

THE ULTIMATE BEGINNERS GUIDE TO

REAL ESTATE INVESTING



BiggerPockets®

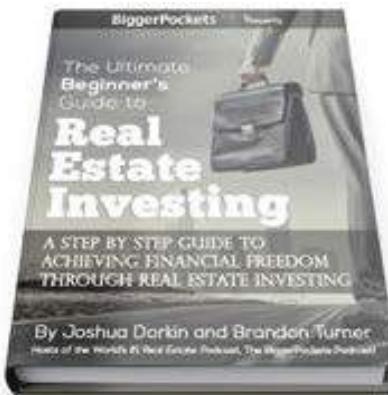
WELCOME TO THE
BiggerPockets®

ULTIMATE BEGINNER'S GUIDE TO REAL ESTATE INVESTING



Over the many years that we've been serving real estate investors, one of the most asked questions on our site has been, "How Do I Get Started in Real Estate Investing?"

People from all over the world have been coming to BiggerPockets to find the answer to that question. While some might lead you to believe that there is a simple answer that works for everyone, that simply isn't the case. We've built this guide to help simplify the process of figuring out how YOU can get started. Of course, this guide is not an all-encompassing "how-to" manual about every aspect of real estate investing, but a broad-stroke overview of the best ways to start down your path to financial freedom through real estate investments.



What to Expect in This Beginner's Guide

This guide contains eight chapters, each focusing on a specific part of your investing journey. If you can master these, you increase your chance of building wealth through real estate and minimize the risk of failure or loss. This guide will walk you through the following:

Your Real Estate Investing Education

- ✓ Before you start investing in real estate, it is imperative that you get educated in the important concepts. There are dozens of ways to get educated and build your knowledge base, and Chapter 2 will focus on those areas in great depth.

Choose Your Real Estate Niche and Strategies

- ✓ There are a number of different strategies and angles from which to approach the business of real estate investing. The more you focus on one specific thing, the better and more knowledgeable you become at it. This will be the focus of Chapter 3, as we dive deeper into looking at the various niches and strategies you can profit from in your real estate investing journey.

Create Your Real Estate Business Plan

- ✓ As the ancient proverb goes, a house built upon sand is subject to collapse. By creating a strong foundation that your real estate investing endeavors will stand upon, you will create a more sustainable business that can weather the storms you may face. Chapter 4 will show you the best ways to build that foundation to maximize the odds of your success.

Find the Best Investment Properties

- ✓ When it comes time to actually make your first investment purchase, it is vitally important that you don't pay too much and that you invest in the right kind of property. Chapter 5 will dive into the specifics of how to set proper criteria to guide your investment decision *making*.

Financing Your Real Estate Investments

- ✓ Paying for your investment is much different than paying for a loaf of bread - and the method used can often mean the difference between success and failure in a real estate investment. Chapter 6 will dive into the various financing tools you can use throughout your investing career.

Mastering Real Estate Investment Marketing

- ✓ Regardless of what aspects of real estate investing you choose to focus on, you will undoubtedly need to have a strong marketing skill set. Too many investors have the "if you build it, they will come" mentality when it comes to real estate. Putting together the right marketing program and allocating the necessary amount of resources towards it is absolutely crucial to the success of any real estate investing business over the long term. Chapter 7 will focus on the marketing aspect of your real estate investing business.

Knowing and Executing Your Exit Strategies

- ✓ How you plan on exiting your real estate investments is just as important as the way you enter them. Whether you sell, rent, or exchange your property, it is vitally important to have a clear understanding of your exit strategy options for any investment deal from the beginning in order to minimize your risk. Chapter 8 will discuss these exit options in detail to help you plot your real estate investing course.

Are You Ready to Begin?

As you work your way through this guide, remember that this is not all-encompassing. It is a 40,000 foot view of how real estate investing works and is designed to give you the basic tools to get past the all important question of how to get started. As you read along, make note of any questions or highlights, and then come back to BiggerPockets.com and search the site or ask questions on our Forums to learn more about anything on your mind. If you're unfamiliar with our site, BiggerPockets.com is an online community of real estate investors with the web's largest collection of advice for new and experienced investors and is free to join and to begin participating, learning, and growing.

"Starting any new endeavor can be scary. Our goal with Ultimate Beginner's Guide is to help alleviate the fears of new investors by giving them the tools they need to be successful in their real estate investing journey."

**Josh Dorkin, Founder and CEO
BiggerPockets.com**

If you are new to BiggerPockets, start with [our real estate forums](#). The BiggerPockets Forums contain more than 1,200,000 posts about every aspect of real estate investing, updated hundreds of times daily. Search through the site or create a new thread and ask any questions you might have; many of our 270,000+ members will be there to help answer your questions. Also, check out the [BiggerPockets Blog](#), which holds more than 6,000 articles from experienced investors in many different real estate investing niches, as well as the [BiggerPockets Podcast](#), now the leading real estate podcast on iTunes. These sources, along with hundreds of other pages on the site, make BiggerPockets.com the largest source of real estate investing knowledge on earth.

Within these chapters, there are numerous links to additional articles and discussions found on BiggerPockets. We recommend you take the time to scour these, as they will help answer many of the questions you've got and will explore topics that are sure to be important to you on this journey. Of course, if there are questions that this guide or the articles do not address, please be sure to ask them in our [real estate investing forums](#).

If you are not a member already, please take a moment right now to sign up for a free membership on BiggerPockets.com. Go to [BiggerPockets.com/signup](#).

It is perfectly natural to be intimidated, but our goal at **BiggerPockets** is to help you overcome your fears and your countless questions by providing as much free information as possible to help you make the best decisions for your own needs.

If you are ready to begin the Ultimate Beginner's Guide to Real Estate Investing, click below to turn to Chapter 1...

CHAPTER 1

HOW TO INVEST IN REAL ESTATE: AN INTRODUCTION



"Ninety percent of all millionaires become so through owning real estate."

Andrew Carnegie

Real Estate Divider Are you new to real estate investing? Learning how to invest in real estate doesn't need to be complicated, difficult, or expensive. In this beginner's guide, you will learn how to get started investing in real estate from beginning to end - with no hype, false promises, or pitches.

THIS CHAPTER INCLUDES:

- ✓ *Can I Invest in Real Estate if I Have a Full Time Job?*
- ✓ *Do I Need to Pay Some Guru in Order to Be Successful?*
- ✓ *Can I Invest in Real Estate if I Have No Money?*
- ✓ *Is Real Estate Investing a Way to "Get Rich Quick?"*
- ✓ *What to Expect in This Beginner's Guide*

WHY INVEST IN REAL ESTATE?

There are many different places you can stick your money other than under your pillow, including stocks, bonds, savings, mutual funds, CD, currencies, commodities, and of course, real estate. There are positive and negative aspects of each investment option, but since we're here to learn about real estate, we'll focus on that and that alone.

One of the most commonly stated reasons that people give for investing in real estate is that they are seeking out financial freedom, but there are others as well -- of course, each person will have their own personal reasons why. They are typically seeking one or several of the following:

- ✓ *Appreciation*
- ✓ *Cash Flow*
- ✓ *Depreciation*
- ✓ *Leverage*
- ✓ *Tax Benefits*



The decision to begin investing in real estate is a personal one, and we absolutely recommend you make sure you and your family are 100% committed before deciding to move forward in doing so.

For more details on these reasons, see:

- [Why Invest In Real Estate](#)
- [Top 5 Reasons to Invest in Real Estate](#)
- [Top 5 Reasons to Invest in Real Estate Instead of Paper Assets](#)

Can I Invest in Real Estate if I Have a Full Time Job?

Yes. The kind of real estate investing you might see on television or might hear about from a guru is not the only kind of real estate investing out there. In many situations, that kind of investing is not even investing at all, but simply gambling or speculating.

The truth is, there are [hundreds of ways](#) to make money in real estate. Some of these techniques or strategies might require forty hours a week, while others might only require forty hours *per year*. The amount of time it takes to grow your real estate business largely depends on your investing strategy, your personality, your skills, your knowledge and your timeline.

You've probably heard the age-old high school guidance counselor question, "If you suddenly had one million dollars and didn't have to work anymore, what would you do?" The answer, it's said, is what career field you should be in. Would you invest in real estate?

If your dream path would be to open up a shelter for abused animals or to move to Aruba and train tourists to surf, you probably should not be a full time real estate investor.



That's not to say that you shouldn't invest in real estate -- you just probably shouldn't go full time.

However, you don't need to make real estate your career in order to build wealth in real estate. If you love your job, you don't need to quit it to invest in real estate. You can achieve the same or better results as a full-time real estate investor by investing on the side.

"One of the perks of investing while working full time is the steady income stream to fund and support your real estate investments. Don't underestimate the importance of this!"

-Brandon Turner
Community Manager, Biggerpockets.com

Advantages of Investing While Working a Full-Time Job

By keeping your day job, you have several advantages over full-time investors. First, you do not need to live off any of the cash flow you make -- that's what your 9-5 is for. By reinvesting all the profits from your investments, you can fully realize the incredible benefit of exponential growth. Additionally, you have a much easier ability to get long-term bank financing thanks to the stable income from work, which can also help increase and stabilize your wealth building.

Investing in real estate while keeping your day job can be done in many ways, such as:

- ✓ *Partnering in a larger piece of property*
- ✓ *Buy-and-hold property with property management*
- ✓ *Serving as a private or hard money lender*
- ✓ *Investing in notes (mortgages)*

Real estate can be highly profitable as a career or if you're just investing while working a "normal job." However, the choice is yours as to which path you take. Don't simply decide to quit your job and become a full time investor because you read about other investors who have been successful doing it that way. Having a concrete plan for how you're going to proceed in real estate is essential; we'll get into that a little later in the guide.



That said, life is too short to be stuck in a job you hate. Choose a career that makes you excited to wake up in the morning, energized throughout the day, and content when you fall asleep at night. If that desire leads you to full time real estate investing, welcome to the club! Just make sure you are not simply building a career, but building a future.

Also be sure to check out:

- *BiggerPockets Podcast 006: Investing While Holding a Full Time Job with Arthur Garcia*
- *BiggerPockets Podcast 008: Learning to Be a Profitable but Ethical Landlord with Al Williamson*
- *BiggerPockets Podcast 023: Flipping While Working a Job, Partnerships, and Military Investing with James Vermillion*
- *BiggerPockets Podcast 033: How to Close 27 Deals in Your First Year While Working Full Time with Sam Craven*
- *BiggerPockets Podcast 037: Full Time Income, Part Time Lifestyle Real Estate Investing with Aaron Mazzrillo*
- *BiggerPockets Podcast 051: Small Multifamily Properties, Working a Full Time Job, and Training Tenants with Mike Sherwood*
- *BiggerPockets Podcast 054: Investing in Under \$30k Real Estate, Working a Day Job, and Good Vs. Bad Neighborhoods with Lisa Phillips*
- *BiggerPockets Podcast 058: Flipping and Wholesaling Homes While Working Full Time with Justin Silverio*

Do I Need to Pay Some Guru In Order to Be Successful?

Absolutely not. Countless investors have become successful without the help of the guru crowd. The goal of many of these individuals is to sell you on the dream of fast riches, fancy cars, easy money, and so on -- many prey on people who desperately want to make money and often use very slick and often dangerous (for you) techniques to sell you on their very expensive courses, bootcamps, mentoring, training, etc. In fact, the tactics used to get you hooked are very well documented, and there is absolutely no such thing as a free lunch.

Keep in mind that there are many in our industry who benefit from the marketing of these gurus. Most websites focused on the investment niche affiliate with them, making large referral fees -- often on the order of 50% -- in return for marketing their wares. Additionally, a large percentage of real estate clubs derive their revenues from products and events sold by gurus who "teach" there. And yes, they also get a nice 50% cut for doing so.

Remember, real estate gurus are in the business of marketing and selling you on the dream. Through this guide and the thousands of articles and hundreds of thousands of discussions available on **BiggerPockets**, you can absolutely learn everything that you'd pay thousands of dollars to a guru for, and you can do so for free. If you want to read an excellent article about the guru seminar trap, read "[The Real Estate Guru Trap – How It Works & 4 Ways to Avoid It.](#)" Also, if you find a real estate guru that you are interested in learning more about, be certain to be careful, and check out our [real estate guru review forum](#) to find out the real deal from other investors.



That all said, they aren't all bad, and some of these individuals are very knowledgeable. Just remember: caveat emptor (let the buyer beware). Do your homework and don't get caught up in the hype or promise of secrets; there aren't any.

Also be sure to check out:

- [Purchasing a Real Estate Investing Guru Program? Read This First!](#)
- [Don't be hypnotized by the "Guru of the Week"!](#)
- [Real Estate Gurus Promoting Other Guru Courses and Events – a Scam?](#)
- [BP Podcast 017 – Finding Mentors, Facing Retirement, and Note Investing with Jeff Brown](#)

Can I Invest in Real Estate if I Have No Money?

The simple answer is: yes, it is possible to invest in real estate if you don't have any money at all. However, there is money involved in every real estate transaction. The issue, therefore, is not whether you're investing with "no money," but instead whether you're investing with "none of your own money." Investing in real estate without using any of your own money requires using Other People's Money (OPM) -- learning to strategically invest in real estate without any of your own money is one of the most complex but important tools you can develop in your real estate investing career.



The key to investing in real estate without any money of your own is simple: bring something to the table. If you lack money, there are other things you can bring to the table in a transaction -- if structured correctly -- including education, time, connections, confidence, intelligence, and creativity. By reading this guide, you are already taking steps toward building your strengths in those areas.

Many investors use little or none of their own money when investing in real estate by using one of several methods that include:

- ✓ *Wholesaling*
- ✓ *Using partners*
- ✓ *Using lease option strategies*
- ✓ *Via FHA 3.5% down payment loans*
- ✓ *Using USDA or VA no-down payment loans*
- ✓ *With home equity loans or lines of credit*
- ✓ *Using private/hard money.*

We will look at each of these areas in more depth later in this guide, but we want you to recognize that investing in real estate without income is possible, but may not be as easy as the gurus would have you believe.

For more information on investing in real estate without any money, please see:

- [5 Ways to Start with No Money and No Credit?](#)
 - [How to Close a Subject-To Deal with No Money Down](#)
 - [Can You Really Flip Houses With No Money?](#)
 - [Forum Discussion: Wholesaling With No Money Down](#)
 - [Flipping, Marketing, and Wholesaling with Danny Johnson](#)
 - [BP Podcast 050: Getting Started and No Money Down House Flipping with Mike Simmons](#)
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Working in Real Estate Without Investing at All

Many would-be real estate investors get their start by simply working in the real estate industry – earning money while gaining a solid hands-on education. Here is a brief list (far from exhaustive) of careers you can take on to learn the real estate business:

- ✓ [Real Estate Agent](#)
- ✓ [Mortgage Broker](#)
- ✓ [Appraiser](#)
- ✓ [Construction Worker](#)
- ✓ [Resident Manager](#)
- ✓ [Title/Escrow Agent](#)
- ✓ [Project Manager](#)



If you are looking to get into real estate investing with no experience and no money, choosing one of these careers may be a great way to get your feet wet in the industry and to help you begin plotting your career into full time real estate investing. The experience you'll gain from mastering one or several of the other trades in the industry can be invaluable in helping you be successful.

Is Real Estate Investing a Way to "Get Rich Quick?"

How many late-night real estate infomercials have you seen where the real estate guru is sipping drinks on the back porch of his beachside home, next to beautiful women in expensive (or minimal) clothing, telling you that this life is for you?

No doubt one of the largest draws to real estate investing is the image of investors driving fancy cars, living in large homes, and being all around "rich." While many real estate investors do build significant wealth over their career, real estate investing is not a "get rich quick" scheme. Yes – there are some who make a lot of money in a short time; however, these situations are generally the exception, not the rule.

Investing in real estate takes planning, patience, and persistence. Don't expect to make millions of dollars in your first year. Instead, plan on creating a business through real estate that will grow steadily year after year to enable you to meet your financial goals -- and hopefully your dreams. No matter what you might hear otherwise, being successful in real estate requires hard work, just like it does in any other field. It is also important to know that there are no shortcuts to being successful in real estate -- there are no products or tools that will do the work for you, either. You must learn the fundamentals and then apply them. Of course, our goal here is to help you with that.

For more information on "get rich quick" investing see:

- ✓ [*If You're Not Building Wealth – You Might Be in The Wrong Game*](#)
- ✓ [*Forum Discussion: Real Estate: A Get Rich Slow Business.*](#)
- ✓ [*Slow and Steady Wins the Race*](#)
- ✓ [*FAST Nickels vs. SLOW Dimes: As a Real Estate Investor, Which is Better?*](#)



Moving On

By the end of this chapter, you should have a clear vision for why real estate can and should be an important step for building wealth for your future. Whether you decide to go full time or just invest on the side, real estate can be the path toward financial future for you and your family. In the next chapter, we are going to look at the very first step (and one of the most important) you should take on your journey: your education.

When you are ready, turn to Chapter 2 and let's get you on your way to starting out in real estate.

CHAPTER 2

REAL ESTATE INVESTING EDUCATION



"A journey of a thousand miles begins with a single step."

Lao-tzu

This chapter is very important in your real estate investing journey. Without a clear understanding of the principles found in this chapter, you are at a much higher risk of failure and defeat in your real estate dealings. In fact, if you only remember one chapter in this entire guide, we sincerely hope it's this one. Let this be your first step to a successful future in the real estate investing world.

In this chapter, we'll cover:

- ✓ *Don't Skip Your Real Estate Education*
- ✓ *Real Estate Terms and Mathematics*
- ✓ *Mentors, Gurus, and You*
- ✓ *Overcoming Fear*
- ✓ *Analysis Paralysis*



Don't Skip Your Real Estate Investing Education



As we discussed at the end of chapter one, real estate investing is not a "get rich quick" scheme. Just as any solid home needs a strong foundation, the same is true when it comes to your real estate education -- a solid foundation is key to a long-lasting business.

This guide, while not exhaustive on every aspect of real estate investing, will help develop that foundation. We put it together to be a first step in your real estate education – and as an introduction to the possibilities that come with real estate investment.

There are many different ways to get educated in real estate investing, and you don't need to pay hundreds or thousands of dollars to learn the business. Below, you'll find a list of a few sources of real estate investing education; be sure to consider each before making a final decision on how you're going to move forward -- what works for one person may not work for another.

Sources of Real Estate Investing Education

Books -- real estate booksAs the old saying goes, "Those who lead, read." Books are fundamental in gaining an education in real estate and perhaps the most widespread learning method for investors. Real estate books are produced each year by the thousands, and every major bookstore in the world contains a whole section on real estate investing. Chances are, if there is a way to make money from real estate, there has been a book written about it. If reading books, however, is not within your arsenal of skills, you are in luck. Today, we live in a world where nearly every new book is also made into an audiobook. (Try Audible.com for the web's largest selection.)



Blogs -- real estate blogsBlogs, short for an older term called a "Web log" are a collection of short essays written about a topic. Blogs can be an amazing source of information, and there are fantastic ones for every topic you can imagine. There are many great ones written by people living in the trenches of real estate worth checking out and learning from. Be sure to check out the BiggerPockets Blog, which features dozens of expert contributors sharing their best tips and advice, as well as the BiggerPockets member blogs (TK) for great examples of real estate blogs. You can also see a list of BiggerPockets' "Top 35 Real Estate Blogs" and discover new favorites.

Mentors -- real estate mentorsPerhaps the most powerful way to gain a good education in any field of study is through a mentor -- and the same holds true in real estate. While there are dozens of professional real estate mentors who charge for their service, there are also millions of mentors all over the world that will cost you as little as a cup of coffee - they are your local investors. People enjoy sharing what they know, and

seasoned real estate investors are no different. By introducing yourself to a successful local real estate investor who you would like to become more like, you'll have the opportunity to learn from someone in the field who knows your market and who can ultimately become a partner as you come to become successful yourself. We'll talk more about mentors later in this chapter.



Podcasts -- real estate podcasts One of the newest innovations in the world of real estate investor education is the Podcast. A podcast is simply a recorded audio program, similar to a radio show, that can be produced by anyone with a computer and a microphone. There have been a number of great podcasts that have emerged in the last few years. If you have a smartphone or MP3 player, you can listen to hundreds of hour long shows covering a wide variety of real estate topics whenever you want – whether in the car, jogging, or lying in bed -- for free. Be sure to check out the pitch-free BiggerPockets Podcast or search iTunes for other options.

For more information about gaining a solid education, check out these posts:

- ✓ [Real Estate Guru Courses: Are They Worth It? Do I Need to Pay Some Guru in Order to Be Successful?](#)
- ✓ [5 Books That Keep Me Focused As A Real Estate Entrepreneur Is Real Estate Investing a Way to "Get Rich Quick?"](#)
- ✓ [What Is Wrong With Paying For Mentoring, Coaching Or A Guru's Program?](#)
- ✓ [Continuing Your Education is Key for Real Estate Entrepreneurial Success](#)
- ✓ [Real Estate Investing Education in the Information Age](#)
- ✓ [Bigger Pockets Radio Podcast 003: Getting Started in Real Estate and Raising Money with Brian Burke](#)
- ✓ [BP Podcast 011 : The Ultimate Beginner's Podcast For Real Estate Investors](#)

Real Estate Mathematics: No More Complex than Junior High



You don't need to be a college calculus student to understand real estate math. In fact, most of the math you'll need is grade-school level. This section is going to quickly touch on some of the basic concepts and math formulas you'll need in your real estate investing career.

Income:

Income is simply the amount of money that comes in from a property. This math is perhaps the easiest of all: simply add up the amount of rent and any additional fees that comes in.

For example – you own a rental house. The home rents for \$1000, and the tenant also pays \$25 for the use of the garage.

Your total income was \$1025.00.

Income could also include late fees, application fees, pet fees, laundry or other vending machines, or any other value you receive from your rental.

Expenses:

Expenses are simply the things that cost you money on an investment. For example, the garbage bill for a home is \$50 per month, the loan from the bank was \$500 per month, and maintenance was \$100 per month. The total of these three expenses is \$650.00.

Your total expenses for this example were \$650 for this particular month. Keep in mind that there are many other expenses that you'll face as a real estate investor, including things like taxes, insurance, management, holding costs, capital expenses and various others.

$$\begin{array}{r} \$50 \\ + \$500 \\ + \$100 \\ \hline \$650.00 \end{array}$$

Cash Flow:

Cash flow is simply the amount of money left over at the end of the month after all expenses are paid. To determine the cash flow, simply subtract the total expenses from the total income:

$$\begin{array}{r} \$1025 \\ - \$650 \\ \hline \$375.00 \end{array}$$

Your total cash flow in the above example property was \$375.00 for the month. Let's look at a few more math equations.

Return on Investment:

Real Estate MathYour “return on investment” (also known as ROI) is a fancy way of describing what interest rate you are making on your money per year. For example, if you invested \$250 and you made \$250 from that investment (for a total of \$500) over the course of one year, you would have made a 100% return on investment. Similarly, if you invested \$5000 and made an additionally \$2500 over the course of a year (for a total of \$7500) you would have made a 50% return on your investment.

The actual calculation for Return on Investment looks like this:

$$\text{ROI} = (V1 - V0) / (V0), \text{ (where } V1 \text{ is the ending balance and } V0 \text{ is the starting balance)}$$

A simple scenario for using ROI to calculate an investment return would be as follows: On January 1, you put \$1000 into a bank account. On the following January 1, you cash out the account for \$1100. Your ROI on the investment is:

$$\text{ROI} = (1100 - 1000) / (1000) = .1 \text{ (or 10%)}$$

You start with \$1000 and end up with \$1100 after a year for a return of 10%.

These simple concepts present the foundations upon which almost all other real estate calculations are based. The rest will come in time, but most calculations are simply related to these.

For more information regarding real estate math, please see:

[Introduction to Real Estate Investment Deal Analysis](#) (A great comprehensive blog post about real estate investing math)

[Introduction to Internal Rate of Return \(IRR\)](#)

[Return on Investment \(ROI\) Versus Cash on Cash Return \(CCR\)](#)



Real Estate Investing Mentors:

A mentor is an individual who comes alongside you to teach and instruct based on their first-hand experience; they are someone who has lived the life before – walked it, talked it, and breathed it. Finding a mentor and learning from those who have come before you is one of the most important steps you can take in your real estate investing education, yet perhaps the most misunderstood. This section is going to focus on what a great mentor is, how to find one, and it will look at the question, “Should you pay for one?”

Real Estate Investing Mentors in Your Life

In your life, who have been your mentors? I'm not talking just real estate – but life in general. There are a number of different individuals who may have served in a "mentor" role at one time or another, such as:

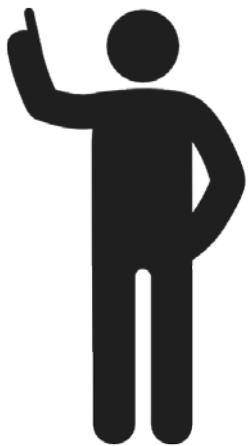
Parents
Grandparents
Older sibling.

Professor
Boss

Among all these mentors, there exists a common thread that all these sources has: an existing relationship with you.

These individuals were first in our lives through an existing relationship, and the mentoring relationship grew organically out of it. It wasn't forced or manipulated. There was no formal "mentorship agreement" written ahead of time, no payment required for mentorship, no force. The only requirement was the relationship.

How to Find a "Organic" Real Estate Mentor



Real Estate MentorsFor those who have been taught that the only mentors are the kind that cost \$19,997.97, the concept of an organic mentor is a profound thought. After all, why would a seasoned professional real estate investor bother to help a newbie? "Won't I just be wasting their time?"

There are a variety of reasons why a seasoned real estate investor might choose to help a newbie, but the fact is, many do. Whether it's the dream of passing on their legacy, having someone with similar interests to talk with, or the potential making future deals, organic mentorships happen each and everyday. These mentorships are usually called by another name, though: friendships.

On the other side of the spectrum, there are new wannabe investors who tend to approach the relationship as if the mentor should be lucky to work with them. This entitlement attitude leads many of these individuals over to the BiggerPockets Forums, where they proudly announce that they are looking for a mentor to teach them all they know, but offer nothing in return but the privilege of working with them.

In other words

"Hi, my name is (so and so) and I'm looking for someone to invest a significant portion of their time and energy telling me how to get rich. I offer nothing to this relationship, but expect you to jump at the chance because you probably have nothing better to do. Most likely, I'll just disappear once I realize I can't get rich overnight, leaving you exhausted and irritated. So, who's first!?"

If you would like a mentor to come into your life, instead of your search being all about you and what you need, seek ways to grow a mentorship organically. Try these tips for building those relationships:

Concentrate first on establishing a relationship with seasoned investors who you would like to learn from. A mentor doesn't need to be Donald Trump or Robert Kiyosaki. A mentor can be the investor down the street who owns a half-dozen rentals and works a full time job or an active BiggerPockets member who donates his or her time to answering questions in the forums. The key is finding an individual who you want to learn from in the field you want to enter. While you can glean a lot of information from any successful investor, attempting to build a deep mentorship with a mediocre house flipper, when all you want to do is buy and hold small multifamily properties, is probably not a great first step. Seek out individuals who are doing what you want to do.

Make yourself valuable in a way that is meaningful (profitable) to the other person. What can you offer the other person who you want to learn from? Do you have a free weekend that you can offer to help clean up a vacant unit? Do you have web design skills or cold-calling skills? Value is found in many different forms to many different people. Make it your goal to provide solid value to every relationship you have. Additionally, you don't necessarily need to do everything for free for that person. If you are handy, perhaps just being a dependable maintenance person who doesn't rip them off is enough to build that relationship. Maybe a well designed website could be your value proposition. Whatever it is – remember: provide value.

Don't expect anything in return. You didn't build your early mentorships (parents, grandparents, etc.) expecting something in return. You built them because you were simply going through life. Provide value and in return – you may receive something back – but don't expect it.

Always think "win-win" — Don't simply focus on what's in it for you. Your mentor may be far more successful than you – but that doesn't mean you can't help them become even more successful. As the popular phrase states, "a rising tide lifts all ships."

Most successful investors are willing to help, but only after you have proven that you are worthy of their involvement. A mentor does not want to waste their time. Being a mentor is a huge undertaking for both sides, and no one wants to devote a significant amount of time and effort building a relationship only to have it fall apart when the student gets bored. Prove that you are in this for the long haul by persistence, building knowledge, and actively growing outside the relationship you are building.

Should You Pay for Mentorship?



Real Estate mentor The role of a mentor is to make the journey from point A to point B a little quicker and a little easier. For many wannabe investors, paying for a mentor is the quickest and easiest way to find a mentor. But should you?

If you've been around **BiggerPockets** for any length of time, you'll understand that it is our core belief that you do not need a paid mentor or guru to help you succeed. There is a vast amount of information out there, most of it for free, that you can use to learn and grow as a real estate investor. Furthermore, places like the **BiggerPockets** Forums give you the ability to ask any question you want and receive answers back from many actual, seasoned real estate investors. Think about it -- there are over 219,000 others on our

site, and many of them are active on our Q&A forums -- you can pay a single person thousands to be there to answer your questions or you can just ask it for free and get answers from many of your peers who are active in the field. We tend to believe that the input of many is certainly superior to one person's.

With that said, the choice to pay for mentorship or training is 100% up to you. The role of a product or training from a guru should be to improve your processes and make your journey easier, not necessarily shorter. The theory is, if you spend \$500 on a product that helps you achieve \$1000 in profit, then the product is worth it. The problem is that most individuals simply choose to buy a product looking for a shortcut and do not actually put into practice the lessons taught.

Before ever paying for training, we recommend that you first exhaust all options for finding a local mentor, as we discussed above. A paid mentor will most likely be unfamiliar with the intricacies of your local real estate market, while a local mentor will usually have a much better grasp. If you cannot find a local mentor, next seek out knowledge via books, forums, blogs, and other sources. Besides gaining knowledge and pointing you in the right direction, this also will help guarantee your full commitment. After all, you don't want to pay hundreds (or thousands) of dollars just to lose interest next week.

“If you are searching for the right opportunity to grow as a real estate investor, before searching the internet for the perfect solution or pulling out your credit card to hire the perfect coach, search yourself. Make sure you know what you are looking for, and why, and then match your needs with the solution that fits and feels the best.”

Chris Clothier, Investor

When you have a firm grasp on the type of investing you want to get into – then, and only then, should you consider paying for mentorship. Before you do, however, be sure to check out the [Guru Review Forum](#) on Bigger Pockets, as well as the [Better Business Bureau](#). Be very wary of shining reviews online from members that show up at a site just to defend some program (these are often paid members of the organizations themselves). Additionally, there are many gurus out there who simply exist to re-package free information and sell it for exorbitant amounts, claiming to have secrets or some new methodology. Do your research ahead of time to avoid working with these scammers.

Finally, before paying for a mentor or program, follow this one final step: Wait! Oftentimes, pitches and pressure applied from the individuals promoting a program are effective at striking the emotional nerve and as a result, can encourage you to buy out of fear or on excitement, rather than prudence. Wait a few weeks to see if you are still as interested. Many times, when the daze from the salesman's shiny new suit wears off, the program is suddenly not as appealing. After all, there is a reason they want you to "sign up TODAY!"

Paid mentors can provide accountability ("I spent thousands... I better make it worth it!") and good information that is neatly packaged for easy consumption. Many investors do find success working with paid mentors. Many others, however, do not. By focusing on finding local mentors, building your knowledge, and

researching your potential paid mentor before paying, you are able to increase your chances of finding success and avoiding failure. Remember: there is not a product, coach, or mentor who can make you successful. That is strictly up to you. A mentor – paid or not – is merely a guide to help you get down the path as safely and quickly as possible. The choice to do so is up to you.

For more information on mentors, gurus, and paid programs check out:

[Life Changing Mentors](#)

[How Do You Find a Real Estate Investing Mentor?](#)

[How to Find Real Estate Mentors and My Eureka Moment](#)

[I Can Do That! No, Sorry, You Probably Can't – Wannabes and Mentorship](#)

[The Real Estate Guru Trap – How It Works & 4 Ways to Avoid It](#)

[Purchasing a Real Estate Investing Guru Program? Read This First!](#)

[Don't be hypnotized by the "Guru of the Week"!](#)

[BP Podcast 017 – Finding Mentors, Facing Retirement, and Note Investing with Jeff Brown](#)

[BP Podcast 025: Four Newbies and Their Very First Real Estate Success Stories](#)

Fear: A Roadblock in Real Estate Education

I never worry about action, but only inaction. – Winston Churchill

Fear For every successful real estate investor out there, there are dozens who were too filled with fear and uncertainty to ever actually do a deal. If you are just beginning, chances are you have some fear as well – but don't worry; fear is a natural part of life and is designed to help us avoid bad decisions and the consequences derived therefrom.

However, fear can also stop you from ever getting started, and as a result, you may find yourself spinning your wheels without getting anywhere. This purpose of this section is to address that fear, to teach you how to overcome it, and to help you succeed in spite of it.

Six Steps to Help You Overcome Fear:

1.) Get off Your Duff.

If you are looking to real estate investing to save you from a job you hate, then you had better start working to replace the income from your job with money made from real estate activities. Develop a plan and work that plan everyday -- just like you would get up and go to work everyday for a paycheck. If you expect to do one deal and end up on a beach somewhere with beautiful people all around -- wake up. Successful real

estate investors work hard, and you will need to do the same, but instead of working for a company you're not fond of, you're working for yourself -- a blessing and a curse.

2.) Commit



Actions-process-stop-icon STOP buying courses and other materials or seeking out mentors or coaches until you are committed to step number one above. If you are not committed, no course, class, or trainer is going to get you any closer to your goal. Almost every real estate course out there focuses on the mechanics, but the real action is what's going on between your ears. When you can get that under control, it won't matter what technique you use; you will find success as a real estate investor! Realize that you could spend a lot of money having someone show the mechanics, but if you are not willing to deal with the "conditioning" issue, you are just wasting money.

3.) Start Participating

[BiggerPockets](#) is filled with knowledgeable real estate investors who are willing to share what they know for free. Sign up for an account and interact daily. Don't just lurk; participate, ask questions, connect with others, and build relationships. If you are afraid to ask questions, then you are going to be just as afraid to speak with a seller who needs to sell you their property or to negotiate with a big city developer. Interactions are part of an investor's life, so the faster you can overcome this fear, the more successful you'll be. Being visible to your peers online and off will ensure you're always at the front of their minds -- and that's great for business.



4.) Learn the Lingo

Without knowing the lingo of a real estate investor, you will always be afraid of sounding like you don't know what you are talking about. Once you build up your confidence in understanding the lingo, your ability to talk with others and understand what is being discussed will grow exponentially.

5.) Learn the Concepts

Once you have the lingo down, you need to start understanding the concepts. If you can't adequately explain what debt-to-income is or why 70% ARV is important in a house flip, you need to spend more time learning. Fear is often a result of being unclear. Look back at chapter three to see ways you can gain more knowledge. Additionally, once you have a good understanding, help teach someone else. Teaching others a difficult concept will cement that concept into your own mind, helping you never forget.

6.) Watch Others



By assimilating yourself with investors who are involved in the same kind of investing you want to get into, you will naturally begin to pick up on the traits that make them successful. If this means working nights and weekends for a local investor for free, then that's the price of admission. You will quickly learn to overcome your fear when you help others accomplish success, giving you the confidence to strike out on your own.

All investment has some degree of risk, and real estate investing is no exception. While risk can't be avoided, it can be managed through proper preparation, which you have already begun by reading this guide. The hardest thing to do in any new venture is to get started. At some point, you need to follow the advice of Nike: "Just Do It!"

Analysis Paralysis

It's easy to get stuck in the world of "Analysis Paralysis." These are the moments where you research, plan, evaluate, research, plan, evaluate, in an endless cycle and are paralyzed from ever actually taking action. It's the problem of reading books without implementing, reading blogs without engaging, and meeting others without interacting. Typically, it's due to fear of screwing something up.

It's easy to convince yourself that you don't know everything you should know before you start taking action. However, you don't need to learn about every single niche buying technique, and you don't need to be an expert before getting your hands dirty. You should focus on one area of investing and become an expert in it and then move on to the other techniques and areas. We'll cover the various real estate niches in the next chapter of this guide.



Once you know where you want to start, you need to learn the ropes. The [BiggerPockets Forums](#) are an excellent place to learn everything you need to know about any topic. Ask questions. Learn the basics and start planning. You might feel that you are not completely ready to begin, and you probably never will be unless you take action. It will seem scary, and you probably won't be able to answer all the questions that will be asked by sellers and buyers once you get started. But because you took action, you will be in a position that will force you to learn the answers to those questions -- remember, that's what this site is for -- which will help when those things come up.

It's so much easier when you're fearful to spend more money and buy another course or to spend another month reading about what other people are doing. Doing so won't get you anywhere. Get educated, get your plan together and start taking action. As you do, you will quickly get to where you feel right in your new skin. You will actually feel like a real estate investor. Your confidence will skyrocket, and you will become even better at what you do.

For more information on Overcoming Fear and Analysis Paralysis, check out:

[Advice for New Real Estate Investors Just Starting Out](#)

[3 Words of Advice for New Real Estate Investors](#)

[Overcome Your Fear to Get Started as a Real Estate Investor](#)

[Being Committed to Being Committed](#)

[Paralysis by Analysis](#)

[Avoid Getting Stuck in Real Estate Investing's Paralysis of Analysis](#)

[Frozen by Paralysis of Analysis?](#)

[5 Ways to Overcome Analysis Paralysis](#)

Moving On

Beginning your investment career with a solid foundation based on a good real estate investing education is vital to the success of your career. There are many different ways you can learn and grow as an investor, so choose the method you feel you can grow the most with and start learning.

The next chapter will help further your education by teaching you more important basics of the real estate business, including different real estate niches and the basic strategies available to you. Once you learn these, you'll be ready to start with the all important planning that we've been talking about.



CHAPTER 3

REAL ESTATE INVESTMENTS: NICHEs AND STRATEGIES



Very narrow areas of expertise can be very productive. Develop your own profile. Develop your own niche.

Leigh Steinberg

While at first it may seem important that you learn everything you can about real estate investing, in reality, it is best to focus on two things: an investment vehicle and a strategy for using that vehicle. This chapter is going to introduce you to some of the most popular investment vehicles, as well as the most common strategies for moving forward.

In This Chapter We'll Cover

- ✓ *Why Real Estate is Like a Box of Chocolates*
- ✓ *Choosing Your Niche*
- ✓ *Choose Your Real Estate Investing Strategies*
- ✓ *Buy and Hold*
- ✓ *Flipping*
- ✓ *Wholesaling*
- ✓ *Moving On*



Real Estate Investments are Like a Box of Chocolates

Have you ever received a box of chocolates as a gift over the holidays? There are always so many choices, and sometimes, you need to take a little bite of each one to figure out what exactly you're going to find inside. In a way, learning how to invest in real estate is like that box of chocolates. There are dozens (if not hundreds) of different ways to make money as a real estate investor, and it's up to you to choose the niche you want to get into.

You might absolutely love some niches and strategies, while others might make you shudder. However, unlike that box of chocolates, as an investor, you are able to get a full view of the many different choices available to you, and you can then choose the one(s) that you enjoy the most. Best of all, you don't need to choose them all. Learning how to successfully invest in real estate is about choosing one niche and becoming a master of it. This chapter is going to open up that box of chocolates for you to sample and let you see some of the most common niches you can get into when investing in real estate.

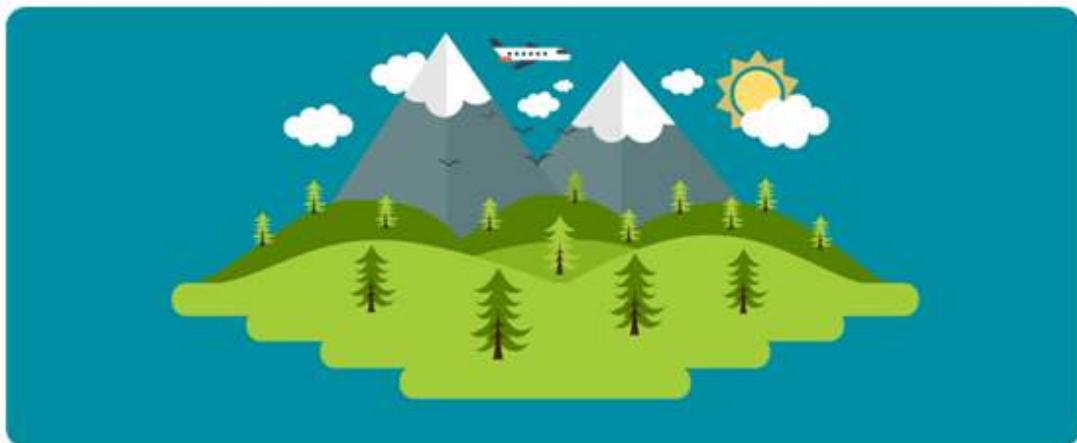


Remember: Once you know the niche you want to get started with, you will be able to narrow down your focus, become an expert, network with individuals within that niche, and begin building wealth by taking action and executing a plan of action.

Choosing Your Real Estate Investment Niche

The following list includes the most common property types that you are likely to deal with as a real estate investor. Each of these has many subsets as well, but remember, you don't need to know them all. This is merely a list to help you get started understanding what options are available from a 20,000 foot view.

Raw Land



Raw land is nothing more than basic earth. Land on its own can be improved to add value, and it can be leased or rented to create cash flow. Land can also be subdivided and sold for profit. Some investors choose to buy raw land with hopes (or plans) that someday the land will become much more valuable due to external developments like the construction of a freeway or from a development being built nearby.

For More Information on Raw Land, see:

- [*Residential Land Development – Part 1*](#)
 - [*Developing Real Estate: How to Price Land for Profit*](#)
-

Single-Family Homes



Perhaps the most common investment for most first time investors is the single family home. Single family homes are relatively easy to rent, easy to sell, and easy to finance. That said, in many areas, the rents derived from SFRs (single family rentals) won't be enough to provide positive cash flow.

For More Information on Single Family Houses, see:

- [*Secrets of Single Family Rentals*](#)

Duplex/Triplex/Quads



Small multifamily properties (2-4 units) combine the financing and easy purchasing benefits of a single family home. Bought properly, these can cashflow quite well, and there is often less competition than what you'd run across bidding on single family homes. Best of all, these properties can serve as both a solid investment as well as a personal residence for the smart investor. Another perk of the small multifamily property is the ability to take advantage of "economies of scale," as only one loan is needed to secure the 2, 3, or 4 units in the property. One of the things that makes these investments so appealing is that most banks look at small multifamily properties with four units or less with the same guidelines as a single family house, which can make qualifying for a loan much easier.

For More Information on Duplexes, Triplexes, and Quads see:

- [Small Multifamily Properties = Big Profits](#)
- [Financing a Fourplex Real Estate Investment Property](#)
- [New Investor Strategy: How to Buy Your First Multi-Family Investment Property & Live Rent Free](#)

Small Apartments

Small apartment buildings are made up of between 5 and 50 units. Though the line between small and large apartments is not set in stone, most investors typically draw the line between small and large apartment buildings at around 50 units. These properties can be more difficult to finance than single family homes or 2-4 unit properties, as they rely on commercial lending standards instead of residential ones. That said, these properties often provide significant cash flow for the investor who can deal with the more management-intense nature of the properties. Additionally, competition is generally seen on a lower scale for this property type, as they are too small for large, professional REITs to invest in (see below), but too large for most novice real estate investors.



Instead of being priced based on comps, the value of these properties are based on the income they bring in. This creates a huge opportunity for adding value by increasing rent, decreasing expenses, and managing

effectively. These properties are a great place to utilize on-site managers who manage and perform maintenance in exchange for free or decreased rent.

For More Information on Small Apartments, see:

- [How to Find the Best Commercial Apartment Deals](#)
-

Large Apartments



This class of property -- Large Apartments -- refers to the large complexes you might see all across the country that often include pools, work-out rooms, full time staff, and high advertising budgets. These properties can cost many millions of dollars to purchase, but can produce stable returns with minimal personal involvement. Many large apartments are owned by "syndications," which are small groups of investors who pool their resources.

For More Information on Large Apartments, see:

- [Anatomy of the Grand Slam: How I Made \\$800,000 on One Flip](#)
-

REITs

REIT stands for a Real Estate Investment Trust. In the most simplistic definition, a REIT is to a real estate property as a mutual fund is to a stock. A large number of individuals pool their funds together, forming a REIT, and allow the REIT to purchase large real estate investments, such as shopping malls, large apartment complexes, skyscrapers, or bulk amounts of single family homes. The REIT then distributes profits to individual investors. This is one of the most hands-off approach to investing in Real Estate, but do not expect the returns found in hands-on investing. You can buy shares in a REIT via your stock account, and they often have a relatively high dividend payment.



For More Information on REITs, see:

- [Is Now a Good Time to Invest in a REIT?](#)

Commercial



Commercial investments can vary dramatically in size, style, and purpose, but ultimately involve a property that is leased to a business. Some commercial investors rent buildings to small local businesses, while others rent large spaces to supermarkets or big box megastores. While commercial properties often provide good cash flow and consistent payments, they also may carry with them much longer holding periods during times of vacancies; commercial property can often sit empty for many months or years. Unless you are starting from a very solid financial position, investing in commercial real estate is not recommended for beginners.

For More Information on Commercial Investing, see:

- [*BP Podcast 004: Commercial Real Estate Investing With Frank Gallinelli*](#)
- [*3 Things You Need to Know to Invest in Commercial Real Estate*](#)
- [*Commercial Real Estate Listing Tools, News & Discussions*](#)

Mobile Homes

You can start investing in mobile homes with little money out of pocket. Whether it's a home in a mobile home park or on its own land, many of the strategies used in other types of real estate investing can be applied to mobile homes.

For More Information on Mobile Homes, see:

- [*Mobile Home Investing with Creative Strategies*](#)
- [*Mobile Home Investing: AKA The Moolah Maker*](#)



Tax Liens

When homeowners don't pay their taxes, the government (local, state, or federal) can foreclose and resell the property to investors for the amount of taxes owed. This can often mean incredibly inexpensive properties, but be sure to do your due diligence and don't just jump into this kind of investing unprepared. Tax lien sales are complicated transactions that require research, knowledge, and experience.

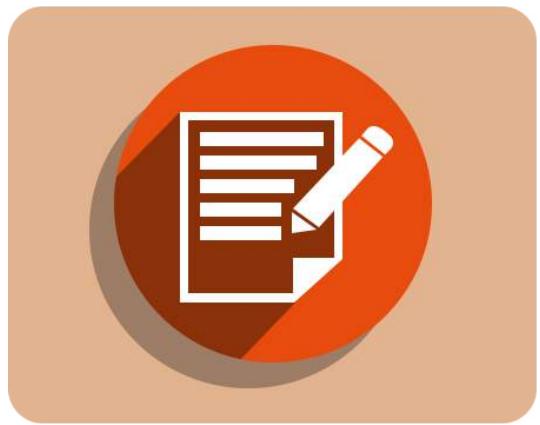


For More Information on Tax Liens, see:

- [Tax Liens: What They Are and How to Use Them In Your Business](#)
-

Notes

Investing in notes involves the buying and selling of paper mortgages. When a home is purchased with a loan, a "note" is created explaining the terms of the contract. For example, an apartment owner decides to sell his property for one million dollars. He offers to carry the full note (thus allowing the new buyer to avoid using a bank loan), and the new buyer will make payments of 8% per year for thirty years until the full one million dollars is paid off.



If that owner decided they no longer wanted to be involved, he might choose to sell that mortgage to a "note buyer." Just like any other real estate investment, many times a note will be sold for a discount when the seller is motivated to sell. A note buyer will then begin collecting the monthly mortgage payments and will have the right to keep the note or sell it again in the future.

For More Information on Investing in Notes, see:

- [Cash Flow Notes: 5 Steps to Investing Through "Lien Landlording"](#)
-

A Summary of Your Real Estate Investment Niche Choices

We've just outlined ten different investment niches, or vehicles, that you can invest in to take you on your journey through real estate investing. When starting out, it's helpful to simply pick one (or, at most, two) niches to focus on and become a pro at that niche. You can always expand later as you get more experience and knowledge.

While you can use any of these investment vehicles in your career, you must next learn an investment strategy that you can apply to that niche. The next section will look at several different strategies that investors use to make money with the various niches already covered.

For More Information on Choosing Your Niche, See:

- [Finding Your Niche in Real Estate](#)
 - [Real Estate Investing principles Using Focus to Build a Solid Business Foundation](#)
 - [Top 100 Ways to Make Money in Real Estate](#)
 - [*BP Podcast 047: Apartment Complexes, NNN Leases, and Commercial Real Estate with Joel Owens*](#)
 - [*BP Podcast 052: Buying Apartment Complexes, Raising Millions, and Building a Profitable Business with Ken McElroy*](#)
 - [*BP Podcast 004: Commercial Real Estate Investing With Frank Gallinelli*](#)
 - [*BP Podcast 056: Syndicating Deals, Investing without Tenants, and Tax Liens with Ankit Duggal*](#)
-

Choose Your Real Estate Investing Strategies

The section above looked at a number of different investment vehicles that you can use to invest in real estate. However, when learning how to invest in real estate, it is not enough to simply know what these property niches are. Instead, as an investor you will use a variety of strategies when dealing with these investment niches to produce wealth. The section below explores three of the most common strategies that you can use to make money with these vehicles.

Buy & Hold

Perhaps the most common form of investing, the "buy and hold strategy" involves purchasing a property and renting it out for an extended period of time. It's probably the most simple and purest form of real estate investing that there is. Essentially, a "buy and hold investor" seeks to create wealth by renting the property out and either collecting monthly cash flow or simply holding the property until it can be sold for a gain in the future. Among the advantages of this strategy is that during the time that you hold the property and rent it out, the mortgage is paid down each and every month, decreasing your principal balance and increasing your equity in the property.



One of the most important things for a new buy and hold investor to understand is how to evaluate deals and opportunities. By far the most common mistake that we see new investors make with this strategy is buying bad deals because they simply don't understand property evaluation. Other common problems include underestimating expenses, making bad decisions on tenant selection, and failing to manage properly. These mistakes can all be avoided, however, if you simply learn the business; jumping in without proper education can be extremely costly financially and sometimes, legally.

To properly carry out the buy and hold strategy, an investor should learn how to properly identify the ebbs and flows of the market that a property is located in. Ultimately, when they perceive the market and the properties they are interested in to be at a low point (prices low, inventory high), the buy and hold investor

seeks to purchase properties. When the market becomes over-heated, an experienced buy and hold investor will usually stop buying until they see things settle back down. During these slow periods, they may sell or simply continue to hold their properties. Some buy and hold investors never sell a property, choosing instead to pay the mortgage off and live on the cash flow or may ultimately sell using "Seller Financing" (see chapter 8 for more on exit strategies).

Check out the following image for a simplified example of how the real estate market cycle works:



Ultimately, there is much more to buy and hold than meets the eye, but if you can learn how to evaluate and buy good deals, find quality tenants, and manage properly, you're going to be on your path to running a successful business.

For More Information on the Buy and Hold Strategy, See:

- [3 Key Factors in Buy and Hold Real Estate Investing](#)
 - [What Is Hybrid Real Estate Investing](#)
 - [Back to Basics on Buy and Hold](#)
 - [The Return Of the Real Estate Buy and Hold Strategy](#)
-

Flipping Real Estate

One of the most popular tactics for making money in real estate, due largely to the numerous shows on cable TV that promote it, is flipping houses. House flipping is the practice of buying a piece of real estate at a discounted price, improving it in some way, and then selling it for a financial gain. In reality, the flipping model is quite similar to the "buy low, sell high" model of most retail businesses.



The most popular type of property to flip is the single family home. Following a rule of thumb known as the 70% rule, an experienced house flipper will buy a home for 70% of its current value less any rehab costs. For example: Home A should be worth \$100,000 if it were in good condition, but it needs \$20,000 worth of work. A typical house flipper will purchase the home for \$50,000 ($\$100,000 \times 70\% - \$20,000$) and seek to sell it for the full \$100,000 when completed. This is simply a rule of thumb, and actual numbers must be verified and adjusted to ensure a successful and profitable flip.

Check out the FREE BiggerPockets 70% Rule Calculator to quickly check if a deal is a good one using this rule of thumb.

One of the key aspects in flipping a house is speed. A house flipper will attempt to buy, rehab and sell the property as quickly as possible to ensure maximum profitability and to avoid many months of expensive carrying costs. These carrying costs include monthly bills such as financing charges, property taxes, condo fees (if applicable), utilities and any other maintenance bills required to keep the house in good financial standing.

Flipping is not a "passive" activity, but instead is just like an active day job. When an investor stops flipping, they stop making money until they begin flipping again. Many investors choose to use flipping to fund their day-to-day bills, as well as provide financial support for other, more passive investments.

If flipping is an activity you want to get more into, we'd highly recommend that you check out the BiggerPockets newly released book, "The Book on Flipping Houses," along with the free bonus book, "The Book on Estimating Rehab Costs." These books can be fundamental in helping you learn how to start a profitable house flipping business. To learn more about these valuable resources, [click here](#).

For more information on flipping, please see:

- [Simple Things When Flipping Houses](#)
- [9 Steps to Flipping Houses \(Infographic\)](#)
- [Fixing and Flipping: A Business or a Job?](#)
- [Six House Flipping Tips](#)
- *BP Radio Podcast 001: Building a Successful House Flipping Business and Losing Millions with Marty Boardman*
- *BP Podcast 010 : Flipping Houses 101 with J Scott*
- *BP Podcast 018 : Flipping, Marketing, and Wholesaling with Danny Johnson*
- *BP Podcast 022 – Building a Marketing Machine, Spec Houses, Flipping & Wholesaling with Tucker Merrihew*
- *BP Podcast 023: Flipping While Working a Job, Partnerships, and Military Investing with James Vermillion*
- *BP Podcast 024: House Flipping and Deal Analysis with Michael LaCava*
- *BP Podcast 027: Fix and Flipping, Wholesaling, Marketing, and More with Jason and Katherine Grote*
- *BP Podcast 032: Luxury House Flipping, Finding Deals, and Discovering Your Niche with Will Barnard*
- *BP Podcast 039: Dirt Cheap Land Flipping and Reaching Motivated Sellers with Seth Williams*
- *BP Podcast 041: How to Profit Through Long Term Flipping and Lease Options with Douglas Larson*
- *BP Podcast 044: Creating Systems to Flip Houses While Still Employed with Michael Woodward*
- *BP Podcast 050: Getting Started and No Money Down House Flipping with Mike Simmons*
- *BP Podcast 058: Flipping and Wholesaling Homes While Working Full Time with Justin Silverio*

Don't overpay for your next real estate flip!
Use the BiggerPockets Fix & Flip Analysis & Reporting Tool to easily weed out bad deals & estimate your next big profit.

Wholesaling Real Estate

Wholesaling is the process of finding great real estate deals, writing a contract to acquire the deal, and then selling the contract to another buyer. Generally, a wholesaler never actually owns the piece of property they are selling; instead, a wholesaler simply finds great deals using a variety of marketing strategies (see chapter 7), puts them under contract, and sells that contract to another for an "assignment fee." This fee is typically between \$500 and \$5,000 on average -- or more depending on the size of the deal. Essentially, the wholesaler is a middleman who is paid for finding deals.

Some wholesalers sell their contracts to retail buyers, but most sell their contracts to other investors (often house flippers) who are typically "cash buyers." When dealing with these cash buyers, a wholesaler can often get paid within days or weeks and can build solid connections in the real estate community.

Many investors choose to begin with wholesaling due to its reputation of being an easy strategy and one with low start up costs when first beginning. Because the property is never actually owned by the wholesaler, there are no rehab costs, loan fees, contractors, tenants, banks, or other complications. Wholesaling is the most popular strategy taught by real estate gurus and often receives the most attention as a result, though it is not as easy to become a successful wholesaler as they make it sound.



Wholesalers must continually seek out the best deals in order to have inventory to sell to others and must have a well designed marketing funnel to continually attract these leads. Wholesalers also must continually seek out buyers for the deals they acquire. While promoted as a strategy that anyone can do -- even someone with ZERO money -- you ultimately do need to have financial resources to build your marketing funnel. That said, those who persist in growing their wholesaling skills often find great success and a good source of income while they grow their knowledge of other, more profitable strategies.



For more information on Wholesaling, please see:

- [Don't Start Wholesaling Until You Read This: Wholesale Advice from a Fix and Flipper](#)
 - [How to Start Wholesaling: Getting Past The Education and Into the Field](#)
 - [The Basics of Wholesaling For Beginners](#)
 - [Wholesaling Real Estate Basics](#)
 - [You Have a Buyer's List... Now What?](#)
 - [The Flippers Best Friend: The Wholesaler](#)
 - [How to Evaluate Wholesale Real Estate Deals](#)
-

Moving On

After reading this chapter, you should now have a clearer understanding of the many different real estate niches and strategies that you can use to build wealth in real estate. Don't worry if you don't know exactly which one you want to pursue yet -- this is simply the beginning. Learning how to invest in real estate can take time. As you move forward through this guide, you will gain a better understanding of the kind of investing you want to engage in. Throughout this guide, we will give you numerous tips and sources you can use to narrow down your plan further. As mentioned earlier, be sure to check out the **BiggerPockets Forums**, where you can ask questions, and, of course, search the site to find any more help that you might need.

You are probably excited to get started making money in real estate. Before you do, however, there is one major step that will make all the difference between early success and failure: building your business plan. Chapter 4 will explore this topic.

CHAPTER 4

CREATING YOUR REAL ESTATE INVESTING BUSINESS PLAN



"Do you wish to be great? Then begin by being. Do you desire to construct a vast and lofty fabric? Think first about the foundations of humility. The higher your structure is to be, the deeper must be its foundation."

Saint Augustine

No great building is made without careful planning before ground is broken. This plan serves as the map for the development of the structure, without which the building just won't come together. In the same way, carefully crafting your real estate business plan is an integral part of your journey. This chapter will focus on the options you have in building that plan and will prepare you for your entrance and long-term success in real estate investing.



This chapter includes:

- ✓ *Creating a Business Plan*
- ✓ *Assembling Your Team*
- ✓ *Partnerships*
- ✓ *Business Entity Structuring*

Creating a Real Estate Investing Business Plan

If you were to get in your car and take a road trip across the country to an area you have never been before – would you just trust your gut and start traveling in the general direction you want to get to? Most likely, you'd take with you a road map (or G.P.S. or smartphone, of course).

The reason we use road maps is because oftentimes the road is unpredictable, and the right road may seem to lead to the wrong place. Other times, the wrong road might seem to point directly toward your destination. Road maps are created to show the easiest route, the pitfalls you want to avoid, and special things to see along the way.

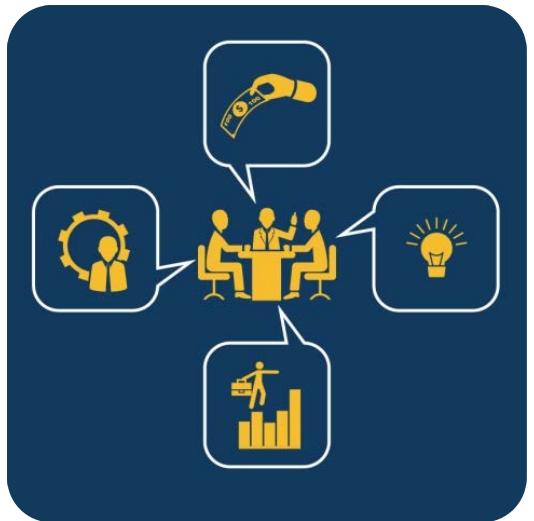
The same principle applies for your journey into real estate investing. This section is going to discuss building the road map that you'll follow on your journey. In real estate, we call this a “business plan.”



What Your Real Estate Business Plan Should Include

Mission Statement - When people ask you what you do, what do you tell them? This mission statement should clearly define your purpose and should include the benefits your business provides. Do your research and come up with a solid mission statement. This is the “why” in your road trip.

Goals - Where do you want to go? What do you want real estate to help you to achieve? If your goal is to make \$5,000 per month in passive income – write that down. If your goal is to flip four homes per month – write that down. These goals may change over time, affecting the rest of your business plan – and that's okay. Make sure to put down both short and long term goals. By setting smaller, more achievable goals, you'll give yourself something to always look forward to accomplishing – this will help you stay motivated.



Strategy - There are hundreds of ways to make money in real estate – but you don't need hundreds. You simply need to pick one strategy and become a master of it. That strategy (vehicle), if dependable, will carry you through to your destination (your goals). If you are choosing to flip homes to generate cash in order to save up enough to quit your job – write that down. If you are looking to build passive income from small multifamily properties for your retirement – write that down. Don't worry if you don't understand or know how you're going to accomplish everything in the plan. Remember, your business plan can and will change in time, and as you learn, you'll fill the plan out with more details.

Time Frame - What is your time frame to reach your goal? Be realistic, but don't be afraid to reach, either. Do you want to retire in ten years? Are you planning on quitting your job next month? Document your timeline here. You can do this in accordance with your goals, as mentioned above.



Market - Define your market. What kind of property will you be looking for? Low income? High Income? Commercial areas? As a beginner, choose an area you feel most comfortable with. Most new investors should plan on investing within a short driving distance to your home, rather than investing long distance (unless your location makes it impossible). Doing this will help you to become an expert in that area, which will help you more easily analyze deals and opportunities. It will also help you know the players in the area, which will ultimately help you find partners -- and again, opportunities.

Criteria - Before you go out and start looking for deals, you need to establish the criteria which those deals must fall in. You'll want to define your loan to value, cash flow requirements, max purchase amount, max rehab amount, max timeframe, etc. (these are all items you'll pick up as we go further). One of the most important lessons you can possibly learn is to stick to your criteria and walk away from any deal that does not meet your criteria. It is very easy to become emotionally attached to a deal, but by sticking to your criteria, you take the emotion out of the picture.

Flexibility - If you are not finding enough deals to cherry pick from, you can change your market and/or strategy. You'll learn more about these areas of criteria in chapter 5. This part of your business plan is one of the most important to fully understand and clearly define. Too many new investors get excited and buy the first deal that comes their way. By having clearly defined criteria, you are able to easily reject the 99% of properties that are not a good deal.

Marketing Plan - How are you going to create a marketing system so motivated sellers come to you? How will you find the best deals that are listed? Will you use the MLS, agents, online searches, direct mail to lists, or other means of finding deals? We will cover different marketing strategies in chapter seven.

Financing Deals - How do you plan on acquiring your deals? Are you using conventional, hard money, private money, equity partners, seller financing, lease options, or some other creative method? Finding financing is often a challenge in today's market, and private money provides a tremendous solution. Learn to attract private money, so you've always got a steady flow of finance when deals present themselves. We'll cover this more in chapter 6.



How You're Going to Do Your Deals - How are you going to turn a purchase of a property into profit? Clearly define the steps. Make sure to document all your income and expense sources and prepare for the unexpected. You also want to prepare several exit strategies in case the first one doesn't work out as planned.

Teams and Systems - Clearly define your team and the systems you and they will use to delegate and automate tasks. Who will be on your team? Will you need an attorney, CPA, etc.? You don't necessarily need to know who those people are, simply what roles you will need on your team. More on this below.

Exit Strategies & Backup Plans - Having multiple clearly defined exit strategies is one of the most important parts of your business plan, especially for new investors. How are you going to exit the deal? What are your backup plans? Do you flip, lease option, wholesale, bird dog, sell the note, sell the entity holding title, rent and hold, or some other technique? What is the end game? This needs to be clearly defined. Again, we'll talk more about this in chapter 8.

Illustrate Example Deals - One of the parts of the business plan that seems to get new investors excited is to illustrate the future of your business. What would an ideal, but feasible next ten years look like? Illustrate purchases, cash flow, appreciation, sales, trades, 1031 exchanges, cash on cash return, and more, to demonstrate what your path might look like. This goes somewhat hand in hand with your goals – it just illustrates possible ways of making them happen. Additionally, this will change with time because, of course, ideals are not real life. However, it is good to see what is possible.

Financials - Include a personal description of where your financials are today. What do you bring to the table? Do you have any equity you can use? Are you starting with nothing? Document your current situation and update it as often as it changes. As you move forward with your investments, it is always important to have at the ready your complete financials.



One last thing – remember that road maps and business plans are guides, not rules. A business plan is meant to give you direction and to motivate you to follow it. When you have a clearly defined business plan, carrying out the plan and envisioning the end becomes much more attainable.

It is almost impossible to follow a financial or real estate road map perfectly. While you can plot your course with care and extreme precision, there are still many outside forces at play.

However, your road map is designed to keep you headed in the right direction at the correct speed. You may come across bumps in the road, dead ends, and even a breakdown or two. However, if you hold as tight as you can to the map you've created, you will pass through those problems and come out at your destination.

If you talk to investors who have failed in this business, you'll find that the majority of them did so primarily because of a lack of preparation and planning. Don't fall into this trap.

For more information on creating a business plan, check out:

- [Outline of a Real Estate Business Plan, the First Step to Success](#)
- [Are You Investing in Real Estate with Clear Intentions? Do You Have a Plan?](#)
- [10 Critical Steps to Take Before Investing in Real Estate](#)

Assembling Your Team



While as an investor you are required to wear many different hats, you don't need to (and can't) wear all of them. Instead, you need a team. When we refer to "team," we're not suggesting you go out and hire a team of employees to work under you. A "team" is merely a collection of individuals in various different businesses that you can rely on help you move your business forward. Here's a brief look at who should be on any winning real estate investing team:

Your Mentor - Every successful entrepreneur needs a good mentor: a guide. By training under the watchful eye of one smarter than us, we can only get smarter. For more information on mentors, see chapter 4.

Mortgage Broker/Loan Officer - A mortgage broker is the person responsible for getting you loans – especially if you are going "conventional" (not hard or private money). You want someone who has the experience of working with other investors, and you want that person to be creative and smart. Many loan officers have a pipeline of buyers (or future buyers); real estate investors can use the help of local loan officers to build a list of buyers and lease purchasers for their properties.

Real Estate Attorney - It is important to have someone on the team who can go through contracts and who knows the legalities of all your moves. Don't try to pinch pennies by ignoring this valuable member of your team. You don't need to meet for hours with your attorney each week, but want someone to be available when you need them. Having an attorney who is skilled with real estate investing is highly important for the success of your career. Keep in mind, attorneys can also be compensated through fees collected at acquisition or disposition of a property.



Escrow Officer or Title Rep - If you live in a state that uses Title & Escrow companies, your escrow officer or title rep is the person responsible for closing the deal, taking you from "the offer" to "the keys." Having a good one on the team helps to close deals that much quicker. You always want people looking out for YOUR interests.

Accountant - As you acquire properties, doing your own taxes and bookkeeping becomes increasingly difficult. As soon as possible, hire an accountant (preferably a Certified Public Accountant). Your numbers guy should also be well aware of the ins and outs of real estate and preferably own rental properties of their own. Come tax time, this is the man to help you through the write-offs. A good tax accountant will save you more than they cost.

Insurance Agent - Insurance is a must, and as an investor, you will probably be dealing with a lot of insurance policies. Be sure to shop around for both the best rates and the best service. Do not skimp out on getting insurance, as you never know when you'll need that policy.

Contractor - A good contractor seems like the hardest team member to find, but can often make or break your profit margin. You want someone who gets things done on time and under budget! Be sure that your contractor is licensed/bonded/insured to protect you. Don't simply hire the cheap guy.



Supportive Family & Friends - Having the support and backing of loved ones is important in any endeavor. If your spouse or family is not on board, don't invest until they are.

Realtor - An exceptional real estate agent is fundamental in your investing career. You or your spouse may even choose to become a real estate agent yourself to gain access to the incredible tools that agents have. Either way, having an agent who is punctual, a go-getter, and eager, is important. Real estate agents are paid from the commission when a property is sold. In other words – for the buyer, an agent is FREE. They can be an excellent resource for contract real estate work, which may include the following activities: bird dogging, referring buyers, showing properties, open houses, broker price opinions, etc.



Property Manager - If you don't want to actively manage your properties, a good property manager is important to have. A good property manager can be hard to find – but finding one who can efficiently manage your rentals will make your life significantly easier.

Great Handyman - Someone to take care of the little things that come up on a daily basis is imperative to have on board. Ask for referrals from other landlords for the best handymen; they typically don't need to advertise, but work almost entirely on referrals from a small group of investors and homeowners.

One of the best sources for finding these team members is through referrals from other investors. In general, another investor would be happy to refer their handyman, mortgage broker, or accountant to you because it reflects well on themselves and their relationship with that professional. Try asking around at your local real estate investor club or here on BiggerPockets, and you'll be well on your way towards putting the pieces in place.

What Makes a Great Real Estate Team?

A great real estate team is defined by their ability to consistently produce reliable RESULTS. As you might suspect, that's WAY more difficult to construct in real life than it is to talk about it.

Investors, especially ones with either large portfolios or those who flip a lot (often both), rely on their team daily. When one member fails, the entire endeavor suffers, sometimes to the point of sabotaging the team's goals altogether. Whether you're serving clients, flipping properties, or keeping track of your rentals, your team must consistently produce and avoid the "Excuse Train" at all costs. There are those who do -- and those who make excuses. The latter will pull you down faster than you can imagine.

"I found this business to be extremely difficult and frustrating until I built up a solid team around me, at which point it became much, much easier."

J Scott, Investor

People talk a good game, so watch them when it's their turn to produce. A great team member should exhibit certain traits, which are sometimes difficult to see on the surface, but can be witnessed through longer conversations and via referrals from others. For example:

- ✓ *Are they really experts?*
- ✓ *Do they interact well with everyone?*
- ✓ *Are they a pain to contact?*
- ✓ *Do they return calls/emails quickly?*
- ✓ *Do they hit deadlines?*
- ✓ *Do they produce as promised, when promised?*
- ✓ *Can they communicate clearly and efficiently?*

Assembling the team will not happen overnight, but once together, they will give you the backing and help you'll need to make your real estate investing dreams come true.

For more information about building and maintaining your team, check out:

- [Assembling your Real Estate Investing Team](#)
- [Hiring Help for Your Real Estate Investing Business](#)
- [Putting Together a 'Team' for Your Real Estate Business – It's About Results](#)
- [The Lazy Man's Way to Flip Houses: Your Key Flipping Team](#)

Should I Use a Partner or Go It Alone?

Before beginning your real estate journey, you will need to decide if you want to pursue your career on your own or with the help of a partner. This decision is not the same for everyone and depends largely on your knowledge, time commitments, abilities, talents, and timeline. If a partnership is something you plan on pursuing, the kind of partnership becomes important as well. Some individuals choose to invest in real estate with a partner from the start. Others choose to invest with partners on case-by-case, deal-by-deal basis.

The following chart will give you the pros and cons of using a partner vs. going through your investing career alone.



Partnership Pro:

Team Brainstorming:

Two heads are better than one, so ideas can often develop with more clear focus and direction, as multiple minds work through the same issues.

Pooling Resources:

Real estate investing generally takes a lot resources and can often be too expensive for one person to handle alone. A partnership allows you to pool your resources to get off to a stable start. A solid partnership may also help with bank financing.

Assistance with Analysis:

It is important to master the art of deal analysis (which we'll cover more in chapter 5). There are hundreds of considerations when searching for your first real estate investment deal, so having someone else looking at your numbers will increase your odds of an accurate analysis

Complementary Qualities:

Different people bring different strengths and weaknesses to a partnership, e.g. analytical vs. hand on, construction vs. financing, time vs. knowledge. Understanding what each person excels at, and harnessing that strength, is key for successfully working with a partner.



Partnership Cons:

Personality Conflicts:

Partnerships can be difficult due to the possibility of vast differences in personalities. When you are relying on another person to get things done and you don't mesh perfectly, conflict can easily arise.

Difference of Opinion:

Everyone has an opinion of how things should be done. If you are in a partnership, you are forced to compromise on many aspects of your business. From paint color to investment type – differing opinions can cause difficulty.

Suspicion/Trust:

As with any close relationship, it is easy for suspicion and trust issues to arise – especially when things aren't going well. Trust can be hard to gain and quick to lose. Fraud also can play a role in the demise of many businesses and partnerships.

Delayed Decision-Making:

When you are acting alone, you have the ability to quickly make decisions based on how you want things. In a partnership, you are oftentimes forced to discuss all decisions – no matter how trivial – with your partner, which can add a lot of time to your dealings.

Task Division:

When investing in real estate, there are a lot of tasks that can easily overwhelm your life. Effectively and fairly dividing tasks can ensure that all partners are able to contribute to the business without being overwhelmed.

Expanded Networking:

Networking with others within and outside the real estate industry is vital to the growth of your real estate investing endeavors. In a partnership, each partner already comes to the table with their own network of connections.

Accountability:

A partnership, if both sides do their part, will help to keep the business moving forward; you've got a built-in accountability partner to keep you to task. When one partner begins to falter, the other can step in and assist to ensure the team is moving forward.

Confidence/Motivation:

Starting out in real estate investing can be overwhelming. A partnership can help inspire confidence and motivation when obstacles arise. A good partnership can be revitalizing and motivating.

Split Risk:

As with any investment, real estate investing involves a certain level of risk. Having a partner splits the risk (and thus, the profits) and can lessen the fear of loss.

Smaller Profits:

When you form a partnership, your profits, by nature of the agreement, are split. In other words – you will make a lot less money per deal than if you were doing it by yourself.

Mixing Business/Friendship:

Oftentimes people get into business with friends or family - and many times that becomes the death of that relationship. Partnerships don't always work out – and when they don't, the relationship is often severed for good. A partnership is very much like a marriage -- don't get into it unless you're ready!

Unrealistic Expectations:

When you rely on someone else, it's easy to set expectations on how something should be done. However, when the partner doesn't live up to your expectations, it's easy to be bitter and blame the other person.

Responsible For Partner:

While the legal ramifications depend largely on the entity structure you set up, you and your partner are still in business together, which means you are responsible for them, at least in terms of the business. If they skip town, you are still responsible for the whole business. Make sure your real estate attorney helps you draft any partnership agreements to help protect your interests.

"A friendship founded on business is a good deal better than a business founded on friendship."

John D. Rockefeller

Four Tips for a Successful Real Estate Partnership

If you've decided that the benefits of a partnership outweigh the negatives - be sure to follow these four tips to minimize problems:

- ✓ **Don't Be a Jerk:** Treat your partnership with care and have a giving spirit.
- ✓ **Learn to Compromise:** There will be disagreements and conflicts in a partnership - and there must be compromises.
- ✓ **Talk Daily:** Talk every single day, when possible. Discussing daily events as well as future goals will keep the relationship stable and validates the reason you are partners.
- ✓ **Plan Ahead:** Do not start a partnership off the wrong way. Make sure the arrangement is written, well planned and includes an operating agreement to detail the roles and responsibilities, capital contributions, profit splits, and exit strategies.



The Bottom Line of Using Partnerships

While partnerships have a lot of benefits, they are not for everyone, and if not properly created, they may be a silent killer to your investment plans. If you choose not to use a partnership, you are not actually investing alone. There are thousands of individuals in the [BiggerPockets](#) community that can help you through any weaknesses you may have. You can also outsource many of the things you don't want to do, rather than give 50% of your profits away. For example, if you are not good at construction, it may be cheaper to hire a contractor than to partner with an individual who is good with construction.

If you decide to use a partnership, be careful from the beginning. Many people simply do not make good business partners. If you decide you would like to pursue a business partnership, be 100% confident that you choose a business partner who will treat you fairly, add value to the relationship, and maintain similar goals to yours. Carefully plan out the arrangement (in writing) and constantly communicate. If both partners remain committed to the business, you will likely develop one that is prosperous for all parties involved.

For More Information about Partnerships, check out:

- [Partnerships: The Benefits of Teaming Up in Real Estate Investing](#)
- [Want a Real Estate Partner? Think Twice!](#)
- [Real Estate Partnerships: Making Them Work!](#)

Business Entity Structuring

It is important for any real estate investor to understand that incorporating your business is almost universally regarded as one of the best ways to protect yourself from personal liability. There are many opinions about what structure to set up, when to create one, and so on. BiggerPockets recommends that you consult with a real estate attorney or accountant when making these important decisions. The following are some additional sources about business entities that you may want to check out:



- [Which is the Best Business Structure for Real Estate Investors?](#)
- [The Asset Protection Misconception: Why Insurance Alone Isn't Enough](#)
- [Series LLCs and Real Estate Investing: A Primer – Look Before You Leap](#)
- [Piercing the Veil: Holding Owners Liable for the Acts of the Business](#)

Moving On

Without a proper foundation, your investment career is bound to show cracks and can result in possible failure during rough weather. This chapter was written to help solidify your foundation and give you an overview of the different options you have in creating the strongest business plan possible. If you have further questions about these items, don't be afraid to ask questions in the [BiggerPockets Forums](#).

Once you have chosen your niche, researched and educated yourself about that niche, and set up a proper foundation to build your investment property on, it's time to start shopping for your first property. Chapter 5 will go into greater depth about the criteria you need when shopping for your investment property.



CHAPTER 5

HOW TO FIND INVESTMENT PROPERTIES



"Make your profit when you buy."

Real Estate Mantra

Up to this point, we have focused on the preparation needed before investing. However, as we've discussed earlier in this guide, it's not enough simply to analyze deals. At some point, you will need to take the plunge and buy your first property. This chapter is going to focus on the best ways to find the best properties, negotiate the best deal, and make sure you get through closing in one piece.

In This Chapter You'll Learn:

- ✓ *How to Profit When You Buy*
- ✓ *Your Home Shopping Criteria*
- ✓ *Where to Find Real Estate Investments*
- ✓ *The Buying Process*



How to Profit When You Buy Your Investment Property

As the popular real estate quote at the start of this chapter states, you "make your profit when you buy." In most cases, you will not start your investing career by landing a big fat check; these checks come after you successfully implement your investment strategies. The profits you make, however, can be made or destroyed at the time of purchase . . . So what does it mean to "profit when you buy?"

To make your profit when you buy, you must *purchase a property at a price that ensures you make your desired profits based upon your ability to execute your exit strategy*. In other words, **you need to buy**

smart. If you vastly overpay for a property, no amount of wishing, hoping, or improvement is going to make your investment worthwhile.

While you can't predict with 100% accuracy where the market is going to go, you can know where it's at today.

Real World Example:

28 Cherry Street is currently listed at \$145,000, and recent comparable sales show that the similar homes have sold for between \$140,000 and \$170,000. 28 Cherry Street, however, needs about \$25,000 worth of work to be in nice condition. Therefore, if you pay \$145,000 for it and put in \$25,000, you'll be at \$170,000, and that doesn't count all the closing costs, holding costs, selling costs, unforeseen overages, or other fees that you'll have to pay. You will be underwater (owe more than it's worth) on this property no matter how much work you do to it. However, if similar homes were valued at \$225,000, you would find that you had, indeed, made your profit when you bought it.

The same principle applies to rental investment properties. If all your monthly expenses (including taxes and insurance) on 28 Cherry Street were \$1200 per month and the average rent received each month was \$1100 per month, you would be losing money each month. However, if average rents were \$2,000 per month and your total expenses were just \$1100, you would be profitable from the day you bought it.

It's often said by experienced investors that appreciation is the "icing on the cake." In other words, don't count on the market swinging upward. You make your profit when you purchase a property based on what it would be worth today, not what it might be worth someday. If an investment makes no sense without appreciation, don't invest in it. This is known as "speculating," and, while it may be profitable for some, is a risky venture for both inexperienced and experienced investor alike.

Also be sure to check out:

- *BP Podcast 046: Six Figure Profit Spec Building and Marketing for Incredible Deals with Jon Klaus*

Your Investment Property Shopping Criteria

Now that you understand why getting a great deal is important (to lock in your profits at the beginning), it's time to start looking for a property. Before you do, you need to define your selection criteria. This section will focus on what your criteria is, why it matters, and how to define it.

Imagine that you want to use a new recipe in making your dinner tonight. You take out a cookbook to find a recipe that looks good, discover a great baked chicken meal, and make your shopping list of ingredients in order to make the meal for your family. You head to the store and begin picking up the items on your list.



Chicken, basil, olive oil, and other items begin to fill your cart. Suddenly, you see the spaghetti and remember another recipe that you once wanted to try with spaghetti. You begin to reach for the spaghetti, but then remember your shopping list. Spaghetti isn't on the list for tonight's dinner, so you put back the distraction and continue on your way home to make a perfect dinner for your family.



Real estate is no different. Your selection criteria list is just like your ingredient list in the example above. It is designed to keep you focused on shopping for the things you need and not waste money on other good looking things along the way. Real estate is an exciting field with a lot of different niches and strategies, so it is easy to get distracted by the next big thing or trend. Having a clearly defined selection criteria can help you stay focused, avoid "analysis paralysis," and keep you on track to buy a great investment property. By defining your criteria, you will be able to narrow down the choices in the market, and you will then eliminate the vast majority of deals that are only distractions. Instead, you'll focus on finding just the kind of deals that you are interested in buying.

Creating Your Selection Criteria

In chapter 3, we looked at a number of different niches you could invest in, as well as multiple strategies you can use to invest. It's now time to choose the niche and strategy and come up with a list of criteria to narrow down your selection further.

There are a number of different items you will want to consider to add to your "criteria list." These could include:

- ✓ *Town*
- ✓ *Neighborhood*
- ✓ *Property Size (Square Ft)*
- ✓ *Lot Size*
- ✓ *Property Conditions*
- ✓ *Number of Units*
- ✓ *Cap Rate*
- ✓ *Cash Flow*
- ✓ *Appreciation Potential*



No one can tell you exactly what your investment property criteria should or should not include. Some of it will come down to personal preference, such as, "I only want to buy in Seattle" or "I only want houses with basements," but most of your chosen criteria will revolve around the kind of investment you are getting into.

For example, if you are looking to become a "buy and hold" investor of small multifamily units, your criteria is going to include small multifamily properties and will exclude old commercial buildings.

By specifying ahead of time what criteria you are willing to look at, your search becomes much more manageable. In the same way, you are able to more effectively communicate your desires to others who may help you buy property. If you simply told people, "I am looking for real estate," the most likely response would be, "Good for you..." However, if you instead mentioned that you were looking to buy a small single family house in the Rockford neighborhood for under \$150,000, you enable others to think of properties that might match that description and get you connected with the deal.

Understanding "The Rules" of Investment Property

Perhaps the most important part of the criteria you put together is the financial component. If a deal doesn't make sense financially, it's not going to be a strong investment for you. In chapter 2, we looked at some of the basic math surrounding real estate investing, such as income, cash flow, and return on investment. However, generally speaking, a listing is not going to tell you the important information you want to know about the financials of a property. Yes, you can generally determine the amount of income the property makes, but you won't know immediately how much monthly cash flow the property produces, how overpriced the property is, or what you should offer. Additionally, it's not going to make sense to get out your spreadsheet and do a full property evaluation on every single deal you glance at. This is when "rules" come into play.

A "rule" is short for "rule of thumb." Rules can help give you a quick way to evaluate a property's financials on the fly. As with any "rule of thumb," using rules is not an exact science and should never be relied on entirely to decide if a property is a good investment. However, they can help you quickly filter a property and decide if it's worth further evaluation. Let's take a look at a few of these rules:



The 2% rule states that your monthly rent should be approximately 2% of the purchase price. In other words, a \$100,000 home should rent for \$2,000 per month; a \$50,000 home should rent for \$1,000 per month. This is a very conservative estimate that is very simplistic, but can help in deciding if a property warrants a deeper look. In most parts of the country, the 2% is very difficult to achieve, but the closer you can get to that, the better cash flow you'll receive.

Real World Example: An average three bedroom home rents for \$800 per month in your neighborhood. According to the 2% rule - you should be looking to spend around \$40,000 for that property (\$800 / .02 = \$40,000)



The 50% rule is a great rule-of-thumb that helps you to fairly accurately predict how much your expenses are going to cost you each month for a property. **The 50% rule simply states that 50% of your income will be spent on expenses -- not including the mortgage payment.** As mentioned above, most real estate listings will let you know what the monthly income of a property is. By dividing that number in half, you are able to easily see how much you'll have left to pay the monthly mortgage (principal and interest). Any income left over after the 50% of expenses and the mortgage payment are taken out is your cash flow. The 50% of expenses includes all expenses, including repairs, vacancies, utilities, taxes, insurance, management, turnover costs, and the occasional "big ticket" repairs that must be saved up for -- aka CapEx or Capital Expenses, like roofs, parking lots, furnaces.

Real World Example: An apartment building brings in \$8,000 per month in income. Using the 50% rule, we are left with \$4,000 to make the mortgage payment. If the monthly mortgage payment on the property was \$3,500 per month, you can reasonably assume a monthly cashflow of \$500 per month.

The 50% rule is especially helpful in teaching that expenses are almost always more than one might think. One common mistake that new investors make is underestimating how much the expenses are going to cost. The 50% rule helps to show that there are always costs that are unexpected, so plan for them.



The 70% rule is used by investors to quickly determine the maximum price one should pay for a property based on the after repair value (ARV). Though most often used by house flippers, the 70% rule can actually be used for any strategy when you want to find a good deal. **The 70% rule says that you should only pay 70% of what the after repair value is, less the repair costs.**

Real World Example: A home which, after being fixed up, should sell for approximately \$200,000, needs approximately \$35,000 worth of work. Using the 70% rule, a person should multiply \$200,000 by 70% to get \$140,000 - and then subtract the \$35,000 in repairs. The most a person should pay for this property, therefore, should be \$105,000.

Remember, a rule of thumb, like the ones above, is used only to quickly and efficiently screen a property and decide if it's worth further investigation. Never use a "rule of thumb" to decide exactly how much to pay or if you should invest or not. If a property passes the above rules (or gets close), it may be worth a more detailed analysis on paper or via a computer spreadsheet. Don't confuse a rule of thumb for a license to skip doing your homework.

NOTE: Check out the BiggerPockets [70% Rule Calculator](#) to run 70% calculations on potential deals.

Also be sure to check out:

- [BP Podcast 040: 40 Quick Tips for Buying Your First \(or Next\) Investment Property](#)

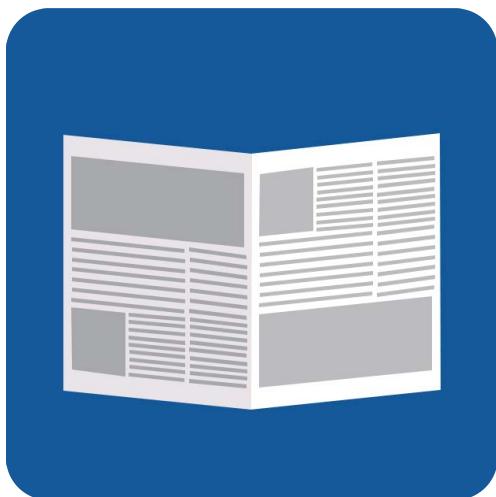
Where to Find Real Estate Investments

When you have your criteria set, it's time to start looking for your investment property. No doubt you've seen "For Sale" signs in front of homes, but there are many other ways to find investment properties. This section will explore various different ways that you can use to find properties -- the list is not exhaustive, but a good start for any new investor



The MLS

The MLS, short for the Multiple Listing Service, is a collection of properties for sale by different real estate brokers across the country. When you search a site like [Realtor.com](#) or [Redfin.com](#), you are actually searching the MLS. This information is widely distributed for the most eyes to see.



The Newspaper

While quickly fading from use, the classified section of your local newspaper is a good place to look for homes that are "For Sale by Owner." Oftentimes, real estate agents will also put their listings in the newspaper, so it can be a bit challenging to determine what is listed on the MLS and what is not.

Word of Mouth

Some homes are simply sold the old fashion way - by word of mouth. By letting everyone know that you are in the market to buy (and defining your criteria, as discussed above), you place yourself in the best position to find deals via word of mouth. You can do this directly with peers, at your local real estate club, or in the [BiggerPockets Marketplace](#).

Craigslist

Craigslist.org is a free online classifieds website that is currently the #51 most popular website in the world. Millions of people use Craigslist.org to buy, sell, trade, or give away almost anything you can imagine -- including real estate.

Outbound Marketing

Outbound marketing is when you go out and bring sellers to you. This can involve advertising, direct mail, or a number of other marketing techniques. Marketing is such an important topic that we have dedicated an entire chapter, chapter 7, to it.

Loopnet.com

Loopnet.com is the web's largest marketplace for commercial properties. From small multifamily properties to apartment complexes, shopping malls, fast food restaurants, and more, Loopnet.com is the place to search for publicly listed commercial properties for sale.

The Property Buying Process

When you buy a property, you don't simply write a check to the seller and get the keys. The process of buying and selling real estate is a complex and often lengthy venture that has many moving parts. This section is going to walk you through the steps, from beginning to end.

Step One: You decide on your investment strategy/niche (see [chapter 3](#).)



Step Two: You define your selection criteria (see earlier in this chapter.)



Step Three: You decide upon the method of financing the deal. This means you will have a clear plan of how you are going to purchase the property. If you are planning on using a bank loan, you will want to be "pre-approved." If you plan on, instead, using all cash, you will want to have that money liquid and ready to be used (see [chapter 6](#)).



Step Four: You begin looking on the MLS, commercial search sites like Loopnet.com, the newspaper classifieds, direct mail, yard signs, and all other avenues to find properties for sale. You probably will connect with a real estate agent at this point, as they are generally "free" for the buyer (they are typically paid out of the seller's closing costs). If you are dealing directly with homes that are not listed on the MLS, you probably will not use a real estate agent but instead will just contact the sellers themselves.



Step Five: You run each property through a list of criteria "filters" to quickly screen out the duds. These filters are based on the criteria you set as well as the rules we discussed earlier in this chapter.



Step Six: You make an offer on the property (or properties) that you want to pursue. You may offer less than what you are actually willing to spend, or you may offer your bottom line. Typically, an offer is made using a "Purchase and Sale Agreement," which your real estate agent will most likely do for you. If you are not buying a property from the MLS and do not use an agent, you can usually get a fill-in-the-blank purchase and sale agreement online at a paper supply store, from an attorney, or free from a local Title and Escrow company. We strongly recommend that any agreement you use be reviewed by your real estate attorney, however.



Step Seven: You negotiate the deal with the seller and, if possible, come to a mutually accepted agreement on price and terms. For a great article on negotiation, see [Seven Tips for Better Negotiations](#).



Step Eight: You perform your "due diligence," which includes any inspections of the property. The property details are then handed over to either a Title or Escrow company or a local attorney (depending on your state). During this time, you will also submit needed paperwork for your financing, begin lining up contractors (if work is needed), check on the validity of the financials given about the property, and prepare for closing in handling whatever other issues come up. This process can take anywhere from several days to several months or more, depending on the situation. Bank financing is generally the reason this process takes longer, so if you are using all cash, closings can be much quicker.



Step Nine: You sign papers at the Title and Escrow or attorney's office. Later that day (or within several days, depending on your location), the paperwork will be recorded, and you'll be the new owner.

Also be sure to check out:

- *BP Podcast 038: Unique Strategies for Buying Real Estate with Travis Daggett*
-

Moving On

By the end of this chapter, you should understand the importance of having a clearly defined set of criteria before starting your investment shopping, and these criteria should include both personal and financial requirements. This well-defined criteria list will help narrow down your choices and help weed out the bad properties, giving you the best chance for a solid profitable investment that best meets your needs. You should also have a clear basic understanding of how the buying process works, from the first thought to getting keys in hand.

In the next chapter, we are going to dive deeper into the world of real estate financing and look at 12 different methods you can use to finance your next investment.

CHAPTER 6

REAL ESTATE FINANCING



"A bank is a place that will lend you money if you can prove that you don't need it."

Bob Hope

No matter what some late night infomercial might lead you to believe, there is no such thing as "free" real estate. Real estate is a commodity and must be paid for. As a real estate investor, one of the most important roles you will play is to put together your deals using a variety of different financing tools. This chapter is going to teach you the ins and outs of various methods you can use to fund your real estate investments.

In This Chapter, You'll Learn About:

- ✓ *Why You Need to Understand Real Estate Financing*
- ✓ *All Cash*
- ✓ *Conventional Mortgages*
- ✓ *Portfolio Lenders*
- ✓ *FHA Loans*
- ✓ *203K Loans*
- ✓ *Owner Financing*
- ✓ *Hard Money*
- ✓ *Private Money*
- ✓ *Home Equity Loans and Lines of Credit*
- ✓ *Partnerships*
- ✓ *Commercial Loans*
- ✓ *Other investment Tools*

Why You Need to Understand Real Estate Financing

The purpose of this chapter is to fill you in on the many different types on real estate financing that you can use in your real estate investing. In chapter 3, we looked at the different investment vehicles you can take to invest in real estate (such as single family homes, commercial real estate, apartments, and more), as well as some of the different strategies (buy and hold, flipping, and wholesaling) you can use to make money in real estate.

This chapter is designed to help you turn those strategies into reality. If you have any questions about any of these real estate financing techniques, don't hesitate to search the BiggerPockets website for more information.



Finally, the following list is by no means comprehensive, but will give you a good idea of some of the financing methods used by real estate investors to finance their real estate. By having a good broad overview of these methods, you can combine an investment vehicle, an investment strategy, and a financing method to handle any real estate investment.

All Cash

Many investors choose to pay all cash for an investment property. According to a recent [joint study by BiggerPockets and Memphis Invest](#), 24% of US investors use 100% of their own cash to finance their real estate investments. To be clear: even when investors use terms like "All Cash," the truth is, no "cash" is actually traded. In most cases, the buyer brings a check (usually certified funds, such as a bank cashier's check) to the title company, and the title company will write a check to the seller. Other times, the money is sent via a wire transfer from the bank. This is the easiest form of financing, as there are typically no complications, but for most investors (and probably VAST majority of new investors), all cash is not an option. Additionally, the return given from an all cash deal will not be the same as when leveraged. Let's explore this further via an example:



Real Life Example:

John has \$100,000 to invest. He can choose to use that \$100,000 to buy a house that will produce \$1,000 per month in income or \$12,000 per year. This equates to a 12% return-on-investment.

John could also instead use that \$100,000 as a 20% down payment on FIVE similar homes, each listed at \$100,000. With an \$80,000 mortgage on each, the cash flow would be approximately \$300 each month per house, which is \$1,500 per month each or \$18,000 per year. This equates to a 18% return-on-investment - 50% better than buying just one home.

Conventional Mortgage

As you can see from the example above, financing your investment property can produce significantly better returns than paying all cash. Most investors, instead, choose to finance their investments with a cash down payment and a traditional conventional mortgage. Most traditional [conventional mortgages](#) require a **minimum of 20% down**, but may extend higher to 25-30% for investment properties depending on the lender. Conventional mortgages are the most common type of mortgage used by home buyers and generally provide the lowest interest rates. [Click here](#) to find interest rates in your area.

To learn more about mortgage financing and what you can qualify for, check out the [BiggerPockets Mortgage Center](#).



Portfolio Lenders



Conventional mortgage loans can originate from a variety of sources, such as banks, mortgage brokers, and credit unions. In most cases, these lending sources are not actually using their own capital to fund the loan, but are acquiring or borrowing the funds from another party or reselling the loan to government-backed institutions, like Fannie Mae and Freddie Mac, in order to replenish their own funds. As a result, most lending institutions must adhere to a very strict set of rules and guidelines when it comes time to financing an investment. These strict rules can make conventional financing difficult to obtain for many, especially for real estate investors and other self employed borrowers.

However, some banks and credit unions have the ability to lend from their own funds entirely, which makes them a **portfolio lender**. Because the money is their own, they are able to provide more flexible loan terms and qualifying standards. This means that they are able to make loans available at any terms acceptable to *them*. Oftentimes a portfolio lender will have funds available with less restrictive qualifications than a conventional lender.

Most banks or lending institutions don't advertise that they are a portfolio lender, but you can find these individuals through referrals and networking with other investors. You can also simply grab a phone book, call each one, and ask if they offer portfolio lending.

FHA Loans

The [Federal Housing Administration](#) (FHA) is a United States government program that insures mortgages for banks. If you have health insurance or car insurance, you already understand the concept: pooling money to spread the risk for everyone. [FHA loans](#) are designed only for homeowners who are going to live in the property, so you cannot use an FHA-backed loan to buy a pure investment property. However, you can take advantage of the exception to the rule that allows the FHA-financed home to have up



to four separate units. In other words, if you plan to live in one of the units, you could buy a duplex, triplex, or four-plex.

The benefit of the FHA loan is the low-down payment requirement: currently just 3.5%. This can help get you started much sooner, since you don't need to save up 20%. However, every blessing comes with a curse. While the low down payments the FHA offers are great, the FHA does require an additional payment, called "Private Mortgage Insurance." This "PMI" insurance protects the lender and is required when the down payment on an FHA loan is less than 20%. The extra PMI payment can make your monthly payment slightly higher, thus reducing your cash flow.

To read more about using an FHA Loan to get started investing, check out [New Investor Strategy: How to Buy Your First Multi-Family Investment Property & Live Rent Free](#)

203K Loans



A sub-set of the FHA loan, the [203K loan](#) is a loan that allows a homeowner to purchase a house that is in need of some rehab work and gives them the ability to finance those repairs or improvements into the loan itself. Like the normal FHA loan, the 203K loan still allows for the low down payment requirement allowed by the FHA (currently just 3.5%). This loan type is also applicable for duplexes, triplexes, and fourplexes, but maintains the same requirement for only being for "owner occupants" and comes with Private Mortgage Insurance demands for loans under 20%.

Real World Example:

John found a small duplex for \$100,000 that he wants to move into, with plans to live in one half and rent the other half out. The property is in need of about \$12,000 for new paint and carpet. John is able to include that \$12,000 into the cost of the loan and pay just a 3.5% down payment on the total amount for a total of \$3,920 down. John can now get the new paint and carpet (paid for by the loan), move into his renovated home, rent out the other half, and begin making cash flow and building wealth. John is a happy camper.

HomePath Mortgages

Another government backed loan, the [HomePath Mortgage](#) was introduced by the government-owned mortgage giant [Fannie Mae](#) in an attempt to help turn their non-performing loans (properties they have foreclosed on) into profitable loans again. Like the FHA loan, the HomePath program allows for smaller down payments (currently as low as 10%), but unlike the FHA, no mortgage insurance is required, and the loan is available for investors and "non-owner occupied properties." The HomePath program also includes the ability to finance repairs into the purchase like the 203K FHA loan we talked about

HomePath® mortgage

earlier. The catch, however, is that these loans are **only** available on [Bank Repos](#) owned by Fannie Mae. To search for homes available for the HomePath program, visit the HomePath website at [HomePath.com](#).

Owner Financing



Banks or other giant lending institutions are not the only entities that can finance a property for you. In some cases, the owner of the property you want to buy, can actually fund the property, and you will simply make your monthly payment to them rather than a bank. Typically, the only time a property owner will do this for you is if they already own the home free-and-clear, meaning the seller cannot have an existing mortgage on the property. If the seller does have another loan and then sells the home to you, the seller's loan must be paid back immediately or face foreclosure.

This is due to a legal clause written into nearly every loan called the "Due on Sale" clause. This clause gives the former lender the right to call the note immediately due. If that amount can't be paid, the lender has the right to foreclose on the property. Some investors choose to ignore this clause and still purchase "[subject to](#)" the other loan, risking that the bank won't foreclose.

If the conditions are right, owner financing can be a great way to gain ownership of real estate without using a bank. Owner financing can also be a good tool for selling your properties in the future as well, which we'll cover more in chapter 8 when we look at "exit strategies."

Hard Money

"Hard money" is financing that is obtained from private business or individual for the purpose of investing in real estate. While terms and styles change often, [Hard Money](#) has several defining characteristics:

- ✓ *Loan is primarily based on the value of the property*
- ✓ *Shorter term lengths (due in 6 – 36 months)*
- ✓ *Higher than normal interest (8-15%)*
- ✓ *High loan "points" (fees to get the loan)*
- ✓ *Many hard money lenders do not require income verification*
- ✓ *Many hard money lenders don't require credit references*
- ✓ *Does not show on your personal credit report*
- ✓ *Hard money can often fund a deal in just days*
- ✓ *Hard money lenders understand when the property needs rehab work*

Hard money can be beneficial for short term loans and situations, but many investors who have used [hard money lenders](#) have been placed in tough situations when the short term loan ran out. Use hard money with caution, making sure you have multiple exit strategies in place before taking out a hard money loan.

To find a hard money lender, try the following tips:

- ✓ [Ask a Real Estate Agent](#)
- ✓ [Ask a House Flipper](#)
- ✓ [Check out BiggerPockets' Hard Money List](#)
- ✓ [Newspaper](#)
- ✓ [Craigslist](#)
- ✓ [Google It](#)
- ✓ [Mortgage Broker](#)

Private Money



Private money is similar to hard money in many respects, but is usually distinguishable due to the relationship between the lender and the borrower. Typically, with "private money," the lender is not a professional lender like a hard money lender, but rather an individual looking to achieve higher returns on their cash. Oftentimes, there is a close relationship with a private money lender ahead of time, and these lenders are often much less "business" oriented than hard money lenders. Additionally, private money usually has fewer fees and points, and the term length can be negotiated more easily to serve the best interest of both parties.

Private lenders will lend you cash to buy property in exchange for a specific interest rate. Their investment is secured by a promissory note or [mortgage](#) on the property which means if you don't pay, they can foreclose and take the house (just like a bank, hard money, or most other loan types). The interest rate given to a private lender is usually established up front and the money is lent for a specified period of time, anywhere from six months to thirty years.

A private lender typically does not receive any equity stake in cash flow future value outside of their pre-determined interest rate, but there are no hard-and-fast rules when it comes to private capital. Generally, private money is financed by one investor. These loans are also commonly used when you believe you can raise the value of the property over a short period of time, so you can take on the debt from that private money, refinance the property after adding value, and pay back the private lender. Just like with hard money, private money should only be used when you have multiple, clearly defined exit strategies.

If you are trying to build relationships for private capital, developing credibility is a MUST. Whether it's through blogging about your real estate endeavors online, posting your real estate updates on Facebook, talking about real estate investing in casual conversation, or attending your local real estate investment club, you need to be visible. Are you maximizing your visibility? Are you creating opportunities to highlight your investing experience to others? You don't need to be a braggart, but next time someone asks what's new in your life, share a few details of your real estate endeavors. You never know what might transpire.

Home Equity Loans and Lines of Credit

Many investors choose to tap into the equity in their own primary home to help finance the purchase of their investment properties. Banks and other lending institutions have many different products, such as a Home Equity Installment Loan (HEIL) or a Home Equity Line of Credit (HELOC) that allow you to tap into the equity you've already got. For example, an investor may purchase a property, but instead of going through the normal hassle of trying to finance the investment property itself, they can instead take out a HELOC on their own home to pay for the property.



In order to obtain a home equity loan or line of credit, you must first have equity in your home. Banks will typically only lend up to a certain percentage of your home's value in total. This percentage differs between lenders, but it is not uncommon to find a lending institution that will offer to lend up to 90% of the value of your home.

Real World Example:

John's current home is worth \$100,000. John visits with his local bank and learns that they will allow up to 90% debt on that home. Therefore, John can borrow a total of \$90,000 on the house. If he already owes \$50,000 on a first mortgage, the home equity line or loan would be capped at \$40,000 to ensure the total loans didn't exceed 90%.

Using home equity loans and lines of credit have multiple benefits over traditional loans, including:

- ✓ **Loan is based on the value of your primary residence - not the newly purchased property.** This means that the bank that is providing the loan won't typically even look at the new property. They don't generally concern themselves with what your intent is with the money, only your ability to pay it back. As such, the new property can be in terrible condition, and the bank likely won't care.
- ✓ **When you have a home equity loan or line, the money is yours to do with what you want. It's not dependent on the new property - so you can offer "cash" when making offers on new properties, and as a result, you will have a higher chance of getting your offers accepted.**
- ✓ **Home equity lines and loans may have certain tax benefits, such as the ability to deduct the interest paid on that loan, allowed by the IRS. See a qualified CPA or attorney for more information on this.**
- ✓ **Because the loan is secured by your primary residence, the interest rate on home equity loans and lines is typically very low compared to hard money or private money. To learn more about what current rates are on these products, visit the [BiggerPockets Mortgage Center](#).**

Another strategy often used by investors is to use a small bit of their home equity to fund the down payment on their investment property.

Real World Example:

Sarah, an investor, wants to buy an investment property for \$100,000, but doesn't have any additional down payment. She does, however, have a lot of available equity in her own primary house (she owes \$50,000, but the home is worth \$100,000). Sarah opens up a \$20,000 home equity loan on her personal home to fund the down payment and then get a conventional mortgage from a bank for the remaining \$80,000 on the investment property.

Finally, home equity loans and lines come with both fixed and adjustable interest rates. Be sure to look at your goals, timetables, and financial position when determining which home equity product you want to use to further your investing career.

Partnerships



We touched briefly on the use of "partners" in chapter 4, but another part of that discussion that we didn't cover is their ability to help you finance a deal. If you want to invest in a piece of property, but the price range is outside of your pocketbook, an equity partner might be a welcome addition to your team. An equity partner is someone that you bring into a transaction in order to help finance the property. Partnerships can be structured in many different ways, from [using a partner's cash to finance](#) the entire property, to using a partner to simply fund the down payment. There are no set "rules" with equity partnerships, but each situation and deal requires its own analysis of how the deal will be put together, who makes the decisions, and how profits will be split at the end.

Depending on the operating agreement signed by both parties, the equity partner may have an active or passive role in the property. The ownership stake provided by the equity partner may allow that partner to actively participate in nearly all aspects of property ownership. Additionally, as a partner, they typically receive in accordance with their ownership percentage a return on their investment that includes cash flow, appreciation, depreciation, and eventual profit when the property is sold.

Unlike a private lender, an equity partner does not receive an agreed upon interest rate on their money. Instead, they receive only a percentage of what the property generates. If it makes a lot of money then, their return will be higher, but if the investment loses money, they may have to contribute money to keep the property afloat. Equity partners take a higher risk than a private lender might, but in return, they have the potential of making significantly more when the investment is successful. Also, unlike in private lending, the equity partner's investment is not secured by a mortgage or promissory note, but by an operating agreement between the partners.

12.) Commercial Loans

While most of the above options focus primarily on the residential side of loans, the world of commercial lending may also be viable option for your investing. In fact, if you are looking to buy a property other than a one to four unit residential property, a commercial loan is probably exactly what you'll be needing.



Commercial loans typically have slightly higher interest rates and fees, as well as shorter terms and different qualifying standards. In the world of residential lending, the income of the borrower is valued above almost every other area; commercial lending, however, is much more focused on the property instead. The logic behind this is simple: if you own a ten million dollar apartment building and things go wrong, you aren't going to be able to make that mortgage payment if you make \$20,000 per year or \$200,000 per year in personal income. The commercial lender will still look at your income, credit, and other personal financial indicators, but only to gain a picture as to your skills financially. What's more important in the vast majority of cases is the amount of revenue a property generates.

Additionally, commercial lenders can often extend a "business line of credit" to finance flips or other investments. Some investors are able to obtain a large "business line of credit," which allows them access to cash for house flipping and other real estate ventures.

EIULS, Life Insurance, ROTH IRAs, and Other Sources

There a multitude of other investment and savings products out there that you can use to invest in real estate. While we don't have the time to cover each of these in detail, be sure to speak to a qualified financial advisor about ways that you can use these products in your investing career.

Also be sure to check out:

- BP Podcast 013 – Buying Real Estate with Seller Financing and Speculating with Leon Yang

Moving On

As you can see, there are many different ways you can finance an investment property. One of the most valuable roles you play as an investor is in your ability to find creative ways to continually move forward with your investments. As every deal is different from one another, you will find yourself using many different financing strategies throughout your career, so being able to understand the different options will help you throughout your entire investing journey.

Another valuable and equally important role you will be playing as an investor is the role of marketing professional. Chapter 7 will look at the concept of real estate marketing in detail and will give you ideas and strategies to use to supercharge your investment opportunities. Marketing is important not only for buying properties, but also for selling and renting.

CHAPTER 7

REAL ESTATE MARKETING



"Marketing takes a day to learn. Unfortunately, it takes a lifetime to master."

Philip Kotler

No matter what aspect of real estate investing you choose to engage in, you will probably need to use marketing in some fashion. Marketing is the process of reaching outside your normal sphere of influence to propel your business forward. Where you take your business is entirely dependent on you and your marketing skills.

In this chapter, you'll learn:

- ✓ *Your Greatest Marketing Tool: Yourself*
- ✓ *Marketing Through Networking*
- ✓ *Networking in the Online World*
- ✓ *Your Marketing Funnel*
- ✓ *Marketing Through Direct Mail*



Your Greatest Real Estate Marketing Tool: Yourself

As a real estate investor, the first and most important thing you'll be marketing is yourself - your own personal brand. It doesn't take a lot of money, and it doesn't take a lot of time. You will begin building a brand around yourself the moment that you begin talking to others about real estate. You never know where these conversations are going to lead you, so guard your brand fiercely. Let's look a little deeper at how to effectively market your own personal brand.

Be Honest



As a new investor, you are not going to know everything and that's 100% okay. One of the quickest ways to tarnish your reputation is when you start speaking about things that you don't actually know much about. When you try to come off as an "expert" and you're not one, other real investors will know immediately and will not waste any time dealing with you. Admit what you don't know and use that to learn. In fact, one of the best ways to grow as an entrepreneur is to ask a lot of questions and, in humility, listen to those who are willing to teach.

Also, don't misrepresent yourself. We often see new investors do this here on **BiggerPockets** and elsewhere online. What you'll sometimes see is a new investor coming on the scene and introducing themselves as such. Then, in just a few days (sometimes less), they talk about having "properties in all 50 states" that they are willing to sell on discount. Unless that person suddenly inherited dozens of properties overnight, that person is likely misrepresenting themselves. In most cases, that person is merely a wholesaler following the advice of a guru somewhere and trying to build a buyers list for their future deals. Yes, building a buyers list is incredibly important. Doing so under false pretenses, however, is the surest way to never make a deal.

You'll also find new investors marketing deals via Craigslist or other sites, but these are deals that they have no interest in. Like in the previous example, these people are lying about deals to get other investors who might be interested in them. If you get busted lying about a deal, you can rest assured that you'll never do business with those folks who discover it.

Integrity

Do you do what you say you will do? Your integrity is the thing that will keep people coming back to work with you, time and time again. As an investor, your reputation will precede you wherever you go. This means that you need to continually be sure you are acting with the highest level of integrity. Imagine a lender who promises to lend, but then backs out at the last second. Would they continue to grow their business? How about a real estate agent who undercuts his clients and swoops in on all the good deals under his client's feet? Would he continue to grow his brand? Your integrity is an integral part of your brand and can easily be tarnished. Maintain the highest standards of integrity, and the business will find you.

"The Importance of your integrity and reputation cannot be overstated... you can work to build your reputation for years and years but it only takes one falter to destroy all which was built"

James Vermillion, Investor

Professionalism

Are you planning on running a hobby or a business? If you want to be seen as a business professional, you can start right now. Every decision you make, every relationship you build, and every item you buy: be professional. You don't need to be a million dollar business to look like one. Showing up to a house with a dirty hawaiian shirt and shorts probably isn't going to give you the professional image you want to succeed. The same goes for the business cards you order, the voicemail on your phone, and the appearance of your vehicle. People trust professionals - so start acting like one.

Real Estate Marketing Through Networking

One of the most important marketing tactics you can start implementing today is networking. Networking is simply the process of getting to know others for the purpose of moving both individuals forward. It doesn't need to a formal thing, but your day-to-day interactions should be part of your networking strategy. Networking is often thought of as happening at an event, where dozens of people get together and mingle, exchange cards and tell industry specific stories. While yes, this is a form of networking (most often seen at industry-specific conferences and meetings), networking is actually a lifestyle.

Some of the most noteworthy connections you'll make will come from impromptu conversations about your real estate investing. I'm not suggesting that you simply walk up to strangers and start telling them about your dreams and goals, but take advantage of talking about your business when the opportunity presents itself. You'll be surprised at how many people are interested in real estate and how often one quick mention of real estate leads to an entire conversation.

Not only is networking valuable for meeting people and businesses that can move your business forward, but it's also effective for building your real estate team (which we covered extensively in chapter 4). No person can succeed entirely on their own, so finding the best people to work with is one of the important tasks you can do at the start.

Speaking of important, one of the most important places you can start networking is your local real estate investing club. Located in nearly every major city, people gather at these clubs on a regular basis to discuss current market trends and investing strategies, to swap tenant horror stories, and to make connections. Many of the most important people on your team will probably come from your local investment club. Real



estate investment clubs can differ dramatically in size and quality, so if there are multiple clubs in your city, be sure to check them all out. For a list of local real estate investment clubs, see the [BiggerPockets Real Estate Clubs page](#).

Do keep in mind that many of these clubs are also designed to be profit centers for their owners. So, you may need to endure sales pitches from gurus and other salespeople. That said, there is nothing more important than connecting with your local peers, and these clubs are a great place to find them.

There are other networking events that are great for meeting your peers, including landlord association meetings, meetups, and small live events organized by your peers here on BiggerPockets.

A final note on networking: get yourself some professional business cards. While many aspects of "old time" marketing are fading away, the business card remains a staple in the real estate industry. Be sure that your business card contains the following information:

- ✓ *Your Name*
- ✓ *Your Company Name*
- ✓ *Your Company Position Title*
- ✓ *Your Website*
- ✓ *Your Phone Number*
- ✓ *Your Email Address*
- ✓ *Your Wants/Needs if Applicable (We Buy Houses)*



Networking in the Online World

The world is changing more digital each day - and to be a top performer in the real estate investing industry, you are going to need to change also. Let's look at a few areas you can begin networking online:

- ✓ *BiggerPockets.com- **BiggerPockets** is an online community of real estate professionals that network with one another every day, all day, to help each other learn, grow, and prosper. Begin your networking here. It is important to note that when networking with others, it is not about "what can I get out of it," but rather "how can I contribute to the conversation?"*
- ✓ *Hang out on our forums, asking questions when needed, and answering others when you can. Comment on blog posts, send colleague requests, follow popular users, and engage whenever possible. Networking on BiggerPockets is the same as networking in the real world - it's not a one-time thing. Seek to become a familiar (and friendly) face on the site. This means to be sure you have a picture uploaded to your profile and that your profile is*



fully filled out. Would you want to network with someone who had no face to identify with and whose story you did not know? Never. Relationships are built with trust, and trust is built through transparency. For more info on getting involved and for links to helpful tutorials, check out our [Start Here](#) page.

- ✓ *Your Website -- Having a website is a sign of professionalism in the industry - a sort of "store front" to your business. That storefront needs to look inviting, professional, and clean in order to attract people. In today's tech-friendly world, a great website is not hard or expensive to build, even if you are terrible at technology.*
- ✓ *Social Media -- Facebook, Twitter, LinkedIn, Google+, and dozens of other social networks are out there and are ripe for networking. You don't need to have a presence on every single network, but focusing on one or two is better than being non-existent on all of them. The trick to networking via social media, however, is to not use it as an advertising platform. Social media is about creating relationships, so spend your time building solid relationships, and make a name for yourself as someone with knowledge.*
- ✓ *Blogging -- A blog is simply an online collection of articles, ordered from newest to oldest. A blog can help you establish credibility in your investing field, and can also be a great tool for sorting out your thoughts on paper (well, on the screen) and hashing out ideas. Furthermore, blogging can be a fun way to give back to the community. If you are interested in hosting your own real estate blog, you can sign up for a [free blog right on BiggerPockets](#).*

Your Marketing Funnel

Marketing funnels are designed to transition a person from having no knowledge about your company to the point where they are ready to engage in a business relationship with you. People use marketing funnels in nearly every form of business, and real estate investing is no different.

You are probably familiar with a "funnel," often used for pouring large amounts of liquid into a small space, such as when putting oil in a vehicle. At the top, the funnel is at its widest, collecting the most amount of whatever substance you are capturing. As the substance moves down the funnel, it gets smaller and smaller until it comes out the bottom into whatever container you are pouring it into. In the same way, your marketing funnel will seek to bring in the most amount of people at the top, and through progressive steps, your funnel will get more specific until you have a much smaller number of people left to produce your desired goal.

The kind of marketing funnel you set will depend greatly on the kind of investing you get into. A marketing funnel for a wholesaler is going to be significantly different than that of a note buyer, but perhaps with similar themes. For example, a wholesalers funnel may look a lot like this:



- ✓ *Send out postcards to individuals who are past due on their mortgage.*
- ✓ *Set up a 1-800 voicemail number for people to call for foreclosure help.*
- ✓ *Allow people to leave a voicemail if they want more information about selling their property.*
- ✓ *Call individuals who left a message and screen for possible good leads.*
- ✓ *Meet with the good leads and make offers.*
- ✓ *Get offers accepted and sign a purchase and sale agreement.*
- ✓ *Do due diligence.*
- ✓ *Close on the property.*

Notice that in each step, the funnel narrows. At the start, perhaps five thousand people receive mailers. Out of them, perhaps only a hundred people make the phone call to the number on your postcards. Out of that hundred, only twenty leave a voicemail, of which only four warrant a personal visit and an offer. Finally, perhaps one or two of those offers may actually result in a signed deal for the wholesaler.

While it may seem like a drastic waste, that one or two deals may result in a huge financial windfall for the wholesaler. This is merely one example of a functional marketing funnel. As mentioned above, your marketing funnel may differ quite a bit from the above funnel.

As a real estate investor, you need to be constantly measuring and tweaking your marketing funnel. You can and should test your funnel to continually increase conversions -- the percentage of people who make it all the way through the funnel to your desired outcome.

For example (to draw from the wholesale funnel example above), you could get two separate phone numbers, split the group of past-due homeowners in half, sending half the postcards to one group and half to the other and measure the results. Do you get more calls from postcard A or B? If postcard A received twice as many calls, then use that as your "baseline" and test again with another postcard C. As you can see, your marketing funnel can continually be tweaked, tested, and measured to make it run like a well-oiled machine.

Marketing Through Direct Mail

What is Direct Mail?

While we are on the topic of postcards and mailing letters, let's discuss that in more depth. This form of marketing is known as "direct mail." Direct mail is simply the process of sending letters to targeted individuals through the mail, in hopes that a small percentage will respond to those letters. Whether you are a wholesaler, flipper, or buy and hold investor, your business is dependent upon finding great deals and having a consistent supply of leads for those deals. Direct mail can



be a great tool for building a steady supply of leads for your business and can be a great way to keep your funnel full. For many investors, it is their number one source of leads.

How Does Direct Mail Work?

Direct mail campaigns are designed to build awareness of your product or service over time. Think back to one of the last purchases you made, such as a drink at Starbucks, a movie you rented, or a song you purchased from iTunes. Chances are, you didn't buy that item the first time you heard about it. Most folks simply don't buy from a business the first time they come across it. Therefore, a direct mail campaign cannot be a simple "one and done" campaign. By sending messages over the course of time, the recipients become familiar with you and your service or product, and some will respond as you become the solution to their needs.

How Do I Build a List to Send to?

You can build your list by using public records provided by your local county assessor, or you can hire an online company, like Listsource, to get your list for you. While using the public records is free, using an online company may save you time, so keep your goals in mind as you begin creating your list. Do note that you need to have your list re-done every six months or so to keep it fresh, as the market is continually changing. You will need to get rid of those folks that are no longer candidates for your particular list, and you will want to add in new people.

What Do I Send? There are two primary options that investors tend to mail to potential leads. Let's look at these briefly:

- ✓ *Postcards -- These can be either large or small, but the benefit is that the recipient doesn't need to physically open an envelope to read what's inside.*
- ✓ *Yellow Letters -- Written (or typed) on an actual yellow piece of paper, these letters are typically mailed in an envelope. The response rate is often very high, due to the "personal" nature of the letter.*



Who Should I Send Direct Mail to?

Both the frequency with which you mail and the length of the campaign will vary depending on the type of marketing funnel you are setting up and the type of investing you are engaging in. Direct mail can be sent to virtually anyone, so you'll need to look at your funnel and decide. The following is a list of a few different types of people you may want to target:

- ✓ *Absentee Owners. For those looking to get a great deal, those folks who are absentee owners are great targets, particularly those who live out of town. In many cases, these owners may have moved for work or another reason and may be looking to get rid of their property.*
- ✓ *Abandoned Properties. People may abandon a property for a variety of reasons, but in most cases, they don't care enough about the property to want to keep it and spend the money*

required to maintain it. Contacting owners of properties that look to be dilapidated or abandoned may lead to fantastic opportunities.

- ✓ *Probates. Probates are properties that are in the process of being distributed, along with the assets of a deceased person, to their heirs. When investors talk about probate investing, they are trying to find if a deceased person had property, then getting the heirs/executor to sell that property to them at a discount.*
- ✓ *Pre-foreclosures and Foreclosures. People struggling with losing their home are oftentimes highly motivated to sell (though, sometimes, they are highly anti-motivated and choose to just stick their heads in the sand). You can oftentimes find a way to create a "win-win" situation to help these individuals save their credit and snag a great deal for yourself.*
- ✓ *Apartment Owners. If you are looking to get into apartment buying, mailing to apartment owners can be a great way to stay on their radar. Your mailings do not need to be necessarily targeted toward distressed or motivated sellers, but can be geared toward individuals who are willing to finance the property themselves using seller financing.*
- ✓ *Expired Listings. Your real estate agent will have access to all the properties on the MLS that did not sell when listed with an agent. These individuals may be more willing to sell at a discount after their property was listed for some time and didn't sell. Additionally, the owners may also be motivated now that they no longer need to pay any real estate agent fees.*

Whatever niches you choose to work in, be sure to keep organized records of your campaigns, so you can measure and test your results, maximizing your efforts.

Marketing Through Online Advertising

As more and more people spend their time online, you may be left behind if you don't move your real estate marketing into that arena as well. The internet provides numerous ways you can market your real estate investing business, and, as with all marketing techniques, the style of marketing you do depends greatly on the type of investing you engage in. The following are several tools you can use to market on the internet.

Facebook/Google Ads for Real Estate



Do you ever wonder how Facebook or Google make all their money? The majority of their revenue comes from their online advertising platforms. As an investor, you can use these sources to target potential sellers, buyers, or other business interactions. While Facebook and Google ads may look fairly similar, they differ in several key ways:

- ✓ *Facebook allows you to target who sees your ad based on their interests, location, demographics, and connections on Facebook.*
- ✓ *Google allows you to target who sees your ad based on their searches, web history, and location.*

The benefit of these kinds of online ads is that you can set it up so you only pay when the ad works.

Imagine asking a local newspaper to only charge you when someone calls about your ad. There's no chance of that happening. However, this is exactly what this kind of online advertising allows you to do. This is known as "pay-per-click" advertising, which means you only pay when someone clicks on an ad and goes to your site. With pay-per-click advertising (such as ads on Facebook, Google, or Bing), you only have to pay for the ad when your advertisement accomplished its goal of placing people in your marketing funnel.

Benefits of Online Pay-Per-Click Advertising

- ✓ *Most online pay-per-click advertisements allow you to be location specific – which means you can choose to have your advertisement seen only by individuals within ten, a hundred, or any number of miles of your specified location.*
- ✓ *Additionally, Facebook ads are interest-specific. (Do you really believe Facebook's "like" feature is only for the user's benefit?) Facebook uses those "likes" and friendship relationships to help marketers reach certain people. This means, as a real estate marketer, you can choose to show your ad only to people who are interested in a certain topic.*
- ✓ *Finally, most pay-per-click advertising (especially Facebook) is demographically-specific, so you can advertise to specific ages or genders. For example, you can create a well-written advertisement to attract first time homebuyers by choosing to advertise only to people between the ages of twenty-two and thirty-two that live within ten miles of a property you are attempting to sell.*



How Online Ad Pricing Works:

"How much does it cost?" is a more difficult question than it may seem.

Pay-per-click marketing prices are based on an "auction," meaning that advertisers "bid" on a price to display their ad. Marketers then compete for either keywords or interests, based on the criteria you are targeting your advertising to. When you set up a new ad, you will tell Facebook, Google or Bing what price per click you want to pay, and you'll generally never be charged more than that. If you bid too low, your ad will not be shown due to other marketers paying more. Thankfully, the major pay-per-click companies do provide a general range of prices, so you can determine how much you'll need to spend to reach a specific demographic. You also have the option to set a daily or monthly budget, so you can control how much you want to spend on your marketing.

Tips for Creating Online Ads:

- ✓ *Where Will Your Ad Send People? This destination could be your own website, your business Facebook page, or any site that you want. Just be sure this destination is part of your marketing "funnel."*
- ✓ *Create a Title That Pops. You are allowed only a limited number of characters for your title – so make them stand out. It is helpful when advertising to local potentials to use something local in the title to make the ad stand out. Online viewers are not generally accustomed to seeing local names and places on an online ad, so ads like that tend to pop.*
- ✓ *Intrigue Them with Your Ad's Body The part of the ad that is not the title is known as the "body." Appealing to both fact and emotion when you write the copy for your ad's body can help trigger interest in both sides of the brain and increase clicks. Promote benefits over features.*
- ✓ *Use an Eye-Catching Photo. If using Facebook, the photograph is the most important section of your ad because it is generally the only thing viewers pay much attention to at first. Catch their eye with the photo, which leads them to the title, which leads to the body, which leads to clicks. An advertisement, in itself, is a funnel as well.*
- ✓ *Determine Your Price. To avoid massive spending, be sure to set your budget. Decide what your monthly or daily budget is and bid on your ad price. Monitor the results and adjust your bid price higher if you are not spending your complete budget.*
- ✓ *Split Test. Split testing is the process of creating multiple ads, each with minor changes, to determine the best response rate from someone looking at the ad. This is the same process we mentioned earlier when talking about sending different direct mail postcards to different groups.*

Creating a Website or Landing Page

A website is not a necessity in order to capture leads, but can be highly beneficial. Some investors simply use a telephone number to collect leads, but having a website provides another avenue to collect those potential opportunities. If you don't have the technical know-how to create a professional looking website, use a pre-made template from a site like [Wix.com](#) or simply hire a freelancer at a site such like [Odesk.com](#), [eLance.com](#), or [99Designs.com](#) to build the site for you. You can also create a Facebook business page that accomplishes your goal, but having your marketing funnel on your own website does give you more control.

For more information on marketing and creating a marketing funnel, see [Using Facebook Advertising to Supercharge Your Real Estate Marketing](#)

Also be sure to check out:

- *BP Podcast 012 : Wholesaling and Marketing with Sharon Vornholt*

- *BP Podcast 018 : Flipping, Marketing, and Wholesaling with Danny Johnson*
 - *BP Podcast 022 – Building a Marketing Machine, Spec Houses, Flipping & Wholesaling with Tucker Merrihew*
 - *BP Podcast 027: Fix and Flipping, Wholesaling, Marketing, and More with Jason and Katherine Grote*
 - *BP Podcast 046: Six Figure Profit Spec Building and Marketing for Incredible Deals with Jon Klaus*
-

Moving On

As you can see, real estate marketing is not a simple process. Each of the categories mentioned above could be expanded upon greatly, and an entire book could be written about each. We also did not cover every option available, but those that we feel are most commonly used today. The important thing when just beginning is to focus on one or two marketing strategies and to implement them carefully, while monitoring the results. Once you find something that works, stick with it, and if you want to generate more leads, expand it or move on to another marketing strategy. In the same way, not all marketing strategies are going to produce effective results. This is why maintaining accurate records and continually testing your marketing campaigns is key.

Up until this point, we have looked at how to choose your investment strategy and niche, how to plan for your next investment, how to finance your property, and how to use marketing to make it all happen. In the next chapter, we are going to look at the way you actually begin making serious money from your investments: executing your exit strategy.

CHAPTER 8

REAL ESTATE EXIT STRATEGIES



"Start with the end in mind."

Steven Covey

Buying real estate is great, but no one gets into real estate because it's a fun hobby. Investing in real estate is a means to an end: wealth building. Over time, your property should gain serious equity and provide you with substantial income from cash flow and hopefully, appreciation. Some investors choose to hold on to their investments indefinitely. Some will simply hold on to cash flowing properties until the day they die - with no intention of getting rid of it. However, in your investing career, you will most likely choose to get rid of one or more of your properties for various reasons. Choosing the best strategy for exiting your real estate investment is just as important as deciding which one to buy. This chapter will give you a broad overview of the various exit strategies you can use in your investment career.



This Chapter Includes:

- ✓ *Traditional Selling With a Real Estate Agent*
- ✓ *Selling FSBO*
- ✓ *Selling With Seller Financing*
- ✓ *Using Lease Options*
- ✓ *1031-Exchanges: Avoiding Taxes On a Sale*
- ✓ *Your Next Steps*

Traditional Selling With a Real Estate Agent



When listing your home with an agent, be sure to interview several agents to find one you are comfortable with and that you know will get the house sold. In the world of real estate agents, the "80/20 Principle" often seems to hold true - that 20% of the agents sell 80% of the listings. It's important to find that 20% and allow them to work their magic.

When you choose the agent you want to list your property, you will typically sign a "listing agreement" with the agent, giving them the right to earn the commission if they sell the home. The agent will discuss with you all the

important features of the property and enter them into the "MLS" or Multiple Listing Service, which all agents have access to. At this point, you will decide what price the property should be listed for. Pricing is very important, as you do not want to list too high (adding months to your holding time) or too low (leaving money on the table.) A good agent should be able to look at other similar properties and determine the best price to list at.

The listing agreement also spells out the commission to be earned by the agent. The typical commission for a real estate agent is 6% (though that can change slightly, depending on price, property type, and location.) This fee is usually split 50/50 with the agent who brought the buyer. In the case where your selling agent is representing both you and the buyer, the whole commission is given to the agent.

Many individuals feel that this is the end of their duty in selling the property, and the agent will take it from here. However, this is not the case. There are many tricks and techniques that you, as the seller, can do to ensure the property sells for the highest amount, the soonest. Start with making sure the appearance of the property is desirable, including both the interior and exterior. Look around at competing properties, and aim to look better than the rest.

If selling a single family home, consider [staging](#) the home with furniture, artwork, plants, flowers, and other accessories to help the buyer imagine a home rather than simply an empty house. If selling a multifamily or commercial property, be sure all units are filled and operating at peak efficiency.

Once an offer is received, negotiations begin, and hopefully both parties can agree on a price and terms for the sale. Just as when you purchased the property, the paperwork for the sale of the property will be handled by either a local "title and escrow" company or an attorney, depending on the common practices in your area. Both parties will sign the documents, the money will be funneled through the title and escrow company or attorney, and the deal will close, leaving you with a large check to invest in more real estate and grow your empire.

Selling FSBO (For Sale By Owner)

While the majority of homes are sold with a real estate agent, you don't need to. Most often, a real estate agent is going to cost you an extra 6% to sell your property for you. For this fee, an agent typical will:

- ✓ *List the home on the MLS, which is accessed by all real estate agents across the country.*
- ✓ *Put the sign in the yard to advertise the home.*
- ✓ *Show your property to prospective buyers.*
- ✓ *Market to the best of their ability, including through networking, Craigslist, and other online or offline media*
- ✓ *Manage negotiations with potential purchasers.*
- ✓ *Handle all the paperwork.*



For some, the cost of a real estate agent is too high, so they choose instead to sell "For Sale by Owner," or FSBO. A major deterrent in selling FSBO is not getting your property listed on the Multiple Listing Service, or MLS. This list (or lists) is a collection of all the homes listed by all the real estate agents known as Realtors, across the country. When you look for homes online through sites like [Realtor.com](#), you are looking at the MLS listings. Without being on the MLS, you'll lose the ability to reach the vast majority of individuals looking for a property.

One recent tool used by some to sell is known as a Flat Fee MLS Listing service, in which a seller will pay a "flat fee" to a real estate broker to list the house. This fee generally ranges between \$150 - \$400 and includes very limited help from that broker. The broker will simply place the home on the MLS and might even offer a sign in the yard, but will do very little other than this. This leaves negotiation, setting up title & escrow, and managing the closing in the hands of the seller themselves. Additionally, since a real estate transaction includes both the buyer's agent and the seller's agent, a commission is still paid to whatever agent brings a buyer to the deal. Instead of 6%, it usually will end up being around 3% out of pocket.

Selling Using Seller Financing

Seller financing (also known as "carrying the contract") takes place when an owner sells a property to a buyer but carries the mortgage rather than requiring the buyer to get their own mortgage. This is done by many investors all over the world for a variety of reasons and across different investment types. In a normal sale, the buyer will go to a bank to get financing for the house, and the seller will receive the total sale price (less selling closing costs) in one lump sum. With seller financing, the seller is the bank, so the buyer will provide a down payment directly to the seller and make monthly mortgage payments to the seller for the life of the loan or until the buyer decides to sell someday.



Why Use Seller Financing?

This is done for a number of reasons, but typically it is used for buyers who don't typically qualify for a normal mortgage. The current lending atmosphere can make it tough for many buyers to obtain traditional financing. They may not be able to document all of their income, they may be self employed, or may have some blemishes on their credit reports.

Keep in mind that seller financing isn't only for the benefit of buyers who normally don't qualify for a mortgage. Many investors choose to sell off their properties using seller financing because they want to receive monthly income that doesn't involve maintenance, tenants, or rentals. When a property is sold via seller financing, the property is 100% the new buyer's responsibility, and with that comes all the rights and expenses that come with ownership (including taxes, insurance, and maintenance).

A seller may also choose to use seller financing in order to offset the taxes due at the end of their investment career, as the IRS classifies this as an "installment sale" and allows the seller to spread out any capital gains taxes that may be due. See your tax advisor for more information on the tax benefits of seller financing.

How to Use Seller Financing:

When offering seller financing, the seller should require a large non-refundable down payment up front to protect their interest and to prevent against the likelihood that the buyer will stop making their monthly payments. The higher the down payment, the lower the risk to the seller. For example, if a seller requires a \$1,000 down payment, there is not a lot of incentive for the buyer to uphold their obligations. However, if the down payment required is \$30,000, there is a lot more incentive to perform. Additionally, it is important that the seller goes through the same process as they would during a normal sale, using a title company, attorneys, and other legal paperwork to ensure the sale is done correctly.

Who Can Sell With Seller Financing?

Seller financing is generally only applicable if the home is currently owned without a mortgage. If you have a mortgage through a bank or other lending institution and decide to sell the property to another party using seller financing, you will break the "due on sale clause" in the fine print of that mortgage, and the bank may foreclose on you. Seller financing is only viable for a free and clear house.

After a property has been sold with seller financing, the seller may choose to sell the mortgage, or note, to another investor. This opens up the world of "note buying," which is beyond the scope of this guide, but which is a very common strategy amongst experienced investors. For more on notes, search BiggerPockets.

What Are Risks of Using Seller Financing?

The largest risk of selling with seller financing is having your buyer stop making payments at some point, whereby you, the seller, will have to foreclose. In this case, you are subject to the same laws and [foreclosure process](#) as any other lending institution, which takes time and money. Each state is different, but you will probably need to hire an attorney to get through the process. After the foreclosure is complete, you will get the house back and be able to sell it all over again, but you may have to deal with repairs and other issues before the home is ready to be sold again.

While the risks of having to foreclose can't be completely avoided, they can be minimized if the note is managed properly. You do that by screening the buyer carefully, so that you are fully aware of any issues that might arise. Furthermore, as mentioned earlier, the best way to reduce your risk is to get as high of a down payment as possible. The more money you receive up front, the less likely you are to have problems.

Also be sure to check out:

- *BP Podcast 013 – Buying Real Estate with Seller Financing and Speculating with Leon Yang*

Using Lease Options

Another Option used by investors as an exit strategy is known as the "lease option" or "lease purchase." This arrangement is actually two separate parts: the lease and the option.

The lease is just like any other rental lease, where the tenant moves into the home and makes monthly rent payments.

The option is a legal agreement that gives the tenant the legal right to buy the home at a pre-determined price in a pre-determined length of time. The option makes it illegal for the landlord to sell the property to any other investor during the pre-determined time period. In exchange for the tenant's sole "option" to buy the property, the tenant will pay an upfront non-refundable "option fee" that will typically be later applied toward the purchase.

Real World Example:

John and Sally would like to buy a house from Fred, the investor, but lack the down payment and credit requirements to get a loan for themselves. Fred has a mortgage on the property himself, so he cannot carry the contract and provides seller financing instead. Fred does a thorough background and credit check on John and Sally and decides they would be good candidates for this. The parties then sign both a lease agreement and an option agreement, giving John and Sally the right to buy the home for \$100,000 any time in the next two years. John and Sally provide a \$5,000 option fee and move in.



In the example above, there are several different endings that might occur:

- ✓ *John and Sally are able to get traditional financing from a bank and end up buying the property from Fred sometime during the two years. The \$5,000 option fee will apply toward their down payment.*
- ✓ *John and Sally decide they don't want to buy the house and leave within the first two years (or at the two-year point.) The \$5,000, being non-refundable, is Fred's to keep. He then can decide to sell it, do another lease option (collecting another non-refundable fee from the next tenants), or do whatever he wants with the property.*
- ✓ *John and Sally may find, after two years, they cannot yet get a traditional mortgage. Fred may sign another "option" with them for another year or two, possibly increasing the purchase price and option fee.*

A lease option gives options to the seller. The lease option is oftentimes a great alternative if you find yourself in a changing market and cannot sell a property, but don't want to simply discount the price. It gives the seller the ability to win in any situation - if any of the three endings above occur, the investor comes out okay.

Three Advantages of a Lease Option Strategy

A Great Short-Term Exit Strategy for a Slow Market.

Flipping a property in the current real estate market can be difficult and costly. Doing a lease purchase can provide positive cash flow ,while giving the owner the opportunity to wait for the market to improve and lock in a possible buyer.

Lease Option Tenants Usually Take Better Care of Your Property.

Tenants who have a lease option often feel more like "buyers" than "tenants" and, as such, often take much better care of the property than a typical renter. Tenants can also be made responsible for small repairs in preparation for their becoming homeowners.

No Real Estate Commission Required.

Unless you find the lease option "tenant/buyer" through a real estate agent, you won't owe a commission when it comes time to sell via your option contract. Besides being able to market the home slightly higher due to the flexibility you are offering your tenant, you can save up to 6% when the tenant buys your property.

Three Disadvantages of a Lease Option Strategy

While lease-options often present a terrific "win-win" for all parties involved, there are some downsides to be aware of before jumping in.

The Dreaded "Due on Sale" Danger.

While technically no sale took place, many argue that a "lease with an option to buy" can indeed trigger a "due on sale" clause because it transfers an interest in the property. The language in the law that determines when a bank can trigger the due on sale clause is cloudy at best, and while this may be a gray area, it is ultimately up to the bank to decide if they want to call the note due and force you to pay back the entire loan within 30 days. Should this happen, you could challenge this in court, but that also would require significant financial resources.

You Can't Sell the Property to Anyone Else.

During the option period, the tenant has the exclusive right to buy the home. If prices suddenly rise, you are locked in at a certain price with the tenant and cannot sell for more. Also, if the market begins to drop and go downhill, you cannot sell to get out of the deal, either until the "option" is no longer binding.

You Could Be Sued.

There is [a story on the BiggerPockets blog](#) about an investor who was sued by a tenant, who claimed (after being evicted for not exercising their option to buy) he had "equity" in the home. While the tenant had very little (or no) legal grounds to stand on, the tenant still cost the investor time and money in court fees, hoping for a settlement.

One final note about lease options: Very few lease option tenants ever actually utilize their "option" and purchase the property. As a result, some unscrupulous investors have used the lease option strategy to take advantage of tenants, offering a lease option to individuals who will never qualify for a mortgage and charging outrageously high option fees and short terms, just hoping the tenant doesn't buy. These investors then re-churn the process over and over again. This usually leaves the tenant in a worse position than when they began the process. BiggerPockets does not approve of this practice and instead asks that you treat your tenants with respect and dignity. Taking advantage of others for profit is what gives real estate investors a bad name. Don't do it.

For more information on Lease Options, check out:

- [Rent to Own Homes](#)
 - [Lease Options as a Tool to Rock Out Your Rental Properties](#)
 - [BP Podcast 041: How to Profit Through Long Term Flipping and Lease Options with Douglas Larson](#)
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1031-Exchanges: Avoiding Taxes On a Sale

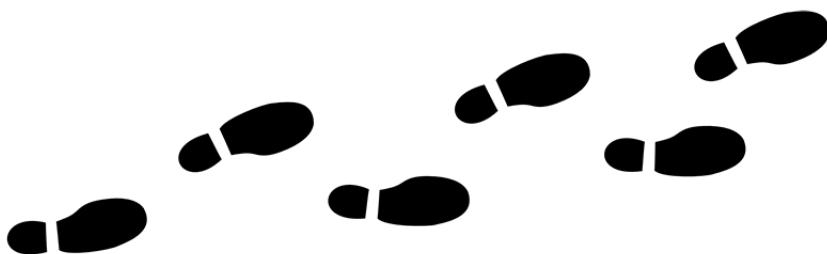


As with any business venture, when you are successful, Uncle Sam is there to collect his share. When it comes time to sell a property that you own, chances are you will have significant taxes due, especially if you followed the advice in this guide and bought a great deal. Thankfully, if you are paying taxes in the United States, the government provides a way to "defer" those taxes to a later time.

There are a number of rules that need to be followed, but if done correctly, you can possibly re-use the money you would have paid towards capital gains tax, and you can use it as funds for your next property. Essentially, this is the government's way of "partnering" with you on your investment deals. There are a lot of complicated things that go into a 1031-exchange, so be sure to talk to a qualified tax specialist before making any decisions.

Your Next Steps

At the end of this chapter, you should have a clear understanding of how to eventually get out of your real estate investment. When you begin with the end in mind, you make it much easier to unload your property and clear a nice profit.



In this guide, we have covered nearly every facet of getting started in real estate investing. In chapter 1, we looked at what investing is, what it's not, and what you need to get started. Chapter 2 looked at the proper way to gain a good educational foundation before jumping in to the real estate game, while chapter 3 examined the many different strategies and niches you can get use to build wealth with real estate. Chapter 4 laid the groundwork for a successful real estate business plan and chapter 5 looked at the best way to prepare and shop for your first investment property. In chapter 6 we dove into the important world of real estate financing, and chapter 7 covered marketing. Finally, chapter 8 dealt with the importance of beginning with the end in mind and how to plan your exit strategy for each property you buy.

While you have reached the end of The **BiggerPockets** Ultimate Beginner's Guide to Real Estate Investing, your journey is just beginning. You now should have a very clear understanding of what real estate investing is and how you can begin to profit from it. Now it's time to put it into practice. If you have not yet done so, please head over to [BiggerPockets.com](https://www.BiggerPockets.com) and [sign up for a free account](#).



BiggerPockets is a community of over 219,000 real estate entrepreneurs who are here to help build each other up with knowledge and support. They are also using the site to network and to find partners and clients. We want you to be a part of our community. Ask (or answer) questions on the forums, read the recent blog posts, create a company profile for your business, or just hang out with other investors. You are the average of the five people you associate with most, so if you are not currently associating with successful real estate investors, let **BiggerPockets** help you with that.

That's it! Thanks for taking time to read the **BiggerPockets** Ultimate Beginner's Guide to Real Estate Investing. You now have the tools... it's time to get to work. We'll see you over on [BiggerPockets.com](https://www.BiggerPockets.com)

P.S. Still unsure where to start? Why not check out the [BiggerPockets Start Here](#) page.

