways to invest in commercial property. When done correctly, you can achieve high gains and realize success sometimes even faster than picking up residential properties. Let's first consider office space. There are certain characteristics an office space must have to make it a good investment. These are, in order of importance:

- Functional, large space
- Quality of community life
- Room to grow and expand
- Access to markets
- Low cost
- Desirable business climate
- Community image
- Available and qualified labor supply
- Social climate
- College and university availability

As you do when seeking out a residential home, research commercial office space thoroughly. Talk to anyone you can about the atmosphere, business in the area, etc. You need to know as much as possible about the facility and the community at-large.

You may also be interested in investing in a shopping center or strip mall. Now I know what you are thinking, how can I possibly jump into a venture that large? Well believe me, it is possible. Don't discount yourself or your abilities. Most real estate investors, at least the ones who dream big, aspire to own at least one major shopping center. This is usually a long-term goal that is sure to reap benefits when achieved.

Shopping malls are an attractive investment because they require minimal management and offer high, risk free returns. In fact, if you can secure an anchor store in your shopping mall – such as Sears, JC Penney, or Dillards – your chance of failure significantly decreases. It is also important to note that there is a major financing difference between shopping malls and strip malls. Strip malls are typically financed through conventional bank loans whereas shopping malls are generally funded through insurance companies or pensions.

Summary

In summary, there are two primary types of real estate investing – residential and commercial. Each type has its perks. It is up to you to decide which is right for you. Either way, it is imperative that you research properties and develop a sound plan before you make an investment. Remember, solid planning is the key to your success.

FINDING BARGAINS

More than likely you are interested in investing in residential property. Like I said, more investors put their money into residential homes than commercial property. For this reason, I am including a chapter on how to find bargains on residential property. When purchasing a home or complex, you want to find the best deal possible. This is true for obvious reasons. The less you pay for a home compared to its true value, the more you will gain in the long run. There are various avenues you can take when searching for a bargain. In this chapter, we will review sheriff sales, short sales, estate sales, and government auctions.

Sheriff Sales

A sheriff sale is an involuntary property sale that is legally mandated. These types of sales are usually a result of civil lawsuit judgments, property tax liens, and bankruptcy creditors. Sheriff sales can pose great bargains. Because the sale is forced, these properties often sell for substantially less than their actual value. However, keep in mind that all sales and situations are different. You definitely don't want to discount the idea of research area sheriff sales. However, make sure you do your homework. You want to know why the house is being sold, what its assessment value is, what extra baggage it might have, and of course make sure it is a good find as described in previous chapters.

Short Sales

In some cases, you actually have the ability to create your own bargain. This can be done via a short sale. It is important to note that the term short sale essentially refers to the act of an investor negotiating with a lien holder.

Short sales are created when property owners are upside down on their property. In other words, they owe more than their property is worth. For example, let's say a homeowner purchases a home for $200,000. They put five percent down and borrow the rest from a lender. A few years later, the homeowner gets laid off and is no longer able to pay the mortgage. To make matters worse, the market value of the home has depreciated because the economy is faltering (sound familiar?). So now, even if the homeowner is able to sell the home, it is only worth $165,000. This won't cover the entire cost of the mortgage.

Now let's consider this situation from the lender's perspective. The lender knows it could lose some serious money on this deal. If the home goes into foreclosure, there are additional costs such as attorney fees, court costs, lost interest, and property tax payments to consider. Simply put, the lender is in a bind and this good news to the investor.

To find a short sale, you must first find distressed homeowners. There are a few ways to do this:

- Advertise in the real estate classifieds "I buy properties."
- Make your vehicle a mobile billboard that reads "I buy properties."
- Mail out or drop off postcards that read "I buy homes" in areas you have farmed.
- Contact homeowners who are being foreclosed on via telephone or mail.

Naturally, there is a downfall to short sales, the can take time and a lot of negotiating. In the long run, the short sale is worth the wait. You can easily make a $30,000 profit off of a short sale if you do it right.

Estate Sales

An estate sale takes place when the homeowner dies and their property is auctioned off to satisfy the deceased's creditors and mortgagee. Even if the deceased left money to pay off these debts, it is still sometimes easier for the heirs to simply sell the property.

With an estate sale, it is generally possible to purchase the home via the heir or the executor of the estate. This option allows for the best opportunity to find a great bargain because heirs are often motivated to get the property off their hands.

In order to find estate sales, it is a good idea to follow the obituaries and contact heirs of the deceased. You will want to do this before they have time to list the house with an agent.

Government Auctions

Every year federal government agencies sell surplus and sieved real estate. This real estate includes office buildings, ranches, homes, apartment complexes, and undeveloped or vacant land. When searching for these government auctions, be sure to check with the Internal Revenue Service, General Services Administration, Federal Deposit Insurance Corporation and the Small Business Administration.

Summary

In summary, there are several ways you as an investor can find and create real estate investment bargains. Through sheriff sales, short sales, estate sales, and government auctions there are plenty of opportunities.

FINANCING

I don't find it necessary to express the importance of financing. Obviously without it, you generally can't purchase and thus invest in real estate. The purpose of this chapter is to review the common sources and forms of financing along with types of financing, special provisions and financing for foreclosures and defaults.

Sources

There are a few sources of funds you will want to become acquainted with. I have listed these sources out here and provided you with a brief explanation of each.

- Fiduciary Lenders – These lenders include savings institutions, commercial banks, and life insurance companies. Fiduciary lenders are known for expressing the highest degree of responsibility to their principals. For this reason, they tend to have a conservative attitude toward real estate finance. Fiduciary lenders are also known as financial intermediaries. Their primary goal is to preserve the quantity and quality of the money provided by depositors and premium payers. Therefore, when a fiduciary lender considers lending money, it is sure to review carefully the applicant's credit history and the collateral property's value.

- Semi-fiduciary Lenders – These lenders are slightly more independent than their previous counterpart. Semi-fiduciary lenders include retirement and pension funds, mortgage bankers and brokers, issuers of improvement district and industrial development bonds, real estate investment and mortgage trusts and credit unions. Semi-fiduciary lenders retain a high level of internal discretion when it comes to real estate investment decisions. They are not regulated as closely as traditional fiduciary lenders.

- Non-fiduciary Lenders – A third category of lender is the non-fiduciary lender. This group includes title insurance companies and private lenders who become financers out of necessity. These lenders are not regulated by anyone but themselves.

Forms of Financing

In real estate financing, there are three basic forms you need to be aware of. When a property is established as collateral for a loan, the basic forms include the note and mortgage, dead of trust, and contract for deed.

- Note of Mortgage – The note of mortgage is an agreement between the borrower and the lender. This agreement indicated that the mortgagor pledges the property and all the rights therein to the mortgagee in exchange for the loan. At the same time, the borrower is able to retain his or her legal rights in terms of ownership. This form allows the lender to secure the equitable interest in the collateral. If the borrower defaults, this interest can be expanded into a full legal fee.

- Deed of Trust – The deed of trust is similar to the note and mortgage. There is one major exception. The deed of trust deeds the legal fee in the collateral to a third-party trustee. The trustee retains this deed in trust subject to the lien of the lender-beneficiary. When the borrower pays the loan off, the trustee returns the property to the borrower. It is important to note that deed of trust laws vary by state. Certain situations may not call for this form.

- Contract for Deed – The contract for deed is referred to by many names. These names include land contract, agreement of sale, bond of deed, and contract of sale. Overall, the contract for deed is a form used between individual lenders and borrowers. Banks and savings intuitions do not utilize this form. Also, a contract for deed is not accompanied by a note. Instead it is a single and complete agreement that grants physical possession to all parties involved, at the same time. It also establishes the financing agreement between the lender and borrower.

Types of Financing

There are several ways you can finance your real estate ventures. Different types of loans cater to different situations and properties. The following is an overview of the types of financing available to those interested in purchasing real estate.

- Senior Loans – Senior loans are provided by fiduciary lenders. As you will recall, these lenders are required to conduct business in a manner that is in the best interest of their client's finances. For this reason, they are traditionally limited to senior mortgages and deeds of trust. When a borrower defaults on a senior loan, the institution will seek to regain its funds by selling the collateral. Senior loans come in two forms – conventional and guaranteed. Keep reading to learn more about these forms of funding.

- Conventional Loans – Conventional loans can be either insured by private mortgage insurance companies, or uninsured. When the loan is not insured, complete reliance is placed on the borrower who in turn is expected to meet all obligations when due. To offset the risk of an uninsured loan, the lender will review both the borrower and property closely. In addition, the borrower must have a predetermined amount of personal funds invested in cash in the property. Traditionally lenders require the borrower pay 50 percent of the property's value as a cash down. However, this percentage is subject to various factors and can go as low as 25 percent.

- Guaranteed or Insured Loans – Because most people have a hard time coming up with 25 to 50 percent of a property's mortgage, the need for insured loans brought forth change. To reduce the risk to the lender, mortgage insurance companies were founded and in turn guarantee the mortgage. Loans can be insured by the FHA home loan insurance program or by the VA.

- Income Property Loans – Income property loans are for residential income properties, commercial properties, and industrial properties. Lenders must closely evaluate several variables when considering this type of loan. Along with the potential borrower's credit history and the property's value, the lender will consider the possibility of ending up in a position that requires it to manage the property (in the event of foreclosure). In addition, the lender must review the ability of the income from the property to support the debt service required to amortize the loan. To qualify for a loan, the borrower is required to provide personal finance records, property income records, appraisals and feasibility studies, and the borrower's management track record.

- Junior Loans – In the event the borrower requires additional financing to offset the burdens of heavy front-end cash requirements, he or she can opt for a junior loan. Junior loans are essentially second mortgages. They are often needed to complete real estate sales.

- Wraparound Encumbrances – A form of a junior loan, wraparound encumbrances is considered one of the most useful types of loans. Often referred to as an all-inclusive loan, this form of financing is unique in that it creates a new loan that "wraps" around the existing loans without disturbing the legal priority of original lender.

- Sale-leasebacks – Another unique form of financing is the sale-leaseback technique. The sale-leaseback is utilizes primarily in large-project real estate transactions. Essentially the owners of a property sell it to the investor, but at the same time lease the property back from the investor. This is an ideal situation considering the investor automatically has tenants. The sale-leaseback can also feature a buyback clause. This option allows the tenant the opportunity to repurchase the property at a later date.

Summary

In summary, there are many aspects to financing. When searching for the financing that is right for you and your investment, keep in mind the different types of lenders and various forms of loans available to you. Different lenders have different rules to follow. Non-fiduciary lenders have the ability to take bigger risks than fiduciary and semi-fiduciary lenders. In addition, down payments are dictated often by the type of loan you choose to use. Uninsured loans require a larger investment on the borrower's part whereas insured loans do not. Senior loans are primary loans, junior loans are lines of credit in the form of a second mortgage. Lastly, there are three types of forms used in real estate financing. The forms are dictated by the type of loan and lending institution.

CONCLUSION

Your Next Move

First and foremost, I highly recommend that you reread this book. These pages are packed with information. To completely understand everything you have read and to retain as much information as possible, it is imperative that you take the time to study everything in this manual. Remember, the key to your success is knowledge. The more knowledge you have, the better prepared you are to make key decisions that can either catapult you into wealth or leave you wondering what went wrong

Once you are prepared to seek out your first investment opportunity, be sure to follow the steps outlined to help you farm for properties. In addition, begin to build your network and if needed, begin searching for other investors who can help you get started in your venture.

At the end of this book, I have included a detailed glossary. Some of these words you may have read in the pages of this book. Others may be new to you. Either way, they are key words that you will hear often.

Lastly, don’t forget that the only thing that stands between you and your dreams is you. If I can realize my goals, you can too.

Glossary

Adjustable-rate mortgage (ARM) - A mortgage where the interest changes periodically, based on corresponding variations in an index.

Amortization – Each monthly loan payment includes a portion that is applied to the accruing interest on the loan. The remainder of the payment is then applied to the principal. As the loan ages, the interest decreases along with the loan's balance. Over time, the interest portion decreases as the loan balance decreases, and the extra money is applied to the principal. As a result, the loan is paid off or amortized in a predetermined amount of time.

Appraisal – Based on comparable sales of similar property, an appraisal is a written justification of the amount paid for a home or piece of property.

Appreciation – When property increases in value it appreciates. Appreciation is typically caused by changes in the market.

Assessor – The person who determines to the value of a piece of property for the purpose of taxation.

Bill of sale – A document that legally transfers the title of personal property from one person to another

Biweekly mortgage – Unlike traditional mortgages, a biweekly mortgage is paid every two weeks instead of once a month. The end result is that the lender receives 13 payments in a year instead of 12. This additional payment reduces the mortgage's principal and thus time it takes to pay off the loan.

Broker - Broker has several meanings in different situations. Most Realtors are "agents" who work under a "broker." Some agents are brokers as well, either working form themselves or under another broker. In the mortgage industry, broker usually refers to a company or individual that does not lend the money for the loans themselves, but broker loans to larger lenders or investors. (See the Home Loan Library that discusses the different types of lenders). As a normal definition, a broker is anyone who acts as an agent, bringing two parties together for any type of transaction and earns a fee for doing so.

Clear title - A title that is free of liens or legal questions as to ownership of the property.

Closing – Depending on the state you are in, the term closing can refer to different stages in the purchasing process. For example, in some states, a transaction is not closed until the documents are recorded at the recorder's office. In other cases, closing is a meeting where all the documents are completed and signed and the money changes hands.

Closing costs – Also referred to as non-recurring closing costs or prepaids. Non-recurring closing costs are one time fees paid when obtaining a loan. Prepaids are reoccurring fees such as homeowners insurance and property taxes.

Collateral – Collateral is the property. In other words the borrower risks losing the property if he or she defaults on the loan.

Collection - When a borrower falls behind, the lender contacts them in an effort to bring the loan current. The loan goes to "collection." As part of the collection effort, the lender must mail and record certain documents in case they are eventually required to foreclose on the property.

Common area assessments - In some areas they are called Homeowners Association Fees. They are charges paid to the Homeowners Association by the owners of the individual units in a condominium or planned unit development (PUD) and are generally used to maintain the property and common areas.

Condominium - A type of ownership in real property where all of the owners own the property, common areas and buildings together, with the exception of the interior of the unit to which they have title. Often mistakenly referred to as a type of construction or development, it actually refers to the type of ownership.

Construction loan - A short-term, interim loan for financing the cost of construction. The lender makes payments to the builder at periodic intervals as the work progresses.

Cost of funds index (COFI) - One of the indexes that is used to determine interest rate changes for certain adjustable-rate mortgages. It represents the weighted-average cost of savings, borrowings, and advances of the financial institutions such as banks and savings & loans, in the 11th District of the Federal Home Loan Bank.

Credit - An agreement in which a borrower receives something of value in exchange for a promise to repay the lender at a later date.

Credit history - A record of an individual's repayment of debt. Credit histories are reviewed my mortgage lenders as one of the underwriting criteria in determining credit risk.

Default - Failure to make the mortgage payment within a specified period of time. For first mortgages or first trust deeds, if a payment has still not been made within 30 days of the due date, the loan is considered to be in default.

Depreciation - A decline in the value of property. The opposite of appreciation. Depreciation is also an accounting term which shows the declining monetary value of an asset and is used as an expense to reduce taxable income. Since this is not a true expense where money is actually paid, lenders will add back depreciation expense for self-employed borrowers and count it as income.

Equity - A homeowner's financial interest in a property. Equity is the difference between the fair market value of the property and the amount still owed on its mortgage and other liens.

Estate - The ownership interest of an individual in real property. The sum total of all the real property and personal property owned by an individual at time of death.

Fixed-rate mortgage - A mortgage in which the interest rate does not change during the entire term of the loan.

Hazard insurance - Insurance coverage that in the event of physical damage to a property from fire, wind, vandalism, or other hazards.

Home inspection - A thorough inspection by a professional that evaluates the structural and mechanical condition of a property. A satisfactory home inspection is often included as a contingency by the purchaser.

Homeowners' association - A nonprofit association that manages the common areas of a planned unit development (PUD) or condominium project. In a condominium project, it has no ownership interest in the common elements. In a PUD project, it holds title to the common elements.

Lease option - An alternative financing option that allows home buyers to lease a home with an option to buy. Each month's rent payment may consist of not only the rent, but an additional amount which can be applied toward the down payment on an already specified price.

Multidwelling units - Properties that provide separate housing units for more than one family, although they secure only a single mortgage.

Original principal balance - The total amount of principal owed on a mortgage before any payments are made.

Prime rate - The interest rate that banks charge to their preferred customers. Changes in the prime rate are widely publicized in the news media and are used as the indexes in some adjustable rate mortgages, especially home equity lines of credit. Changes in the prime rate do not directly affect other types of mortgages, but the same factors that influence the prime rate also affect the interest rates of mortgage loans.

Principal - The amount borrowed or remaining unpaid. The part of the monthly payment that reduces the remaining balance of a mortgage.

Public auction - A meeting in an announced public location to sell property to repay a mortgage that is in default.

Real estate agent - A person licensed to negotiate and transact the sale of real estate.

Realtor® - A real estate agent, broker or an associate who holds active membership in a local real estate board that is affiliated with the National Association of Realtors.

Rent loss insurance - Insurance that protects a landlord against loss of rent or rental value due to fire or other casualty that renders the leased premises unavailable for use and as a result of which the tenant is excused from paying rent.

Seller carry-back - An agreement in which the owner of a property provides financing, often in combination with an assumable mortgage.

Servicer - An organization that collects principal and interest payments from borrowers and manages borrowers' escrow accounts. The servicer often services mortgages that have been purchased by an investor in the secondary mortgage market.

Subdivision - A housing development that is created by dividing a tract of land into individual lots for sale or lease.

Subordinate financing - Any mortgage or other lien that has a priority that is lower than that of the first mortgage.

Survey - A drawing or map showing the precise legal boundaries of a property, the location of improvements, easements, rights of way, encroachments, and other physical features.

Sweat equity - Contribution to the construction or rehabilitation of a property in the form of labor or services rather than cash.

Title - A legal document evidencing a person's right to or ownership of a property.

Title company - A company that specializes in examining and insuring titles to real estate.

Title insurance - Insurance that protects the lender (lender's policy) or the buyer (owner's policy) against loss arising from disputes over ownership of a property.

Title search - A check of the title records to ensure that the seller is the legal owner of the property and that there are no liens or other claims outstanding.

Transfer of ownership - Any means by which the ownership of a property changes hands. Lenders consider all of the following situations to be a transfer of ownership: the purchase of a property "subject to" the mortgage, the assumption of the mortgage debt by the property purchaser, and any exchange of possession of the property under a land sales contract or any other land trust device.

Treasury index - An index that is used to determine interest rate changes for certain adjustable-rate mortgage (ARM) plans. It is based on the results of auctions that the U.S. Treasury holds for its Treasury bills and securities or is derived from the U.S. Treasury's daily yield curve, which is based on the closing market bid yields on actively traded Treasury securities in the over-the-counter market.

Two to four-family property - A property that consists of a structure that provides living space for two to four families, although ownership of the building is evidenced by a single deed.