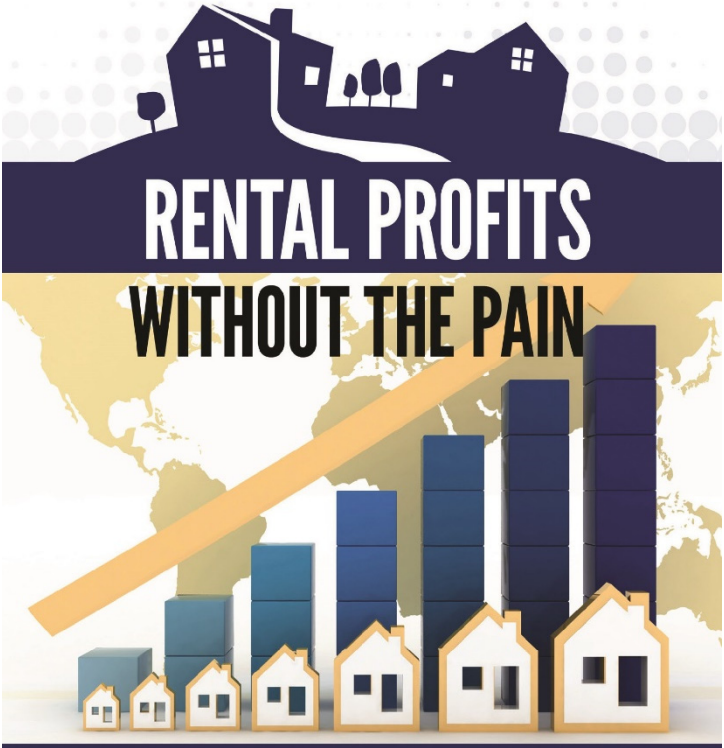
Real Estate With
Gary Wilson



RENTAL PROFITS WITHOUT THE PAIN

GARY WILSON

"Guiding You to Massive New Wealth in Real Estate in 1 Year or Less Guaranteed!"

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The Wizard Formula for Success:

W Be willing to get out of your comfort zone

I Investigate your dream. In Real Estate, whether it's Flipping, Renting, Wholesaling, being an Investor/Agent, or all of the above—check it out first.

Z Zero in on your plans. Start with one then add the others as you gain confidence and competence, leveraging your current activities.

A Take action! Put one foot in front of the other and get a coach, just like those who make millions.

R Ramp it up! Once you cash in on your first transaction take massive action to multiply your results.

D Do it and don't do it alone. Many more have succeeded by getting the proper education, information and guidance than have by attempting to do it on their own!

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NOTE: Gary Wilson is not an attorney. Readers please repeat after me: "I know Gary Wilson is not an attorney. I am reading this book of my own free will and promise to make sure everything I do after reading this book, relative to real estate, will be in compliance with federal, state and local laws."

Introduction

When I was in college, I was blessed to have a roommate named Socrates. Both his parents were Greek. His mother was born here in the States, but his father was born in Greece. So Mrs. Demet went to Greece to attend a high school graduation, and came home with Mr. Demet. They lived south of Richmond, Virginia.

They were a great family. They took me in and treated me like one of their own. Mr. Demet was a great teacher, and fortunately for me, he was a generous teacher. He taught me right alongside Socrates. I could not have gotten a better education. As a matter of fact, the education I got from him has been worth more to me than the education I got from college.

After I graduated I got my first corporate nine-to-five job. Socrates and I again became roommates. Very good deal for me! We bought our first property together.

Now we had gone out to find a property, and being young college graduates living at the beach, we decided to buy a little townhome a few blocks from the ocean. It was great—of course it was going to be a chick magnet. We were going to live the life. But before the day was out Socrates' dad set us straight. We got out of that deal, thank goodness, because

it would have been a losing deal. He then took us by the hand and showed us what to do.

Instead we bought a nice little property in Virginia Beach—478 Leslie Terrace—ten minutes from the beach, and two minutes from where I worked. Soc's dad cosigned the second mortgage and showed us how to do everything. He did not give us any money, though. Instead of giving us a meal of trout and salmon, he taught us how to fish.

My first experience with Real Estate

My first day of work, I recall dreading "having to do this for the next 40 years." I liked the people but I hated the corporate nine-to-five gig—being stuck in an office with the beach so close and beautiful weather and gorgeous girls.

But I had to make money, right?

It was a four-bedroom, two-bathroom home. We bought it from a guy in the Navy. We assumed his first mortgaged, refinanced his second, and gave him a note and a mortgage for the third—which was his equity portion of the property after the first and second mortgages.

Socrates and I lived there, and we rented the other rooms out. Essentially we were able to live for about $50 a month, because the other guys' rent covered our mortgage payment. I had only about $3,000 in the deal altogether.

We were on the water every day after work. Soc bought a used boat and a used van to tow it, and we went water skiing all the time. We pioneered pulling stuff behind boats besides skis. We tried surfboards and other crazy stuff we thought

would work including just us on our backs. I saved a good bit of change because I wanted to buy more property.

I remember Soc's dad telling us, while we stood at the dock of one of his beach homes, "If you boys do what I show you, you will not have to work for anybody else past the age of 35." And thankfully for me, he was a real life example of success, someone who was actually investing in real estate and making money doing it.

I learned something very profound during this time. I learned I was not built to be sitting behind a desk in a corporate job, Monday through Friday, nine to five, for 40 years; I knew I had to do something about it.

But then guess what happened. I found the girl of my dreams, got married, and had children. At that point, Mr. Demet did not think it would be a good idea for Soc and I to try to hang on to the home together. Virginia real estate rules were complicated, and with me being married and him not, we decided Socrates would buy me out. I got $8,000 out of the deal. Remember I put $3,000 in, and got $8,000 out in about a two-year time frame. Not a bad return! A 266% return. I knew I would never be able to do that in the corporate world.

My new bride, Susan, and I bought our first house together. It was nice, new, just one mile from the ocean and only $85,000. Today that house is worth $350,000. Just a like a lot of other smart people I should have held onto it when we moved to Pittsburgh. But we needed the money. I know, you think I am crazy. Why would I move from the beach to Pittsburgh? Well, my wife was from Pittsburgh, and I felt

like I needed a new beginning to pursue my dreams and make my way in the world.

I began focusing on my professional career—Computers in Banking. I worked so much at one point I actually had a cot in my cube. My daughter was not even three years old and Susan was pregnant with our son, Andrew. I got called into my boss's office and was told I had earned a $500 bonus for all my effort. What a slap in the face! That was just about half a week's pay and I had worked extra hours that much dozens of times over.

I learned a hard lesson. First of all, no one else was doing what I was doing, yet they were making the same amount of money I was. Second of all, I was just a number. Other than the people around me, no one who really mattered knew who I was or what I was doing. I was wasting my time.

I knew I had to do something else. Fortunately I had a valuable commodity… I had knowledge of a software system that allowed me to move to another bank in Pittsburgh. I had raised my salary by quite a bit from moving from Virginia Beach to Pittsburgh, and in short order, I increased it again by more than 50% in about an 18-month timeframe.

But I was not happy. My spirit was dying. I felt like I had lost my freedom, and I did not like being cooped up indoors all day. I am an outside person.

Suddenly I was 35 years old. It had been ten years since I had sold my portion of that property to Socrates. I

remembered what his dad told me. I was now the age he had said when I would not need to work for anybody else.

I was maturing enough to realize I was living according to what the world expected of me—not what I wanted for myself. I never lost my desire to own investment real estate and since I was getting up at 5:00 in the morning to beat traffic and get a parking spot and be at work by 6:30, I got to see a lot of Carlton Sheets. I could almost recite his infomercial line by line.

I finally bit the bullet and bought his course. I studied it just like a school textbook. Then within six months I entered into a contract to buy my first two properties—a pair of fourplexes in a borough called Westview, just right on the city line. It was my first solo foray into real estate. I was back in the saddle and a new chapter in my life had begun.

The lessons I learned from Mr. Demet were beginning to bear fruit and this is what I want to share with you. I believe with undying faith in the American Dream. It is alive and well for people including those who are from foreign lands like Mr. Demet. I further believe that investing in Real Estate is the best path to realizing the American Dream. He was a real life role model, showing me it absolutely could be done.

I know a lot of you guys reading this do not have that, but I hope you will use me as that example. But I don't just want you to be like me… I want you to be better than me.

I am going to show you everything I did to accumulate a portfolio of 250 units in about five years. I started off with a pair of fourplexes. I believe in real estate. I believe in the

American dream. Yes, you can do it! In today's economy it is more possible than ever. Prices are still relatively low, according to historical averages, and interest rates are as low as they have been in 50 years. What more could you possibly ask for?

My promise is to teach you what I have learned, and not just how, but why certain techniques work the way they do. This is something I found missing in a lot of courses I have taken and books I have read. I promise that if you follow the suggestions in this book that you will be Real Estate Investing for Rental Profits the Right Way!

Getting Started

100 and 102 Center Avenue

100 and 102 Center were purchased side by side from a woman who was retiring and whose husband had Alzheimer's. I was pretty good at saving, so I had $50,000 tucked away. I think it was an $180,000 property. I was able to put a 20% down payment out of pocket—$36,000 for both properties, and finance the remaining $144,000.

I bought these two properties back in August 1998. I still have them today and they bring in a nice monthly income for me. The real estate value is appreciating too. At first, I did most of the work and all of the management. I learned a lot by doing things that way. I don't regret it and would even recommend it to others as a way of learning the ropes.

My first challenge was a vacant unit as soon as I closed on the property. It was probably a good thing though. The previous tenant was behind on her rent. It gave me an

opportunity to renovate the place and charge higher monthly rent. I raised it from $350 to $400 per month. That was one of the only times my wife helped at an apartment. The new tenants were pretty good about paying but they were a little rough on the place. They were young party animals.

I used the rest of my life's savings and bought another property with 20% down out of my own pocket and mortgaged the other 80%. This was a three-unit in Etna.

You are probably wondering, "Hey Gary, all these other guys are teaching to not use your own money." Well I know that they are there, and I get it. But I am going to tell you right now, in today's economy, cash is king. As a matter of fact, cash is always king; and the man with the cash gets the best deals. I understand if you have to finance when you are first starting off though, just like I did.

I still have these properties, they cash flow like crazy and the area is awesome. I basically did it by just using good old fashioned common sense. When you use other techniques like no-money-down or owner financing, you do not really have rights of ownership. You put yourself at risk. When you are growing your portfolio it might feel okay. But you are overleveraged.

What nobody teaches you is what happens when life happens.

What happens to your highly leveraged portfolio when the economy tanks, people lose their jobs, or people get divorced? You know it happens. When you own a lot of properties, you are going to deal with these human nature

phenomena. People get married, people die, kids are born, people get jobs, they transfer, they lose jobs, they get married, and they get divorced. All those things happen and they affect you because you are providing their housing.

My question to you is, do you want to be highly leveraged when bad times come—because they will come—or do you want to have a safe, sound, solid portfolio based on solid principles, solid common sense, where you can weather the storm, maintain your properties, and come out on the other side shining like gold? That is what I advocate.

49 Grant Avenue

49 Grant Avenue ended up being a real winner. It was kind of a, almost scary looking property, but it was a three-unit, and made a lot money.

It was September 1998. The lady I bought the building from was a former real estate agent who did a lot a business in Etna. I gathered later that she was a real shyster. We had to delay the closing because she hadn't collected all her rent. I balked because I believed she should have done that already. We delayed but still she didn't collect all her rent. We closed anyway at 5:30 PM.

There were water bills to be paid on the property that she convinced the closing agent she had paid. She lied. The closing agent should have held funds in escrow to cover the bills but didn't. I had to fight with the closing company's attorney for six months to get these paid. It was their loss.

The next thing I had to do was have the third floor tenant move because he was a crackhead. I convinced him to move without getting the authorities involved. Then I had to deal with the tenants on the first two floors. I could always collect rent from them but it was like pulling teeth. I eventually evicted them all and replaced them with great tenants.

Business started getting better—and I was getting better at the business of real estate investing at this point.

741 Florence

In October 1998 I bought 741 Florence Avenue from a lawyer who was moving to New Orleans. She offered owner financing and I wasn't going to pass up the chance. I only had to come up with $5,000 of my own money.

I was able to get her to give me an interest rate that was the same as the banks would give me. I purchased it for $42,000, and she held the note for the other money.

At the closing table I realized a glaring mistake on the settlement sheet. I was not given credit for my $5,000 down payment, and the prorated interest was backwards. Had I not caught the mistakes I would have lost over $5,000. Another big lesson—scrutinize every detail. Mistakes do happen in this business and it always costs money to make a mistake.

The property was a duplex with the first floor apartment rented to a wacky elderly woman who is still there today. She was eccentric, made enemies of all the neighbors, kept the temperature inside her apartment in the 50s in the winter while wearing a coat, hat and gloves indoors, and had every square inch of space packed with stuff. But she paid her rent on time every month in full without fail.

I did try to raise her rent by $10 after I took ownership of the place, but she was "having none of that, young man. Now be on your way!" So I got out of there as fast as I could with my tail between my legs wondering how I let some little old lady get the best of me.

The second floor was empty. I believe this was the last time Susan helped me prepare an apartment for renting. It took a

lot of time and energy but we managed to get the job done and rented it to a nice little alcoholic drug addict lady with two illegitimate boys (I didn't know that until later).

So far I was doing O.K. I was making mistakes but still making money. One of the things I like about this business is that you can make mistakes yet still make money. I don't recommend it but it's possible.

Several years later I sold it for $72,000; so I made $30,000 on the sale and the whole time I owned it, cash flowed. Cash flowed like crazy on that place.

Now I was getting to the point where I had exhausted my cash. So I looked around to determine where I could get more. I opened up a $25,000 personal line of credit—that is an unsecured line. It is based on your reputation as a good credible borrower. I actually went on and borrowed money against my own personal home using a home equity line for $40,000. That took me to 100% financing on my personal home. I know you may think it sounds risky, but it was a managed risk and one I was willing to take. And it was a risk that paid off.

205 South Ohio Street

In January of 1999, I closed on 205 South Ohio Street in Avalon. This was a three-unit building I bought from an elderly couple who simply couldn't care for the place anymore. There was an odd mix of tenants. The previous owner paid the gas bill. I had my work cut out for myself.

I went to do my inspection on a very pleasant fall day. I'm glad I was there on that day because I learned firsthand that I would need to add two more gas lines and separate the heat. As I was standing out front with the realtor, I noticed the second floor windows were open while a window air conditioning unit was blasting away.

When we walked into the first floor unit, the heat was on high and the tenant was running around in his boxers. He controlled the thermostat. The heat—and money—was literally going out the windows. I learned a valuable lesson before I had to feel the negative effects of it. Do not pay for someone else's heat!

As soon as I closed on the deal I got the gas lines separated and the heat separated. I also kept the rents the same. That was part of my strategy for the place in order to make money.

I think I paid $32,000 for the property, and sold it for $62,000. Nearly doubled my money on the sale, plus I had cash flow over all those years. I think I owned it for greater than ten years. I always own my properties for about ten years, sometimes more, sometimes a little less.

206 and 208 Clay Street

I bought these properties from a church who had received it as a donation from an estate. It was a two-unit side by side—one brick and one vinyl. Old and small, each unit had two bedrooms and it cost only $35,000.

When the settlement company received the no-lien letter from the borough it stated the water meter may need to be replaced. Nobody thought anything of it. The settlement company didn't see that as a requirement for closing.

Shortly after closing the borough called to say that we definitely needed to replace the water meter. I met the technician at the property and discovered that the meter was fine. We did however discover that the electronic reading device had been disconnected. The technician reconnected it and synchronized it with the water meter. I was told that it was a catch-up reading and since the settlement agency had been instructed to replace the meter (which would have resulted in an accurate reading for closing), I received a water bill for over $500.

Of course I fought this. I agreed with the settlement company that no definitive mandate had been given to replace the meter. The lien letter had stated that the meter "may" need to be replaced, not "must" be replaced. The settlement company wouldn't back me up with a title claim because the word "may" is ambiguous. They were right. I eventually won my argument.

Lessons learned: First, even professionals make mistakes, and second, always be persistent—especially if you know you're right.

I purchased the property for $35,000, enjoyed a nice cash flow from the rentals, and sold it just a few years later for $50,000.

48 Cherry Street

I bought 48 Cherry Street, a three-unit in Etna, for $50,000 from a young couple who had intentions of living in one unit while upgrading it, and then doing the same thing with the other two units. When they listed the property, they were still in unit #1. The reality of being a landlord had kicked in and they didn't like it. They also didn't like all the money and time it took to get things done. They had rented the third floor to the wife's sister at a steep discount and the second floor was rented to a complete idiot at a ridiculously low rate.

So they decided to sell and I immediately saw the potential of quickly upgrading the units and charging higher rents. Plus I didn't have to live there.

The first floor was already complete and rented to a nice little old Italian lady with dozens of kids and thousands of grandkids and great grandkids. She was one of the best tenants I ever had. I love that lady and still keep in touch with her today. While we were working on the top two floors she used to feed us—A LOT! Needless to say her unit was one of the nicest in town.

We tore out a wall in the second floor unit to open up the living room and let in more light. The rest was just basic painting and flooring. We also rented the garage in back. The old owners had been bringing in about $400 per month. When I was done renovating, the building brought in $1,250 per month. Now that's how you make money on investment property.

Lesson learned. Don't focus on a property as it is today—use your imagination to see how it could be tomorrow!

39 Walnut Street

I bought 39 Walnut Street for $62,000. It was a duplex with a three-bedroom unit downstairs, a three-bedroom upstairs, and a garage. It was in a pretty good neighborhood of mixed owner-occupied and rental properties. The mayor's daughter lived next door. It also has a nice covered front porch, nice covered rear porch and a fenced-in yard.

I spun the garage off and rented it separately. At the same time I got permission from the borough to create a two-car parking pad in the rear of the house, still leaving plenty of yard to enjoy. Initially the rents were both well below $500 per month. Over time I increased that to $600 each. The tenants I inherited paid their own water and stayed in place for a few years, which helped a lot. I didn't raise their rents until some improvements were made and then I didn't raise them to market level all at once.

Lesson learned: when buying three-bedroom apartments you will almost always be catering to families. Make sure the neighborhood is suitable for families.

When I sold that property years later, I was making almost $1,400 a month.

749 Florence Avenue

This property was a fully-rented duplex, just two doors down from 741 Florence. At that point I had a pretty good share of my real estate holdings in Avalon. I liked having two properties close together and others within a few blocks.

This property was distressed, and so were its owners. They were an elderly couple, and when the husband showed up at closing he needed an oxygen tank. I think they were asking $40,000 initially. I bought it for $32,000. Once again I put 20% down and took a mortgage for the remainder. By this time any money I put down was being generated from cash flow of my other real estate holdings, not my savings account.

The upstairs tenants are still there today. They are some of my best tenants. At that time their rent was really low—$250 per month. Understandably, they didn't want me to raise it to the market level of $450. I met them halfway. I performed only essential upgrades and raised their rent to $350. They would live with the old carpet, etc.

The lady downstairs was a single mom of three, all living in a one-bedroom apartment. She was a pig and behind on her rent. She gave some cockamamie story about giving her rent to a man who was posing as a property manager. I can't remember what she had been paying—or rather not paying—but after she left I turned her old apartment into a very nice unit and charged market rate of $400 per month.

I also installed two new furnaces and put on a new roof the next year. Years later I sold it for, I believe, $65,000.

Lesson learned: don’t be afraid to take on a place that may look scary if there is a lot of upside potential in multiple areas such as rent increases and increased value due to improvements.

802 and 804 Taylor Avenue

This was the last property I bought in my first year of operation and it was the crowning jewel of my Real Estate Empire. It was one big four-unit building with a pair of one-bedroom units on the first floor and a pair of two-story three-bedroom units above.

The one-bedroom units weren't in too bad of shape and were currently rented. The three-bedroom unit on the right was vacant and needed some improvements before renting. The other three-bedroom unit was being rented as a one-bedroom unit because the second floor needed to be improved before it would be rentable. The electricity on the right needed to be separated between the two units. Finally, the gas needed to be separated between the units on both sides.

Sounds like a lot of work but I bought the place for $80,000 and the upside potential on rent and equity was tremendous. After buying nine other properties in less than a year I needed to take a different route in order to purchase this one. I took out a commercial line of credit secured by the equity in my nine other properties from a small private lender named Larry Newman whose company is called Briar Cliff Financial. I used that money as the down payment, and again got a first mortgage for the remaining 80%.

I immediately separated the gas and electric and passed the responsibilities of paying those bills into the tenants' hands. At the same time I got the vacant three-bedroom unit ready to rent. I was having a hard time renting it when finally at the end of the summer a Section-8 tenant came along. It was my first Section-8 tenant and I was a little nervous, but also

a little desperate. As it turned out they were some of my best tenants ever. The next step was to get the other three-bedroom unit ready and rented.

As it turned out, the tenants in one of the one-bedroom units wanted to move into a larger unit, while the tenant in the newly finished unit didn't need all that space. So they swapped—lucky me! I now had a fully rented building bringing in almost $2,000 per month.

I quickly paid off the commercial line. As a matter of fact I also paid off my home equity line of credit and personal line of credit all within the next year. I sold that building a few years later for $132,000, so I made over $50,000 on the sale; cash flowed like a maniac while I owned it.

25 South Sprague

25 South Sprague was owned by a woman who inherited it from her late father and was in the middle of a divorce from her husband. It is a three-unit property with the main house consisting of a one-bedroom unit downstairs and a two-bedroom unit upstairs. There was a separate building in the back that had a garage and was converted into a one-bedroom unit. All three units were rented at the time and are still rented to the same tenants today.

The buildings had recently been sided and really didn't need much in the way of improvements. There is off-street parking for two, it's close to shopping, a hospital and almost anything else a person might need in Bellevue. I would like to improve the unit in the back but I sort of treat the tenant there as my own personal charity case. She is supposed to pay me $325 per month but usually I get something odd like $140. I know I should be the good business person but she is elderly and has some mental issues. I conferred with my wife and she said I should do this so it must be O.K.

819 Stanton Avenue

819 Stanton Avenue is a three-unit brick house in a nice section of Millvale—the same Millvale that makes national news for flooding every time it rains. President Bush stopped here after Hurricane Ivan flooded the place a few years ago and promised to personally see to it that the flooding problems would be resolved. Governor Ed Rendell has said the same thing. It has been a few years and it is worse now than it was before the hurricane. The Democrats blame the Republicans and the Republicans blame the Democrats—and the poor residents and business owners continue to suffer. (By the way, water bills are twice as high in Millvale as they are in other areas. Part of this is to go to solving the flooding problem. I believe it has all been money well waited. O.K.—off the soap box I go.)

819 Stanton really didn't need much work other than separating the heat between the first and second floors. I lost both of those tenants because I now required them to pay for their own heat while I kept the rent the same, which was low. The unit on the 3rd floor had its own electric heat source. The electric was already separated on the building.

Now this was a profitable building. I also rented the garage out separately for another $125 per month. I have always been able to get good tenants in this building. I still have it today and it makes a lot of money for me.

100 Logan Avenue

100 Logan is one of my favorites. It is a farm-style house situated down a long driveway in a country setting on the edge of Millvale. Whenever I advertise a vacancy here I use the words "Country in the city." I've never had a problem renting either unit. It is a two-unit: a two-bedroom downstairs and the top two floors make a three-bedroom. Both have separate entrances on different sides of the house. The upper unit is almost like living in a single-family home. I bring in $1,100 per month total on the house and my mortgage payment including taxes is $425. I paid only $44,000 for it. This place is a gold mine. The work I did to it was merely cosmetic.

There was one big problem a few years ago. I had to replace the water line from under the street to the house. It cost about $13,000 to do it. It turns out the local gas company had laid a new gas line under the street a few years before. The plumber had evidence that the crew doing the work had to re-lay the storm sewer line as a result of the new gas line. The crew placed this new line directly over my water line instead of the other way around. As a result of natural settling the new sewer line over time crushed my water line. I pursued the matter and was reimbursed $11,000. I was lucky! The crew who did the work was no longer in business and the insurance company who represented the gas company no longer represented them. It was a real stretch but along with my plumber we presented a pretty good case.

The house really doesn't fit the character of the area but because of its unique qualities it has been a winner. Lesson learned: sometimes these unique or even odd properties do a

good job of attracting a certain number of people and no other property can compete with them due to their unique nature.

128 and 130 Goodwin Avenue

128-130 Goodwin was a four-unit and is now a five-unit property. For a while during my Real Estate investing career I was not impressed with Millvale. But after I purchased 100 Logan I began to see some of its potential. It had recently undergone some improvements along its main business corridor, into some of the residential areas and more importantly in its local government. It was out with the old and in with the new.

In recent years it had benefitted from the CRA (Community Reinvestment Act) designation. A lot of the old councilmen had been ousted and replaced with new (often younger) forward thinking individuals. Millvale had even gone as far as buying some of the run-down properties themselves and selling them to first-time home buyers with low interest loans. *The times they were a changin' and I was a benefittin'.*

Unfortunately, as I'm sure you all remember from overrun news clips Millvale suffered immensely from flooding from the remains of a pair of devastating hurricanes in the late summer and early fall of 2004. This was a major setback for the area. With the exception of a few recent flooding events Millvale has been slowly recovering—in large part to the resiliency and faith, hope and love of its proud and patient citizens. I love and admire these people, and they and I will continue to benefit from their dedication and hard work.

I bought this little gem for a cool $51,900. The rents were low and the hot water was common among three of the units which means I had to pay that bill. As you might have guessed that didn't last long. I quickly separated the hot

water and soon after raised all the rents to market level. I was making $1,450 a month already but I was not done yet. I saw potential for a fifth unit on the top floor of the building. If I could pull this off it would add $350 per month to the income. My monthly mortgage payment including taxes and insurance is $513 per month. I got the proper occupancy requirements satisfied and had the new unit completed in about two months. I was now making $1,800 per month gross and as you can see this property was transformed into the proverbial cash cow!

I still have this property today and won't be getting rid of it anytime soon. Lesson learned: Never judge a book by its cover. Millvale is a great little town and it has a strong rental base. I have great neighbors and the property itself was easily improved from a great deal to an awesome deal.

416 North Home Avenue

416 North Home was one of the last properties I bought using my current methods. It is a five-unit building in Avalon. I paid $94,000 for it. It consists of two efficiency apartments, 2 one-bedroom apartments and a two-bedroom apartment. All utilities are completely separated. When I acquired the property the rents were a little low and the place needed some improving. I set about addressing both right away. All the units now have new furnaces, the dormers on the roof are new and all the units have new flooring. The main hallway was also updated.

I had to put up with some tenant issues for a while until I got the place under control, but now I am getting $325 per month for the efficiencies, $375 per month for the one-bedroom apartments and $500 per month for the two-bedroom apartments. My monthly mortgage payment including taxes and insurance is $944. Since the tenants pay all utilities including water, I am making over $850 a month positive cash flow on this property. This isn't a grand slam home run of a deal but it is a very good one and I would do this over again in a heartbeat.

Lesson learned: when it comes to larger properties, the really good deals don't come around as often as the smaller ones, so when one comes along that has room for improvement—take it. Even if you can't transform it to an awesome deal right away, given a little time and the larger number of units, it can increase your income and net worth substantially in due course.

R.E.R. It was about this time that everything changed. I was doing O.K. by some peoples' standards but I still wasn't able to break ties with the corporate nine-to-five world and quit the rat race.

I was driving to work at 6:00 AM one morning in the freezing cold of the dead of winter in Pittsburgh, PA, and I heard these two guys—Jim Toner and Jeff Rubin—talking on the radio about a free seminar coming up in which they were going to talk about Real Estate Investing. They had started a company call Real Estate Riches which teaches individuals how to invest in Real Estate. Well, the subject matter was right up my alley and I could afford free. So, I went to the seminar.

I was the nerd in the front row with my pad and paper taking notes. It was about two hours long and I had learned enough from my own investing experience that what they were presenting to me was a sound formula. This seminar was unlike any other I had been to—and I had been to a few (in that I couldn't buy anything there or even sign up).

RER requires its prospective students to have an interview first with Jim and/or Jeff. I called the next day to schedule an interview and spoke to Jeff who was a little reluctant to have me on board. He couldn't understand why I wanted to sign up if I already owned so much Real Estate. He may have also suspected that I had developed a few bad habits that might be hard to break. He may have been right but I managed to convince him to hear me out in an interview. I had my interview with Jim and I believe he saw that I was basically harmless—but more importantly that I was of the right frame of mind to be successful in Real Estate Investing.

RER agreed to take me on as a student and I borrowed money from a credit line to pay for the program.

At that time the class consisted of three Saturdays in a row. On the second class we actually visited a few prospective properties and analyzed them. At the third class Jim asked us students how many offers we had made. Now since I was a veteran and feeling pretty confident I knew I would be the star of the class. One student had four offers out—I had none. That was enough to light the fire under my butt. The rest as they say is Real Estate History. Read on.

26 High Street

When I bought 26 High Street I was completely out of money (temporarily). I didn't want to wait. I wanted to put what I learned to use ASAP. I had narrowed my search down to the final three and had Jim Toner out to look over my selections. We settled on 26 High Street. It was a duplex at the time but I wanted to turn it into single-family dwelling thinking it may be easier to manage. That was a mistake. I should have left it as a duplex.

That was the first of many mistakes I made, because, as I later learned, I could make more monthly income by keeping it as a duplex. I later turned it back into a duplex.

The second big mistake I made was my choice of contractors. I picked the guy with the cheapest bid and I paid dearly for that choice. This was a pretty sizable job and this guy worked all by himself. He took forever and he didn't do the best work. It took six months to finish this project and it shouldn't have taken more than one month. I had to have another guy and his brother come in to finish up. I finally finished though and went to the bank to get a new first mortgage on the place.

Even with all the mistakes I still made money—enough to pay off all the debt on the place, plus the credit line I used to pay for the RER course. I never doubted that the formula would work but I was less than enthused at how hard it was to pull off. I must say though that all the mistakes were my own.

Lesson learned: Don’t be so afraid of making mistakes in Real Estate (of course you want to avoid them as much as possible because they cost you money) because it is forgiving and profitable enough to still make money.

1249 Benton Avenue

1249 Benton was the second property I bought using the RER program. I made the horrible decision to give the guy who botched 26 High Street a second chance. I hate it when I have to make a mistake multiple times before I learn my lesson. This asshole took forever. He almost cost me my tenant (she is still there, by the way). I had to fire him for good this time and I had to finish the project myself.

I did manage to meet my budget and I took cash out when I refinanced. I also had a pretty good cash flow on the property. I still have this property today. All the other houses around mine have improved to the point where now mine doesn't look so good. If and when the tenant leaves I'll make some improvements to the front and put in new windows and then sell for profit. For now though I've got enough to keep me busy.

Lesson learned: DON'T DO WHAT I DID AND HAVE TO LEARN A PAINFUL LESSON MORE THAN ONCE!

1221 Woodland Avenue

1221 Woodland Avenue was the third property I bought using the RER program. This one I did according to plan with little or no mistakes. I bought it for $20,000 and had to put less than $5,000 into it. It appraised at $50,000. I took a $40,000 first mortgage out on it. So I pocketed $15,000. Plus I rented it for $675 per month which gave me about $200 per month positive cash flow after the mortgage payment plus taxes and insurance. It was at this point that I was well on my way.

This was about 13 months after I became involved with RER. In another 5 months I would leave PNC and the corporate nine-to-five world.

I have purchased 52 properties using the RER program—mostly single-family homes. They are relatively easy to find, fix and rent or sell. I can always go by and look at my houses any time I want. I am in control of them and decide what to do with them. I like that.

There are a lot of ways to buy Real Estate. Two are the most basic. The first is what I call 'Turn Key'. Buy the building the same way you would buy your own home—make a down payment and finance the rest with a mortgage and note. The second way is to buy wholesale, remodel and sell for profit or rent and refinance.

In a slow market buying turn key is the preferable way, especially if you are buying a multi-unit rental property. The banks prefer it this way also. They like the fact that the

property doesn't have to or hasn't had to go through extensive remodeling. They like the fact that it is already in use and is making an income. You can also get more favorable rates and terms this way.

I know it's not very glamorous and it runs counter to what you've seen on late night television. Yes, you can buy real estate without using any of your own money but it is more expensive that way. It's harder to get a good cash flow. The banks certainly don't like it and when they're offering loans at ridiculously low rates, why not take advantage of it? Plus it's easier to have a positive cash flow when you buy the traditional way and you don't have to make crappy offers on crappy properties.

II The Goal

Financial Independence, Financial Freedom

Everyone one of us, including you, wants to be financially independent. You think you know what you want but I can tell you that what you need is to be financially free.

This book will give you a powerful tool in your arsenal to achieve financial freedom and independence in less time. Let's get started.

III Money
How to Deploy it

I am a big fan of using cash to buy real estate. It gives you more advantages than any other method of acquiring property. I know all of the theorists who insist that you should never touch principal. If you put things into context, what they are referring to is using principal for non-investment purposes.

Deploying investment capital to build wealth and income is a good thing not a bad thing. Deploying investment capital to purchase doo-dads for personal use is foolish. For the purpose of our discussion I want to review the different ways to keep and use money in the various forms of investments.

Savings – This is probably the least effective way to preserve capital. It is however one of the safest. Funds in a savings account are relatively liquid which means you can access them without penalty. Some banks will allow you to withdraw funds one to three times per month. Savings accounts can be a good way to keep an emergency fund on hand. If you have funds in excess of emergency fund requirements then you can safely access this for the purpose of buying investment real estate.

CDs – CDs may pay a little more interest than savings accounts, but not much. They do however usually have early withdrawal penalties. Sometimes you simply forfeit any

interest you may have earned. CDs may have a place in some people's lives but not mine. Back in the day when I was a young banker we had CDs that paid 15% and the terms were as long as 10 years. You can bet your bottom dollar that I would gladly own some of those CDs now. Unfortunately, owning a CD now will likely cost you money instead of making it. If you have money held in CDs you may want to consider using it to purchase income producing real estate instead.

Mutual Funds – There are literally thousands of mutual funds, hundreds of mutual fund companies, and dozens of categories of fund types. I like no-load growth stock mutual funds to hold money long-term, over and above my real estate holdings. I like money market funds for short-term holdings and especially for storing money that I will use to buy more real estate. Bond funds are made up of short-term, medium-term, and long-term bond holdings. You have to know what you're doing relative to the interest rate environment to invest wisely in bonds funds. Short-term bond funds are the least risky but they still do have risks. I generally would not use even short-term bond funds to hold money that I will eventually use for purchasing real estate.

Stocks – Investing directly in stocks can truly be risky business. Even seasoned professionals get smoked when gambling in the stock market. This is not the place to keep money that you intend to use later to buy real estate. If you are enamored by the idea of striking it rich in the stock market then God bless you and please get a lot of education and tread gingerly into those shark-infested waters. If you really want to be in stocks why not consider a mutual fund

that invests in stocks? Always look at the management of the fund and the manager's track record, not just the track record of the fund itself. Also, look at their performance in up and down markets. Good luck!

Bonds – The basic rule with bonds is that you buy when rates are high and sell when rates are low. This is because people will pay a premium for high yielding bonds when rates are low. Plus while you own the bond you can make a decent return. If you buy high grade bonds then your risk is reduced along with your rate of return. The bottom line here is—how do you know when you are in a high rate environment and a low rate environment? Even the pros have a hard time with market timing. I do not suggest that you use bond funds for holding money that you intend to use for purchasing Real Estate.

Real Estate – Ah, real estate. Finally! This is what I am writing this book for. I love real estate, not because I love the business of being a real estate investor but rather because of what owning a lot of real estate has allowed me to do. I used to love real estate for the investing as well, but after I owned a lot of it for a long time it kind of started losing its luster. I still own investment real estate—don't get me wrong. But what I did during my evolution as a business person was to start other businesses from the profits of owning investment real estate. I opened a real estate brokerage business, a real estate settlement business, a rental property management business and even an appraisal business. I had plans to start a mortgage brokerage business when the Big Recession hit and all the rules changed… that would have put me at a horrible disadvantage. So, literally

within hours of signing documents to launch the business I pulled the plug based on my intuition. It turns out my intuition was correct. I watched as about one-third of mortgage brokers evaporated almost overnight.

The point I want to get across to you is that while you can make money in real estate, owning real estate can make the dream of starting another business in an area of life that you enjoy much more realistic. I know people who started travel agencies, bought horse farms and stable horses, offer riding lessons, and basically pursue their passion for the equine life. I know people who moved closer to the water and started standup paddle board shops, surf shops, fishing shops and charter businesses. The possibilities are endless. If you day dream of faraway places and fun activities, owning real estate can help make those dreams a reality. If you are in a W-2, nine-to-five job, it would be highly unlikely you could ever realize many of your dreams.

I love the dreamers of the world. If it weren't for dreamers like the Wright brothers we wouldn't travel by airplane, we wouldn't use a mouse to control a computer, we wouldn't talk on cell phones, we wouldn't drive cars, we wouldn't vacation in faraway places that would never have been discovered by courageous explorers, and we wouldn't have a country created so that all men could live freely as equals in their pursuit of wealth and happiness.

I say dream. Make it a daily practice to spend at least a half-hour dreaming—or what I call constructive day dreaming. The possibilities are endless.

I believe God wants us to be happy not sad, wealthy not poor, healthy not sick. I believe it is our duty to fulfill the purpose that He has intended for our lives, which is to bring others closer to Him. What better way to do this than to be our highest and best selves, living examples of how joyful life can be when we make the absolute most of the precious gift of life He has given us.

When you own investment real estate you are providing a good service to your fellow man. You are helping yourself by helping others first. And herein lies one of the greatest truths of success… and that is, if you help enough other people get what they want then you will get plenty of what you want. You can thank Zig Ziglar for that pearl of wisdom which is actually scriptural in its origin.

Now for one of the other pearls of wisdom, I am going to encourage you to not really *own* real estate. That's right. You will *control* it without actually owning it. It is far better to own companies than to own real estate. Read on.

IV LLC
Limited Liability Company

Note: I am not a lawyer. I recommend that you seek the advice of a competent lawyer when deciding on which entity to use when growing your real estate empire.

What is the best way to hold Real Estate? I have purchased a lot of properties and most of them have been held in LLCs. I have had as many as 20 properties in my own name, too. I have clients who hold property in S corporations. I have clients who hold property in trusts. I have clients who hold property in partnerships—limited and general.

The two easiest ways to hold property are in your own name and in an LLC. Liability to you personally is limited because the underlying asset, your rental property, is held under a tax identification number that is separate and unique from your social security number. So, other people and entities including government entities, particularly the courts, see an LLC as another individual. It is taxed separately at the state level and any tax burden can be passed through to you personally at the federal level. Then you would include any income or loss of the separate LLC on your personal income tax statement.

V Tax Benefits

Note: I am not a lawyer or an accountant who specializes in taxes. I recommend that you seek the advice of a competent lawyer and or accountant when deciding on which entity to use and how you pay your taxes.

Passive Income. One of the biggest benefits of investing in real estate is that the income derived from it is considered passive income. What that means is that it is the least taxed income. The income you receive from being an employee, sometimes referred to as W-2 income is the most heavily taxed income. If you are a W-2 employee, take out your last pay stub and look very closely. You will see that the first to get paid out of "your" paycheck is the federal government. The second to get paid is the state government and the third to get paid is the local government. You may have other deductions for insurance and retirement. The last to be paid from your paycheck is YOU! You have no control over your pay when you are an employee. Man, I bet that really must suck. There is really good news though. Passive income, like your rent, is paid directly to you and nothing is deducted at that time. You get to deduct the cost of all the expenses associated with your rental property before you claim your net revenue as income on your tax return—and then and only then is it taxed for federal, state and local taxes. And to

sweeten the pot, you don't pay social security or any other tax on this income, just income tax.

Pass-Through Entity Income: One of the great benefits of using an entity such as an LLC to hold your rental property is that all profit and losses can be passed through the entity and on to you personally without the liability. This makes it easier to prepare and file tax returns. Not only that, you may have some costs of operating your LLC, and you can deduct those costs from your net operating income before claiming any income from your rental properties on your personal tax return. Some of these costs just may be in the form of retirement savings, in a plan that you choose and design. You may even have your LLC pay yourself rent if you run your holding company out of one of your rental properties.

When You Pay Taxes: The bottom line is that you have much more control over when you pay taxes when you earn passive and pass-through income. This is at least some reprieve from a government that is now engaged in an all-out mission to take from the rich and give to the poor until the rich are rich no more.

VI Financing
Just Say "No" To Debt – Use Cash

There are several ways to purchase real estate. If you have ever read any of Carlton Sheets' material then you know that there are at least 30+ ways to buy real estate. Some are very good and some are not so good depending upon your circumstances.

The bottom line is that the more money you borrow to buy real estate the more you will be at risk. The absolute best way to buy real estate is to use cash, pure cash baby. Oh, I can hear millions of you now shouting, "Never use your own money!" Yeah, I hear you. The problem with all the no-money-down gurus is that they never mention what happens when life happens. Oh, that would be too scary. The truth is that people die, people have babies, people get married, people get divorced. People get new jobs. People lose jobs. It happens. It's not a matter of "if" but "when". So you have to ask yourself what will happen to your highly leveraged empire if the economy turns sour. What if there is a real estate bust like what happened in 2008-2010? What happens if the pool of decent renters is raided by lenders who need to loan money and so they relax their standards like they did beginning in the 1990s with the Clinton administration and continued until 2007? I'll tell you what happens. All of your

good renters become homeowners and you get left with the dregs of society. That's what happens and that more than anything else will cripple your real estate empire. And if it doesn't, then it will certainly put you in a horrible position when the economy spins into a recession and your properties lose a lot of value. Then you're stuck with all these bad tenants wrecking your properties and not paying you their rent. Then you can't get another loan to keep things afloat because the banks won't lend you money anymore. Get the picture?

Besides, I can show you mathematically how you can build a much stronger, less risky and more profitable real estate empire by using all cash and only cash. If you graph it out it will look like it takes a while to get going and it will. However, when your mega cash cow starts to feed itself, look out. You will be a juggernaut that can't be stopped. You will absolutely make a lot of money. No one can stop you. You will owe no one. And better yet, the next time there is a recession you will be the one everyone is running to, to buy their properties. You will be King of the world!! GWARRRRRRRR!!! Who's Your Daddy Now ??? Go ahead. Take your best shot, you no-money-down gurus.

Now having said that, I know that because you can borrow money now at around 4%, a lot of you will do it. Go ahead. I did too. I can promise you though that in the end you will learn to regret it and you will see that it is taking you longer to build your massive money-producing monster. If you do borrow, promise me that you will put down at least 20%. I recommend 25% or more. This way you will get the best rates and terms. Remember, all you borrowers out there, to

keep your ratios in check. Never owe cumulatively more than 2/3 of what you own and never have debt payments more than 1/3 of your gross rents. If you manage to these ratios the banks will always love you, and unless you are a complete moron you should always be making money.

Before borrowing from commercial banks to buy real estate, if you have a 401K you should check with your employer because you may be able to borrow against your 401k an amount up to 50% of what you have in your 401K. It gets even better. You aren't borrowing from anyone else. You are borrowing from YOU Inc.! And guess what? The interest you pay on what you borrow is paid to YOU too! And guess what else? It isn't taxed either. You know, maybe our government isn't so bad after all. In fact I bet there is one good guy in our government who was an entrepreneur at one time and saw this amazing opportunity to do something really good for a lot of people. The cost of borrowing from a 401K is usually a small administration fee. No application fees. No appraisal fees. No junk fees of any kind.

If you are just starting out and don't have a lot of cash lying around, like us seasoned veterans, do take heart. You would be amazed at how easy it is to form a partnership with an individual who does have money lying around. Sometimes a veteran real estate investor will partner with one or more newbies to teach them the ropes—and more importantly to have one or more bird dogs out there doing the hunting.

When they find a suitable prey the investor puts up the money and he and his protégé split the profits. I have seen this work with doctors also. In fact it could work with anyone who has more time than money.

Another way to begin acquiring real estate when you are starting out and don't have a lot of cash is to borrow from a private investor. They usually charge more in interest and fees than a bank but they are also more open-minded and creative. They usually understand the real estate investing game pretty well and aren't interested in forming partnerships or teaching newbies. They will often finance up to 100%. They may also loan you money that you secure with other property you have.

They're really not that hard to find either. Some mortgage bankers and brokers keep private investors in their back pockets to keep a deal moving forward rather than watch it die an agonizing death where nobody gets paid. Private investors can be tough. I have used them. I do not recommend it although I know some of you will have to try because you just have to have that sweet deal. I get it. I really do. I ended up being OK but it did cost me a lot of interest payments.

Still another way to acquire properties when you don't have cash is to use hard money lenders. They call them hard money lenders for a reason. It is a hard way to do business. They charge exorbitant interest rates and exorbitant fees to get the money. They usually have a very quick term, sometimes referred to as a balloon payment. In other words, you have three to six months' use of their money paying interest only, then at the end of the three- or six-month term you have to pay back all of the principle amount that you borrowed. If you can't pay it back they will take your property. And they will. Trust me. Sometimes people use this method to buy a rental property that needs work. They

will borrow enough money from the hard money lender to buy the property and rehab it so that they can then rent it out. Then they go to a commercial bank to get a traditional mortgage on the property to pay back the hard money lender and even have excess cash from the traditional loan to line their pockets.

For years when money was easy, I would pay cash for a property and for the remodeling, then borrow from a bank in the form of a traditional first mortgage with easy terms and a low interest rate. This way I would continue to build my rental property empire while at the same time increase the amount of capital I had to work with. Keep in mind that it all has to be paid back and if you are a borrower you have to keep your ratios in check or you will stop growing and wind up borrowing from private investors or worse yet hard money lenders.

In the end, Cash is King. If you use any other method to acquire real estate then you are putting yourself at risk—and sometimes grave risk. Life happens and when it does remember the golden rule: "The man with the Gold makes the rules." If you don't owe the banks and other people, you get to make the rules. If you owe the banks and other people, *they* make the rules. And they aren't as nice as you. Don't be a sucker and fall for all that debt crap. Be a man and pay cash.

VII The Right Kind of Realtor

The Investor Realtor. In the world of Real Estate Investing there is no other kind. If you are using your neighbor's son then you are a loser and you will pay a dreadful price. Every real estate agent on the planet will tell you that he or she is the right agent for you and they are the best at helping you. Make sure you ask them how much real estate they own. How many other investors are they working with? If they have so many other investors then how do they have the time to help you? Keep asking questions. Eventually, they will run out of crap to tell you.

I originally got my real estate license because I was sick and tired of realtors who didn't know what they were doing in the world of real estate. The rules of engagement for real estate investing are 180 degrees different from the rules of engagement for the owner-occupied real estate business.

My neighbor was my first realtor. I had to fire her and it pissed off the whole neighborhood. She wouldn't, or couldn't, learn what she needed me to teach her. So I fired her and got my license. I eventually developed a system to teach other realtors how to work with investors. Trust me. It makes a huge difference. Having a traditional real estate agent try to help you with your real estate investing is like having a motorcycle mechanic work on your airplane.

If you invest in real estate the way I am teaching you to, then you will one day own an airplane. Now imagine yourself getting ready to take your plane down to Florida to play golf when you just find out that your regular mechanic is off sick. The airport has a motorcycle mechanic, who happens to be the air traffic controller's nephew's neighbor, who just happens to be a recent graduate of the Acme school of motorcycle mechanics because he got laid off from his last job. How does that make you feel?

Well, remember a lot of real estate agents are real estate agents because they got laid off from their last job—and getting their real estate license took only 60 hours and cost only a few hundred bucks. Does it sound like they are highly qualified to help you invest your precious hard-earned money? I didn't think so. Don't be stupid. If you use one of these imbeciles you will end up losing your money and wishing you were going down in the plane that the bozo motorcycle mechanic worked on. By the way, I have no problem with motorcycle mechanics in general, only the ones who are foolish enough to work on an airplane.

There are a few things you can do to enhance your relationship with your real estate agent. One of them is to sign a Buyers Agency Agreement. I have taken and seen material from other real estate gurus who say you should have as many real estate agents working for you as possible. Trust me, they don't understand agency from a legal point of view, an ethical point of view, or a business point of view. In this business you need real players on your team. A good real estate agent who truly understands the rules of engagement when it comes to real estate investing is worth

their weight in gold. You wouldn't have multiple tax accountants prepare your taxes. You wouldn't have multiple lenders making you the same loan. You wouldn't have multiple closing companies working on the same file, so why would you have multiple real estate agents sending you properties from the same pool of properties? They all are pulling properties from the same database and they all have the same tools and access. Using multiple agents is only going to piss them off. They won't stick around and they certainly won't give you're their best when they don't have an exclusive agreement with you. Get real. If you were working for commission and a client was using multiple real estate agents how much energy would you put into that effort with little to no assurance of getting paid?

More importantly, you don't want traditional real estate agents working for you anyway. You want an investor/agent who is an investor and/or has a proven track record of helping other investors profitably grow their portfolios using the rules of engagement like what I teach when I teach investors how to invest and real estate agents how to correctly work with investors.

The other important factor in using a buyer's agency agreement is that the agreement affords you certain rights and requires the real estate agent to assume certain responsibilities that would otherwise not be in place and in the end be to your disadvantage.

Another important piece of information is having Proof of Funds. This tells your real estate agent that you are qualified, and it also gives your real estate agent leverage and power when working with other real estate agents. Proof of Funds

can either be a bank statement showing that you have the available cash to make a purchase or a lender pre-qualification, lender pre-approval for a loan, or a Line of Credit statement showing that you have the funds ready for you to borrow.

Think military. Think Sports. Think Family. Think Friends. Think profitable business. A good Real Agent is a critical member of your team. I strongly encourage you to treat them that way.

VIII Locating Properties Areas to Target

When you go out on your hunt for rental property you must keep things in perspective. First of all, you are not going to live there, your tenants are. What you perceive as being acceptable may or may not be acceptable to a prospective tenant and vice versa. As a result, if you find yourself saying, "I could never live here, let's go," then you are already in trouble.

What you see as being substandard to you may be perfectly acceptable to someone else. Besides, who are you to judge or determine where or how someone else should live? Get over it, get off your soap box and get your head in the real estate investment game.

The sooner you come to grips with this, the sooner you can start making money. Now you can go out and identify the good rental areas. They may or may not be in areas with strong home ownership.

A good rental area may not be an area where you would personally live, but it may have some of the same characteristics such as the proximity to schools, shopping, bus service, parks, major highways, hospitals, police stations and fire houses. Generally speaking, it is good to be near schools and parks. It is also good to be close by shopping and transportation. While you don't want to be miles and miles away from hospitals, police, and fire protection, you also don't want to be only a block away either. You do not

want to be too close to industrial sites, directly behind shopping centers, or storage facilities.

Once you have narrowed down the target areas based on the criteria we just discussed you can start to look at the characteristics within the neighborhood. I suggest you focus on neighborhoods that have wide enough streets for parking on both sides and easy travel for cars in both directions.

Are the streets tree lined? Are the neighbors taking at least basic care of their yards? You don't want to be in a neighborhood where neighbors leave all of their crap on the front porch and the driveway. You don't want to be in a neighborhood where neighbors aren't cutting their grass or trimming their bushes. You want your neighbors in your rental neighborhood to keep their yards free of clutter including little Jonny's plastic forts, bicycles and skateboards and Rover's stinking piles of crap.

The worst scenario is the boarded-up house. Don't buy in this neighborhood. Beyond the previous description is what is referred to as the 'war zone'. Stay out of the war zone. People get shot in the war zone. There is no such thing as a good house in a bad neighborhood. It sucks. Everyone near a big city knows of elderly people whose neighborhood has gone downhill after the many decades that they lived there. The elderly couple's house may still look cute but right next door, the local crack dealer is creating hell on earth.

It happens in every city. Have faith though. There are many examples of older neighborhoods that have been brought back to life. The technical term is 'gentrification'. It is a good

thing. It is beautiful and wonderful to see. I have seen it and been part of it.

How to Find the Right Neighborhood

Focus on where you will get the best return on Investment (ROI).

By now, I'm sure you have questions and maybe even concerns. Fear not. Millions of others have walked your path before. Here is a brief explanation of the different socio-economic classes of neighborhoods. You may be surprised to know that there are rentals in all of these areas including luxury high end.

High-End neighborhoods are not where you want to be in the rental business if you want a decent return on investment (ROI). The reason is that you will pay top dollar for these properties, yet the rents you can command do not keep pace with the prices of these properties. In other words, while you can get $1,000 per month rent for a $100,000 house you should not expect to get $10,000 per month rent for a $1,000,000 house. In fact you may only get $5,000 per month for a million dollar house. You may think that you will get much better tenants for a million dollar house but don't bet on it. There are people who don't pay their $5,000 rent just like there are people who don't pay their $1,000 or $500 rent. I know of cases personally where this has happened.

Middle-class homes may be tempting and they will provide a better ROI than high-end homes. There are some areas of

the country where middle-class houses work well for rentals. These areas usually have a low median home price. You can make these work because the average rent for the area is high relative to the average home price. If you are in one of these areas, middle-class homes may be your thing. Generally speaking, it will not be your thing, though. You can do better with a house that rides the fence between middle and lower-class. You can call it lower-middle-class or upper-lower-class. Sounds crazy, huh? Read on.

Low-income neighborhoods usually work well as rental neighborhoods. Notice I did not say 'bad neighborhood', I said 'lower class'. What I mean by that is lower on the socio-economic scale. The people living in these neighborhoods may not be as financially well off as you or me, but it doesn't mean they are bad people. There are plenty of economically poor folks who are good people—and there are plenty of wealthy people who are bad characters. Your job, through screening, is to determine who can afford to rent your property, then to determine whether they are good or bad—their character.

Within the broad range of lower-class neighborhoods there are at least three layers. I suggest staying in the upper layer. You can venture into the middle layer if you like, and when you become more experienced you can even place a bet that a middle layer is moving up to the upper layer and get in at the front end of an improving neighborhood.

Keep this in your back pocket for now, but a favorite strategy of mine is to turn a neighborhood on my own or with other investors. What you do is buy as much inventory as you can in a neighborhood and improve the houses enough to move

the whole neighborhood into the next layer. You can even go as far as convincing the city to put a little money into the pot and put in new sidewalks and street lights. Ask and you shall receive! This is an advanced strategy with risks so you need to have some experience and connections.

The upper low-end neighborhoods are where you will find the greatest ROI. You will have to be thorough in your screening and select the neighborhoods where people are taking care of the yards, children and dogs. You may not want to live there but you are not going to live there. Your tenants will live there, because they want to. They may not however want to live in a war zone.

War zones are usually identified by your intuition telling you to RUN!! Trust your intuition. Trust your powers of observation, too. If you see cars up on blocks or homes up on blocks, run. If you see windows and doors boarded up, run. If it is a bright sunny day and you don't see a living soul around, run. If you hear pop, pop, pop, run. Do I need to say more?

Most of what has been described in the previous paragraphs may have sounded like it was directed at single-family homes. However, all of it applies to two-, three- and four-unit properties as well. It also applies to larger properties. At the end of the day you need to get to know your neighborhoods. You can change a house, but you can't change where it is.

IX Target Properties

As of today's date, November 2013, we are currently in a very strange real estate environment. Markets across the country are in various stages of economic recovery. Some markets have almost no inventory while others still have too much inventory. Pittsburgh, Pennsylvania, has pretty much gone through even its bank-owned inventory. Five years ago I could find 3,000 properties in foreclosure in the Western Pennsylvania MLS system. Today I can find only maybe 300. In Hampton Roads, Virginia, arm's length inventory is a little tight but there are still a lot of REOs to churn through—and even more short sales. In Southern California and Phoenix, Arizona, properties are flying off the shelf and values are climbing into the double digits.

If you are a seasoned investor—or you are on your way to becoming one—you really don't care so much what the inventory is like as much as finding the best properties at the best prices relative to the market. Within that context, your rules of engagement don't change. You just may be hitting your target more frequently or less frequently depending on inventory.

Under no circumstances do you change your criteria or rules of engagement.

I have always done well with REO and estate properties. I have bought properties that were neither and have done well. At this point I should describe the pros and cons of the different types of properties.

REO – REO is the accounting term banks use to categorize properties that they have taken back in foreclosure. Five to ten years ago you had your choice of REO properties, because there were so many. Banks would take almost any price because they simply had to get rid of inventory. Some banks have and still do try to sell REOs themselves through an internal department but the vast majority of banks hire a real estate broker to list and sell their REO inventory. I was one of these brokers. Of course, I was an investor first but after I got my real estate license and eventually formed my own brokerage company, Win Realty Advisors, I was a good candidate for these banks to hire. I had 18 years' experience in banking so I spoke their language and I had more than two decades of experience investing in real estate—so I knew how to sell a lot of REO properties to a lot of people. I sold more properties in one year as an individual agent (no team, no support) than anybody else. I broke all kinds of records and I didn't miss time with my family, or even work on Sundays. I created a system to use that I actually used for myself as an investor. I simply applied it to the brokerage and it worked. In fact, I went on to teach a lot of real estate agents how to use this system. I made a lot of money for myself, other investors, other real estate agents and banks in the world of buying and selling REOs. There were so many of them I literally got tired of all those REOs. So, as the market evolved and our moronic government tried to step in

and save the day, short sales became the mainstay of a lot of investors and real estate agents.

Short Sale – A short sale is laymen for properties that are technically in default but have not yet gone through foreclosure. As of this writing there are still a lot of short sale properties in inventory. More in some areas, less in others. When our government twisted the bankers' collective arms to not foreclose as much on so many homes, the answer was the short sale. If you were involved on the front end of the short sale business, then you know how frustrating and agonizing it was to do one of these deals. A large percentage of them took more than a year to close. In spite of the government's interference, banks thought up all kinds of road blocks to successful short sale transactions. The banks were notorious for changing file handlers midstream in a transaction and everybody involved had to start all over again. This happened to almost every single transaction. On many it happened on more than one occasion during its lifecycle. It was extremely frustrating. Banks would also, at the last minute, force real estate agents to take less on their commission before the bank would cooperate on the sale—even when the agent had a contractual agreement with the owner of the house for a specific percentage. The banks, in all of their unethical glory, would go as far as say that if the agent didn't cooperate they would blame the failed sale on the agent for being greedy. Many distressed homeowners gave up during the short sale process because it was easier to just walk away and allow the foreclosure to happen. After a few years of pain and agony the banks finally began to improve on their short sale processing. It's far from perfect

but it is better. What is usually a little bit easier than short sales, but sometimes frustrating, is an estate sale.

Estate sales – Estate sales come about usually as the result of the homeowner dying and leaving real property to their heirs. If there isn't a spouse still alive then the ownership usually passes to sibling children. More often than not the sibling children at first see dollar signs and are hopeful for a windfall. The reality is that the home they inherited is usually old and in need of a variety of repairs, systems upgrades and just downright remodeling. The siblings get discouraged because the house doesn't sell for their unrealistically high-priced expectations, and are now suffering through repeated price drops. They begin to argue and so no one wants to cooperate in forking over money to improve Mom and Dad's house and their childhood home. They were supposed to get a lot of money after all, not have to fork it over. So, here comes the investor dressed in shiny amour and galloping onto the scene on a handsome white horse. Yeah, right. The sons and daughters of the deceased parent have been forewarned about us. Trust me. Most realtors don't understand us (even though they say they do) and so they have painted a not-so-appealing picture of us to their clients. All this does is hinder progress. To an investor, this is a business transaction, nothing personal. The bottom line is that the current owners have a problem and the investor has the solution. If the projected return on investment isn't suitable to the investor, he/she will move on. He/she is taking on a lot of risk and requires a profit that compensates them for spending their time, energy and money on the project—and of course assuming the risks that go along with this type of sale. At the end of the day, if you

as the investor can put up with a lot of emotional baggage from the grown children who are tasked with liquidating their parents' and their childhood home, then you can usually make a tidy profit on these properties. These people are "don't wanters" and we are helping them offload what they don't want. Another type of "don't wanter" is the retiring real estate investor.

Retiring Investors – At the end of every real estate investing career, successful or not, is a real estate investor who now wants to liquidate his or her properties. You can always tell the successful real estate investors because they have held their properties through thick and thin, usually 10 or more years. An old advisor, Gerhard Flugfelder, once told me that every investor must live by the rule of seven. This doesn't mean that the investor must hold their property for seven years. What it means is that, on average, every investment property will hit a slump an average of every seven years. Please note I said average. Another successful investor told me that every investor has to get through their first 1 to 3 years without a disaster. If you read the earlier chapters, you know about the massive flooding in 2004. This happened in my sixth year. It was very trying and taxing but I didn't give up, partly because I'd had six years to build up my anxiety tolerance muscle. In any case, if an investor sells a property after just a few short years of ownership it is usually because they hit their bad year and didn't want to stick around for the better days ahead. Of course there are other circumstances, like death and divorce, where an investor is forced against their will to sell. I have experienced this myself. If this happens to you, in the case of divorce, you will find out who your friends and allies are very quickly. Sometimes other

investors sell so that they can get the most capital possible for a larger purpose. No matter how you slice it, experienced investors will one day want to sell. They know what their properties are worth. They know what other investors look for. So, they generally price their properties so that they will look appealing to other investors. Investors who do sell their properties usually sell them "turn key."

Turn Key – Turn key properties are properties that are already rented out. They are in service so they are usually up to code, safe and reliable. They may not look very pretty but they are usually fundamentally in sound shape. I started making my fortune buying turn key properties. They had solid foundations, separate gas and electric (or they were easy to separate, in the case of multi-units), and the main systems—heating, hot water, electrical, roofing, siding and windows were in good enough shape and not in any immediate danger of needing to be replaced. However, these properties may be in need of cosmetic care. This is what we call 'lipstick and rouge', i.e. paint and carpet. I can find these properties in every town on the planet. I can usually strike a good deal with the owner because most consumers don't believe or agree that if they put a little money into the property that it would sell much more easily and for more money. They don't understand the psychology behind perception and value. When a traditional consumer walks into a house that needs a little TLC—something that may cost you or I as investors $1,000—will be perceived by the traditional consumer as costing $2,000. Worse yet, the consumer begins to look for (and see) other issues requiring more money—all of which results in them walking away or making unreasonably low offers. On the other hand, if you

spend a little money and put a little TLC into a home for sale, essentially eliminating obstacles to a purchase, the traditional consumer will think more highly of the home and may perceive even more value than might really be present, resulting in a nice offer. The latter approach also results in a home being sold more quickly. The point is that I can use this psychology to my advantage when buying or selling a home whether for myself or representing another investor. I have become pretty comfortable at guestimating the cost of lipstick and rouge. I have also become comfortable at guestimating the cost of rehabbing a property. This becomes valuable when purchasing a property wholesale, well below the values in the surrounding area, with the intention of rehabbing and then refinancing (if I choose to do so) after I rent the property out.

Buy Low, Rehab, Rent, Refi – I don't necessarily advocate this approach for beginning investors. It requires the learning of an entirely new set of skills and disciplines, and new investors already have their hands full learning the skills and disciplines of running a real estate rental business. However, whether you are starting out and have watched the late night TV real estate gurus telling you that anybody can do this or you have been to the front lines a few times, you will eventually be tempted to buy low, rehab, rent and refinance. I have done many dozens of these myself and I made a lot of money doing it. Remember though that I had at least fifteen turn key purchases under my belt before I moved up the next rung of the real estate investing ladder.

When you buy low with the intention of rehabbing before putting a property into service and renting it out, you have to

master the skill of estimating the rehab project. Even the pro's don't always get this right. This takes practice and is usually best accomplished when accompanying a seasoned contractor in the process—at least for the first few. The good news is that there is a method to accomplishing this. You have to become the master of analyzing properties.

X Analyzing Properties

He who masters the discipline of proper property analysis will become the master of profit.

The first and more critical analysis to perform is the financial analysis. A good majority of this can be accomplished on your computer. It also all starts before you get in your car or set foot on a property.

There are certain formulas and ratios that you must learn and they are easy. The first ratio is that when you add the cost of purchasing a property to the cost of rehabbing a property, the total of these two costs must not exceed 70% of the After Repair Value (ARV) of the subject property. This is the minimum acceptable ratio. The less money you have in purchase and rehab costs relative to ARV the better.

You may think from time to time that you can fudge a little on this ratio to get a deal done. You may even get away with it once, twice, or possibly even three times. The problem is that you will be developing a bad habit and eventually you will pay the price for uncontrolled greed. It is far more difficult to correct a bad habit than it is to learn a new good habit. Don't be greedy and don't be foolish. Let history be your teacher. Look to the successes of others who have gone before you. Follow you intuition, your spirit, and not your ego.

The ego plays nasty tricks on us. Be the master of your ego. Learn to listen to and develop your intuition. Learn the methods properly and you will be successful. Let your ego control your behavior and you will never be fulfilled.

This isn't just me teaching and preaching. This is natural law. This is God's law. I'm making a big deal of this because it's precisely where I see many investors fall by the wayside, never to be seen again. Only the disciplined and those who focus on and live by the truth and act with wisdom and courage succeed and achieve fulfillment in this business. Now let's get back to business and learn how to perform a proper financial analysis.

Financial Analysis

The following is an example of a property I owned and sold to a fellow investor. I actually sold it for $65,000 so it was an even better deal. Let's take a look and break it down.

3834 Brighton

Large up and down duplex with new and separate G + E and new furnaces. Tenants pay G + E, I pay water. Residential neighborhood. List for $79,900.

Income: $1150/mo (1st fl 1BR = $450, 2nd fl + 3rd fl 3BR = $625, garage = $75) = $13,800/yr

Taxes: $695.96/yr

Insurance: $322/yr

Water: $1388.50/yr (includes sewage and garbage)

Maint/repair: $600/yr

Net Operating Income: $899.46/mo = $10,793.54/yr

Purchase price: $70,000, Down payment: $14,000

Loan: $56,000 over 20 yrs @ 5 %

Debt Service: $369.58/mo

Cash return: $529.88/mo = $6358.56/yr

Cash on Cash return rate = 45%, Cap Rate = 15.4%

Notice that I provide the gross income first. Then I give the basic routine expenses of the property on an annual basis. Then I provide the net operating income (NOI).

This format follows closely the IRS Schedule E format. This is for a very good reason. It is a pretty good format to use when analyzing properties and it is also in the format tax accountants and the IRS use.

After the NOI, I provide a projected financing scenario based on the current lending environment. The terms may change with the economy but the mathematics are the same. This gives a prospective investor a pretty good picture of what to expect.

It also allows me to project income on a cash basis and the cash on cash ratio. The cash on cash ratio is the cash income after all expenses plus debt service (loan payment of principle and interest) divided by the capital outlay to purchase the property (down payment or out of pocket cost to acquire the property).

This ratio is what you can use to compare it to returns on other types of investments like stocks and bonds. This is one of the most important ratios to look at when analyzing a property.

The next important ratio is the capitalization (CAP) rate. The cap rate is the NOI divided by the total purchase price (down payment plus principle amount of any loan) or sales price of the property.

In this ratio, debt service is not factored in. So, the NOI is used before debt service is paid for.

The CAP rate is the industry standard for evaluating a property particularly from a lender's perspective. It is used to compare properties against each other.

CAP rate also reflects the relative risk of a property. So a property that has a high CAP rate may be in a less desirable neighborhood, and naturally a low cap rate may reflect a property in a good neighborhood.

The CAP rate is an inverse ratio. In other words, the lower the cap rate the more expensive the property and the higher the CAP rate the less expensive the property.

I suggest you get used to using both ratios. I personally put more emphasis on the cash on cash return because cash is king and I want to know how much is coming in and how much is going out.

Here is a quick resource to assist you with calculations: http://www.rentalpropertyreporter.com/resource-center/investment-property-analyzer/

Here is another way to view cash flow analysis:

CASH FLOW ANALYSIS

Gross Income:

Est. Annual Gross Income	_____	
Other Income	_____	
Total Gross Income	_____	
Less Vacancy Allowance		_____
Effective Gross Income		_____

Expenses:

Taxes	_____	
Insurance	_____	
Water/Sewer	_____	
Garbage	_____	
Electricity	_____	
Licenses	_____	
Advertising	_____	
Supplies	_____	
Maintenance	_____	
Lawn	_____	
Snow Removal	_____	
Pest Control	_____	
Management (offsite)	_____	
Management (onsite)	_____	
Accounting/Legal	_____	
Miscellaneous	_____	
Gas	_____	
Telephone	_____	
Pool	_____	
Elevator	_____	
Replacement Budget	_____	
Total Expenses		_____
Net Operating Income		_____

Debt Service:

1st Mortgage	_____	
2nd Mortgage	_____	
3rd Mortgage	_____	
Total Debt Service		_____

CASH FLOW: _____

TERMS

Gross Rent: The highest amount you can get monthly from the property.

Expenses: The total amount of necessary payments for the property.

Cash flow: The amount of money you pocket after all expenses and mortgage payments are paid from the rent.

If I like the return, next I determine if I like the property itself from a physical perspective.

Physical Analysis – Once you have identified properties priced at or below market value for the neighborhoods they are in—and with negotiation you can get the prices down even further (more on this later)—it is time to do the physical inspection (after you do drive-bys) of the property to determine what is needed for rehab and how much it is going to cost.

I am providing a sample rehab analysis sheet for you to use in your efforts. This is by no means to be deemed complete, but it is a start. I am also including a packet of several pages that you should use as you go through a property room by room. You should end up with one sheet per room including bathrooms, kitchens, basements, garages and even the outside. This way you make sure that you greatly reduce your chances of missing something.

Rehab Cost Estimate Worksheet						
ESTIMATED REPAIR COSTS						
DESCRIPTION	√	COST RANGE	ITEM COST	UOM	QTY	ITEM TOT
Appraisal		$200-$325 EA	$250.00	EA		$ -
Power wash Outside (Front/Back)		$1000-$2000	$1,000.00	LOT	2	$2,000.00
Exterior Paint		$2000-$6500	$2,000.00	LOT		$ -
Exterior Siding		$200-$350/SQ	$200.00	SQ		$ -
Roof (3 Ply Flat 10 Year-Shingles)		$200-$300/SQ	$200.00	LOT		$ -
Roof (Silver Coat)		$400 LOT	$400.00	LOT		$ -
Gutters (Front/Back)		$7.00/FT	$7.00	LOT		$ -
Security Doors (Installed)		$300-$600 EA	$300.00	EA	2	$600.00
Storm Doors (Installed)		$200-$250 EA	$200.00	EA	2	$400.00
Interior Doors (Installed)		$125-$175 EA	$125.00	EA	10	$1,250.00
Ceiling Fans		$75-$125 EA	$75.00	EA	5	$375.00
Miniblinds (Installed)		$10 EA	$10.00	EA	25	$250.00
Windows (Double Hung-Installed)		$200 and Up/Window	$200.00	EA		$ -
Windows (Glass Block-Installed)		$200-$300/Window	$200.00	EA	5	$1,000.00
Drywall (Installed)		$27/Sheet	$27.00	Sheet		$ -
Interior Paint (2 Coat)		$200/Room	$200.00	Room	10	$2,000.00
Carpet/Flooring)		$14/Yard INSTL	$14.00	Yard	500	$7,000.00
Ceiling Tiles (Drop Installed)		$1.00/SQ FT INSTL	$1.00	SQ FT	30	$30.00
Kitchen (Complete)		$2500 AND UP	$2,500.00	LOT	1	$2,500.00
Bathroom (Tub Coat)		$900 AND UP	$900.00	LOT	1	$900.00
Bathroom (Including Tub Replace)		$2000 AND UP	$2,000.00	LOT	1	$2,000.00

XI Making Offers

This is where the rubber meets the road.

You have come a long way and now it is time to make the offer. You cannot violate the maximum allowable offer (MAO). If you trespass beyond this line you will be tempting fate and less profit.

The MAO is the most you should offer for a property. MAO is the ARV of the property less your 30% profit margin, then less your rehab costs. So, if you have a property with an ARV of $100k, and subtract the 30% profit margin, that leaves $70k. Then if your rehab costs are $20k you subtract that from $70k to arrive at an ARV of $50k.

I suggest starting out offering less than $50k. Depending on the market I would offer form 5-20% less than the MAO.

In a market where there is a lot of inventory I would offer as much as 20% less than MAO ($40k in this case). In a market of tight inventory I would offer 5% less than the MAO or $47.5k in this case.

ARV is arrived at by looking at comparable sales (comps) from the area. Either you or your realtor needs to be the expert in the area in which you are investing. I cannot emphasize how important this value is. If you project too low you will not get your offer accepted. If you project too high

you risk paying too much for the property. You have to get it right. Period.

The following is a chart you can use in your efforts:

Maximum Allowable Offer (MAO)

		ARV
	-	Less Costs (30%):
	-	Less Repairs:
Equals		MAO

Starting Offer

		MAO
	-	Less 15%
Equals		Starting Offer

TERMS

ARV: After Repair Value. This number is derived from Comps, CMA's, and other appraisal tools.

Costs: These are the costs to get into (and sometimes out of) the property. The table below depicts the cost breakdown. Costs average around 10% and include commissions to Real Estate Agents, carrying costs and closing costs.

Repairs: These are the estimated repairs. Use the supplied Rehab Worksheet to get your initial estimate.

MAO: Maximum Allowable Offer. This is the theoretical maximum you can pay and NOT leave any of your money in the deal after refinancing. This is NOT a requirement to do a deal, however what is acceptable to leave in will be different for everyone depending on your own cash flow and financial ability.

Starting MAO: Get this number by subtracting another 15% from your MAO. This is a decent starting point to begin your negotiations. If you get no counter offers at starting MAO, you will need to increase your initial offer. Market conditions will always impact starting MAO.

If you are uncertain about how to do a proper financial analysis on a rental property, check out "Rental Profits Without the Pain" Training Course.

https://bit.ly/2WCChJG

AND

For a limited time, get 1 month FREE membership
to our Silver community site where you have access to
free tools, contracts, Real Estate Statistics,
Expert Insider Information including personal interviews,
and other books for FREE!

Before going over the forms to use let's look at a plan for you to follow when going on your hunt:

FINANCIAL ANALYSIS FOR RENTALS

This is the exact plan I follow when I make my investments. It is the plan I use when teaching several hundred students, and it is the plan I follow when I teach real estate agents how to work with investors. It is a good plan. Follow it.

1. Establish your investment goals. At this point you need to have available cash or credit to continue.
2. Set up your search criteria on the MLS system.
3. Initially you will get an email with a link to the MLS system. The first property matching the search criteria will be shown with a drop-down box at bottom left allowing you to scan forward to other listings. You will receive the "FULL" listings. This first email will consist of several hundred listings.
4. Next, you will separate the good from the bad. Your objective is to narrow the list down to about 30 properties.
   Compare the list price to the market values for the area. The list price should be below the market value.

   Look at the photograph(s) of the property, the lot size, room sizes, and other characteristics. This will take a few passes. As you narrow the list also use the county website for further research. This is a process that you will get better at with experience.

For multi-units, experience in my market area shows I should get $400-500 for 1-bedroom apartments, $450-650 for 2-bedroom apartments, $600-750 for 3-bedroom apartments.

Tax costs can be obtained from the listing. Insurance should be 0.5% of value annually (on a $100,000 property that would be $500 per year).

I try to keep the price-per-unit to $35,000 or less per 3-bedroom unit, $30,000 or less per 2-bedroom units, and $25,000 or less per 1-bedroom unit.

NOTE: different areas will have vastly different pricing models. Study your area and make adjustments accordingly.

Other variables include the condition of the property (Turn Key versus Rehab).

Trust your instincts and focus on what you think are the best deals. Eliminate the rest. You will get better with experience.

5. The resulting list of 30 or so properties is your drive-by list. Now you will drive by the properties to further narrow your search down to 10-15 properties.
6. At this point you narrow the list down further. This will typically result in 7 final properties.
7. Now you will schedule an appointment to go see the properties.
8. After viewing the properties, you should have a list of 4 or more that you will fill out the MAO, Cash Flow, and Cost Sheets for.
9. Decide which properties to make offers on.
10. Fill out the "Offer to Purchase," and make a photocopy of your hand money check.
11. Now you make the offer(s)!

Forms to Use

Always use Association of Realtors Forms when making offers.

There are plenty of late night gurus out there who preach that you should use a 1-page "Intent to Buy" or some other short form for extending what may or may not be an offer. Don't do this. You are wasting everybody's time including yours.

Aside from the obvious problem of its validity, especially in a court case should that happen, using anything other than pre-approved Association of Realtors sales agreements puts you at a competitive disadvantage. And that is not acceptable. You want every competitive advantage possible.

Just for a moment, step out of your buyer's shoes and step into the seller's shoes. Now imagine you as the seller receiving multiple offers on your property—which often happens with investment real estate. One of the offers is this little 1-page "intent to offer" with no hand money check but rather a promise of a hand money check should you accept its short and incomplete terms. The other offer is on the Association of Realtors Sales Agreement form, completely filled out, all terms identified and there is a hand money check as well. This is a legally binding agreement. Which offer are you going to take more seriously? Exactly!

You will get much further negotiating with a more substantial and official-looking sales agreement than you will with one that looks like maybe you don't care so much. Not only are you in a better negotiating position, you are in a better legal position should trouble arise. With a real

agreement of sale there is far less ambiguity, if any. Also, you can still put in your contingencies for financing (should you choose to do so), inspections, appraisals, verification of income and expense data for the property, or whatever you want to have in your favor.

Always remember that when you are making an offer on a rental property, you should always make the offer contingent on seeing the current owner's financials on the property including all income and expense data for the last three years. No exceptions! The only time you can't do this is when you are buying a foreclosure property.

You also want to see current leases, any contracts the current owner has for services like pest control, property management, laundry, etc. You also want a contingency on seeing every single unit in the building you are buying. This is especially important in case you didn't get to see all the units before you made the offer.

When you are making your offer and there are multiple offers, or there is a "highest and best" scenario, you can use one of my favorite tricks:

Let's say there is a "highest and best" scenario and your intuition tells you to go to full price on the property and the full list price is $99,900. You may be tempted to offer the list price or even $100,000. Go ahead and do that but add an additional amount of say $159. In other words your offer will be $100,159. This way if you are bidding against others and there happens to be another educated investor who sees the merit in offering full price, you will get the property for $159 or less because you outsmarted the competition.

On the first round of negotiating, if you are the only offerer, let them respond to your initial offer. Then don't respond right away. Instead, wait until the last minute to make them sweat a little. Then come back with a counter offer that moves up only a little. You want to create the impression that you want the property but are already at, or very close to, your magic number. You leave the door open a little but not much. You don't want to lose a good deal over pennies. Also, in your counter-offer, make it an unusual number. For example, instead of coming back with $120,000, come back with $118,743.67. They may think you are weird but your real estate agent will explain that you have done your homework down to the penny and you know your business and what the property is worth. If it goes another round then you can waive one of your less important items, like the lawn mower you asked for. I always look for a few odds and ends to throw in my offers that I can then use later as throw-aways to get the deal done at a price acceptable to me.

XII Closing

The Big day is approaching. Another income-producing asset on your balance sheet.

In most states, the buyer of a property gets to choose which company will perform the closing on a real estate transaction. Sometimes a lawyer does the closing and sometimes not. It depends on the state.

The closing (sometimes called the Settlement or Title Company) is essentially assigned the task of transferring ownership of the real property from the current owner to the new owner. Among other things they will have the current owner sign the deed over to the new owner. They will research the current title history of the property and order and purchase title insurance for the new owner.

NEVER, EVER buy a property and not buy title insurance. I used to own a settlement company and I only had one client not buy the title insurance—and two years later when he went to sell the property, Murphy's Law struck. I don't care what anybody tells you, always get title insurance. The closing company also prorates rents and taxes, assigns leases and transfers security deposits.

The most important function has to do with title insurance though. The closing company is actually a title insurance

salesperson. They purchase for you the buyer a title policy from one of the shrinking numbers of title insurance providers.

Either the title insurance company itself will do a title search or the closing company will hire a title searcher to do the search and provide a title report. This report will identify all of the current liens on the property that need to be satisfied before a new title policy will be issued and ownership of the property transferred to you.

As you might guess, it is not a perfect business. Murphy's Law is alive and well and there are situations where a defect in title may surface later on. This, my friends, is why you need title insurance. Don't be a fool. Be cool. Buy title insurance.

The next most important type of insurance you will need is Home Owners Insurance. I like to use independent insurance brokers because they have all the connections, can get the best deals, do all the work for you and get paid by the insurance companies themselves and not you. Some insurance companies will not insure some rental properties or they will at a tremendous cost.

There are three basic types of insurance, sometimes referred to as "A" form, "B" form and "C" form. "A" form is bare bones fire insurance. No bells and whistles here. The "B" and "C" forms cost a lot more but provide more coverage. You can get lost rent coverage, for example if you have a tree fall on your property and your tenant(s) has to move out while repairs are being made, you can get receive money from the insurance company that will compensate you for

lost rent until your property is inhabited again by a renter. When you are first starting out you may want to have "B" or "C" form coverage depending upon your personal circumstances. Always check with your insurance agent to discuss the pros and cons. After you have a lot of units under your belt and you have a pretty good track record of performance you can lower your coverage to the "A" form and in essence self-insure yourself against lost rent.

Over all the years I have had hundreds of properties I can count the number of claims on one hand. I had a house fire one time and the whole thing was covered by insurance. It didn't cost me a dime. I also had what I call as-is coverage. This means that the insurance adjuster makes an estimate on what it will cost to get your property back up and running—and when he does he will discount it for depreciation. I always got coverage for the maximum value amount possible on this type of policy. Essentially, if I had a house that was worth $80,000, I would insure it for $100,000.

Another type of insurance you might need is flood insurance. Always check to see if the property you are buying is in a flood plain. You'd be surprised. If you are buying with a mortgage (shame on you) your lender will tell you if it is in a flood plain. If you are in a 100-year flood plain you will definitely want flood insurance and lenders will require it. If you are in a 500-year flood plain you should still get it. It costs less. A lender may or may not require it. They will let you know.

I had two 100-year floods occur with a two-week span in 2004. If I hadn't had flood insurance, that event would have wiped me out and it would have been nearly impossible to recover.

You never know, and as a result you should get the insurance. It is government controlled. It doesn't matter where you buy it. It is all the same.

When you have your closing scheduled it is time to call and get utilities put in your name so you have electric, gas and water on the day of closing—or the day after if you are buying a foreclosure.

The last thing you will do prior to closing is the Walk Through. ALWAYS, ALWAYS do a walk through. I bought a foreclosure once and I didn't do a walk through prior to closing. It was too inconvenient and I'd never had a problem before. Then Murphy showed up in a big way.

I went to the house after the closing and one of the biggest trees I had ever seen was lying across my yard and the two yards on either side of me. It was huge and it took out fences,

dog houses, toys, lawn furniture, grills, you name it. Guess who had to pay for it? You guessed it. Had I done the walkthrough, heck even if I'd just driven by, I would have seen it in time—and the banks would have had to take care of it, or reduce the price of the house to compensate me for it.

I had another student drive by a house he'd just bought hours before only to find an empty lot. The house had burned down a week before and had already been completely cleared. His student was the proud owner of a vacant lot that was worth only a fraction of what he'd just paid for it. He owned it. Period! No recourse. No rewind. Just a lot of sadness and self-pity.

XIII Rehab

What to rehab, how much, and how far do you go?

Knowing what to rehab, how much you spend and how far you will go with it is moving target. Always keep in mind that you are not living there, tenants are. You need to rehab according to the market that your rental property is located in. This means the socio-economic market.

You shouldn't put $50.00 a yard carpet in a rental that is located in an upper low-end neighborhood. Likewise you shouldn't put indoor/outdoor carpet in the living room. This is a skill that you will develop over time. My intention here is to help you shorten the learning curve and avoid as much expense as possible.

So let's go over the basics. First, we'll discuss carpet since we mentioned it above. In these rentals, use a good brand name like Shaw carpet. Get a neutral color like Candy Truffle. I call it the color of dirt. And it looks nice! Get the lowest grade or weight. Then put underneath of it a middle-grade pad. This is one of the secrets. A better pad will help the carpet last longer. The color will hide a lot of crud. It is appealing to the eye. It is a 10-year warranty carpet and is a standard in the rental business. I think Shaw Carpet owes me some love. What do you think?

When it comes to painting, always use a good paint at least as good as Behr. Stick with one color for the wall surfaces like off-white satin and one color for all the trim like white semi-gloss.

I like the two-tone look and I always use semi-gloss on the trim. Use can use flat on ceilings and even walls if you'd like. The challenge with flat paint on walls is that it doesn't clean well and you'll have to repaint more often.

You can also use a more appealing very light neutral color on the walls other than off-white. The two-tone look is appealing and it really doesn't cost that much more.

Hiring a pro to do the painting is a must. They're better and faster than you and me. And your time is much more valuable than theirs. You will use that time to find more deals.

When it comes to plumbing fixtures, don't make the mistake that everyone else makes when they first start out—buying cheap plumbing fixtures. If you pay $29 for a kitchen faucet, you will get what you paid for—CRAP. There's an old saying in plumbing: "If it ain't heavy, it ain't good." If you buy a plumbing fixture and it is loaded with plastic, it will be a waste of your time and money.

I like American Standard products. The product you and I get off the shelf at the Home Depot is the same one the plumbers get at the plumbing supply house. This is not true of other manufacturers. Also, the American Standard warranty is like gold. No fuss, no muss. If you have a problem they take care of it. You won't have a problem

though. Their products stand up to a lot of use and abuse. I think American Standard owes me some lovin' too!

Don't go cheap on windows. For rentals I use American Craftsman. They are good, double-hung, double-pane, and all vinyl-clad windows with a good long and solid warranty. If you get the cheapies you will be wasting your time and money.

My favorite subject is contractors. OK, it's not my favorite subject. This is one of the worst parts of the whole business. It's hard to find good contractors and they don't last forever. I have had contractors I've known for years turn bad on me. At the first sign of trouble—like with women, trucks, alcohol, drugs, money or health—they seem to disappear into the dark side quite rapidly. Not all of them do this but an alarmingly high percentage relative to society at large seem to.

I have friends who are contractors. I love them like brothers. But when %@#$ happens, I have to cut them off. They can harm you as much as they can help you. Always remember this: When you are hiring contractors, even if you have solid referrals, you must do a background check on them just like you do with tenants. Always make sure they are insured and bonded. Ask for these credentials. If they screw something up and they are not insured, the liability will fall directly to you as the owner of the property. This is not something you should take a short cut on. Period!

I had a pair of contractors working with me for years. They became friends of mine. They were twin brothers and worked well together. One was the straight man and one was

the booze-swigging, whore-mongering derelict who I don't even think had a valid driver's license.

They were some of the first guys I ever hired. I hired the straight man and he later on brought in his brother. I still should have checked him out. What I discovered after years of good work was a little bit of fraud. Nothing major but I decided not to take any chances.

I caught them cheating on supplies. They would buy more than enough supplies and charge me for it, then return the excess to Home Depot after the job was completed. It may not sound like a big deal—especially since we are only talking about a few measly dollars and cents. However, my knowledge of human nature, and the propensity of people to keep taking when they get away with a little taking, dictated that I act and act swiftly to send a message to everybody else working for me.

I had another guy try this on me prior to this occurrence. He was dumb enough to turn in a receipt for some lumber that he'd already charged me for. He didn't turn in the receipt before and thought he could use it on his next job. The problem was that he had 4 X 4 pressure treated lumber on there to the tune of $400 and the current job was an inside kitchen job requiring no pressure treated lumber. What an idiot. He must have assumed I didn't check receipts. I did.

I have friends who have been ripped off by their own family in business. One such situation involved over $100,000! You can never be too sure. Embezzlement and employee theft is a huge problem. My parents owned a business before they retired and they had an accounting category just for theft.

And it was about 10% of business. That is ridiculous. But it is real. You need to have systems to track your income and your expense. Expenses will already eat you alive if you're not careful. Throw loss-due-to-theft on top of that and it's no wonder so many people go out of business.

You can find good contractors. They are out there. Always ask for references. Look at other work they have done. Ask their prior customers how the contractor was when it came to keeping to the schedule and the budget and how well they communicated. Start new guys off small before you give them big jobs. Look at their appearance. Do they look like they are living the clean life or do they look like hell? Who do you want to give the keys to your property to?

Whenever you are involved in a big job—more than a few thousand dollars—don't pay all at once. Give the contractor a little supply money up front. Then give them a little more when they have the basic work done. Then give them another payment when they are near completion. Hold on to the last payment until the job is complete to your satisfaction. No excuses here. If go to the final walk through and the contractor says, "Oh, I'll come back tomorrow and finish that little bit myself," do not give him the last of the agreed upon payment. If he is good to his word, he'll finish completely and then you can pay him the rest. A lot of investors fall prey to this gimmick. Even if it is innocent, it is still a problem. Don't do it!

Need more advanced help?

Visit www.myinvestmentservices.com/work-with-me

and get a FREE 1-on-1 private coaching session.

Think you've got what it takes and need just 1 hour
with the Guru to get to the next level?

PLUS you will also get a FREE Blueprint for your business!

Well, now you're ready to cash in on your investment. So go find some tenants—or not!

XIV Rent, Sell (FLIP), Lease Option

There is always more than one way to make money!

I have seen more than a few investors buy and remodel a rental property with the intention of renting. Nothing wrong with that! That's who I wrote this book for. However, many investors get to this point and wonder if they can just sell the property and cash in big now while it looks so good. I say, yes you can, maybe.

If you start out on the rental path and later want to try to sell that is not a problem. If it doesn't sell, keep it. You bought it as a rental anyway! On the other hand you cannot buy a house that you intend to flip, then remodel it and try to profit by renting. It may work in certain circumstances, but not very often. If you are remodeling to flip a house you will use better materials—paint, carpet and cabinetry. The ends will not justify the means if you rent. Your property will likely be over improved. You cost basis will likely be higher because you bought in a better neighborhood.

Generally speaking, if you bought a property to eventually rent then you should usually stick with the plan.

There is a hybrid approach to cashing in that works really well in a tight money market. (A tight money market is a market in which borrowing money is a little tougher than usual.) The basic concept is that of a Lease with an option to buy. This is actually two different disciplines.

Also, notice I did not say "Rent to Own." NEVER do a rent to own. When you rent to own, you are earmarking a certain portion of the rent to be counted as part of the purchase price of the house. This gives the tenant an equitable interest in the house which is a loose form of at least one of the seven rights of ownership. (What this means to you is that if the tenant stops paying rent or you have to evict them for any reason you will not be able to.) The way the law works in these matters is that you will have to foreclose on the tenant because of their equitable interest in the property. An eviction may take about one month. A foreclosure will take at least a year or more in most cases. It depends on the state.

What matters is that you put yourself in a very risky position with a rent to own. A lease option is not as risky.

A lease option is really two transactions. One transaction is to rent the property to a tenant. This is strictly a lease standing on its own two feet. The option is really an option document where you, the optionor, are giving the optionee (your tenant) the right to purchase the property at a later date. They have to purchase this option from you for a fee. The option fee is non-refundable. If they don't exercise their option by a certain date you can either extend the option period for another fee or choose not to extend it, and they simply remain as tenants if that is what you want.

If they do not pay their rent you can evict them because the option fee they paid you does not count toward the purchase price of the house. They just purchased the *right* to purchase the house at a later date. The fee they pay you covers the risk you take by taking your property off the market for the option period. The price is usually locked in so you have the risk of not realizing any appreciation in that period of time. You also assume the risk of normal wear and tear on your property. And if that's not enough, you are doing the tenant the favor of giving them time to get their finances in order enough to secure a loan to pay you off.

During this time you will be their biggest creditor. One of the big advantages to this is that if they don't end up buying, you keep the option fee and can try the lease option again. I have had houses I lease-optioned three times before they sold. I came out the winner, not just because I got to keep the option fee, but also because I can charge more rent on a lease option and the tenants generally take good care of the

property when it's their intention to buy. So even when a sale doesn't go the whole way through—a situation most non-investors see as a failure—you still win!

Investing in rental properties can be a lot of fun. Every day is different. Every property is different. Every customer is different. You can make a lot of money and buy your own freedom. I did. I retired from the corporate world after investing for five years. I know guys who have done it in less. I have taught many investors who have gone on to create immense wealth and income by doing just what I did. I hope you will too.

Remember this. God didn't make you weak. He made you strong. And courageous! Do you think for one moment that God wants you just to survive? No, He wants us to thrive, to evolve and develop into our highest and best selves, to be closer to Him and serve Him by serving others.

I can think of no other business that allows us to do just that and in its purest form. It is pure capitalism in a free market economy. I love it and I hope you will, too.

Don't give into fear or lack of faith. Millions of people have gone before you. Building wealth and income by serving others through real estate investment has a long proven record of success.

There are many, like me, who are now teachers… ready, willing and able to share wisdom with you and guide you. It is our calling to give to others what He has given to us.

May God bless you in all you do and in your journey through life and the world of real estate investment.

XV Start Now

What are you waiting for? What are you still doing here reading this book?

Right now, create a “To Do List.” And get a round “To-It.”

Get an index card out and write, “I Promise…” and fill in the blank with a promise to yourself to take the first step.

Call our 800 number and ask for our training course, ask to be coached, ask for the name and number of an Investor/Realtor in your area, and make the call! Now!

Suggested Reading:

James Allen, *As a Man Thinketh*, Tribeca Books, 2011.

Robert G. Allen, *Creating Wealth: Retire in Ten Years Using Allen's Seven Principles*, Free Press, 2011.

Robert G. Allen, *Nothing Down for the 2000s: Dynamic New Wealth Strategies in Real Estate*, Free Press, 2004.

Rhonda Byrne, *The Secret*, Atria Books, 2006.

Michael Corbett, *Find It, Fix It, Flip It: Make Millions in Real Estate – One House at a Time*, Plume, 2006.

Jack Cummings, *Real Estate Finance and Investment Manual*, Wiley, 2008.

Napoleon Hill and Arthur R. Pell, *Think and Grow Rich*, Tarcher, 2005.

Anthony Hoffman, *How to Negotiate Successfully in Real Estate*, Simon & Schuster, 1984.

Robert Kiyosaki, *Rich Dad Poor Dad: What the Rich Teach Their Kids About Money That the Poor and Middle Class Do Not!* Warner Business Books, 1997.

Robert Kiyosaki, *You Can Choose to be Rich,* 12-CD audio series with three books, 2003.

Ron LeGrand, *How to Be a Quick Turn Real Estate Millionaire: Make Fast Cash With No Money, Credit, or Previous Experience*, Kaplan, 2004.

Ron LeGrand, *Ron LeGrand's Cash Flow Systems Course: For Sale By Owner*. www.ronlegrand.com

Martin J. Miles, *Vest-Pocket Real Estate Advisor*, Prentice Hall, 1990.

Frank McKinney, *Burst This!: Frank McKinney's Bubble Proof Real Estate Strategies*, HCI, 2009.

Frank McKinney, *Frank McKinney's Maverick Approach to Real Estate Success: How You Can Go From a $50,000 Fixer Upper to a $100 Million Mansion*, Wiley, 2005.

Anthony Robbins, http://www.tonyrobbins.com/products/

Carleton Sheets, *No Down Payment*, Home Study Course, http://www.carletonsheets.com

Robert Shemin, *Secrets of a Millionaire Real Estate Investor*, Kaplan Business, 2000.

Robert Shemin, *Secrets of a Millionaire Landlord*, Kaplan Business, 2001.

Russ Whitney, *Building Wealth: Achieving Personal and Financial Success in Real Estate and Business Without Money, Credit, or Luck*, Touchstone, 2006.

Lessons Learned:

Use this space to summarize what you have learned:

Definition of Terms

Abstract of Title: A summarized history of the title of real property listing rights and liabilities such as easements, mortgages, liens, and transfers of title. The abstract gives evidence of the chain of title and whether or not the title is clear.

Acceleration Clause: A clause in a mortgage that provides, at the option of the lender, the entire unpaid balance of the note would be due immediately upon failure to make a required payment or upon the sale of the property. In the latter case it is known as a due-on-sale acceleration clause. Usually it is found in paragraph 17 of a mortgage.

Accretion: The gradual buildup of soil by water.

Accrued Interest: Accumulated interest earned or due but not yet paid.

Acknowledgment: Legal declaration before a notary or duly authorized officer of a jurisdiction that the one signing an instrument is who he or she claims to be.

Acre: A quantity of land equal to 43,560 square feet. (For example, a square 208.7' x 208.7' or a rectangle 100' x 436.5').

Adjusted Cost Basis: For accounting purposes, the original cost plus improvements minus depreciation or cost recovery taken.

Ad Valorum: A measure of worth based on the value of something. For example, real property taxes calculated on the market value of the property.

After Tax Cash Flow: Effective gross income minus operating expenses and debt service plus or minus any tax savings or tax liability. (Also known as net spendable income.)

Agency: A relationship of trust whereby one party, the principal, entrusts another party, the agent, to act in his or her behalf and to represent him or her in doing business with other parties.

All Inclusive Trust Deed: The borrower obtains a new mortgage which is structured to include the old mortgage. The borrower makes payments on the new mortgage directly to the lender, who makes payments on the old first mortgage. (Also known as a Wrap-Around Mortgage.)

Amortization: The reduction of debt over a fixed term on an installment basis.

Amortized Loan: A loan in which the principal as well as the interest is payable in monthly or other periodic installments over the term of the loan.

Annuity: A payment of equal installments paid periodically for a given number of periods.

Appraisal: An estimation of value of real property as of the present or past date (not future). Any of three methods are used where applicable: cost approach, income approach, and market data approach.

Appraiser: A disinterested party who evaluates a property and determines a value for it.

Appreciation: Growth in value.

Appurtenance: Anything attached to the land which becomes a part of the property. A fence would be an example.

Arrears: The payment of money after the fact. Interest or taxes paid in arrears would represent money paid for a period of time gone by.

Asking Price: The price an appraiser has determined for a property and the price for which it is on the market.

Assessed Value: The value placed on the property by the taxing body of a county. This value is then used as a basis for computing taxes.

Assessments: A tax charge against real property by the taxing body of a county.

Asset: Any possession of value that an individual owns which may be used for payment of a debt.

Assign: To transfer one's rights in a bond, mortgage, lease, or other legal instrument to another person.

Assumption of Mortgage: To expressly take responsibility for the payment of a note secured by an existing mortgage on real property, thereby becoming a co-guarantor of that note.

Attorney at Law: A person licensed to practice law.

Balance Sheet: A financial statement showing assets, liabilities, and net worth.

Balloon Payment: A large final payment due on a note, usually after partial amortization of the debt, through installment payments.

Bankruptcy: Proceedings against a debtor, who has been declared legally insolvent, to distribute the debtor's property among the creditors.

Bill of Sale: A document used to transfer title to personal property (chattel).

Bird-Dog: People who are on the lookout for properties that are for sale. Sometimes they earn a referral fee, if the property is purchased by an investor through their referrals.

Blanket Mortgage: One mortgage that covers several different parcels of real property.

Blended Interest Rate: The interest rate resulting from half the difference of the interest rate originally written for the mortgage and the current market rate of interest. Generally, when loans are not assumable, asking the bank

to rewrite the mortgage at a blended interest rate is the next best thing.

Boiler Plate: Preprinted sections of a contract.

Bounds: Boundaries that are natural (lakes, trees, rocks, etc.) or artificial (roads, railroads, etc.).

Buyer's Broker: A broker who represents the *buyer* when entering a Real Estate transaction. Generally, the *seller* pays the broker's commission at the closing.

Capital: Money used for investing purposes.

Capital Gains: The profits realized above adjusted cost basis on the sale of property.

Cash Flow: Effective gross income minus operating expenses and debt service. (Also known as cash throw-off.)

Caveat Emptor: "Let the buyer beware." This statement does not apply where the buyer and seller are using an agent (broker).

Chattel: Personal property.

Chattel Mortgage: A mortgage on personal property.

Closing Date: A predetermined day that the transaction of buying/selling property will take place.

Collateral: Real or personal property pledged as security for repayment of a loan or debt.

Commission: Usually a percentage of the purchase price paid to the broker or agent for services rendered.

Common Law: Law that is not codified; developed from common usage and custom.

Competent Party: A person legally able to contract; being of legal age and sound mind.

Concessions: During negotiations, these are the items that each party is willing to give up in order to get the items each party really wants.

Condemnation: The process by which property of a private owner is taken, with or without consent, for the public use. Fair compensation must be paid.

Consideration: Something of value exchanged by a party to influence another party to enter in a contract.

Contingency: A possible event based on the happening of an uncertain future event.

Contract: A legal agreement entered by two or more parties which created an agreement to do or not to do something.

Contract for Deed: A contract for the sale of real property wherein the seller is obligated to provide a merchantable title after the buyer has paid for the property, usually in installments. (Also known as an Agreement for Deed or Land Contract.)

Contract for Purchase and Sale: An agreement between buyer and seller of real property to transfer title to that

property at a future time for a specific sum of money. (Also called a sales contract).

Conveyance: An instrument (deed) legally sufficient to transfer title to real property.

Cooperative: An apartment house or similar property owned, usually in corporate form, by all the tenants. Each has stock in the corporation which owns the building.

Cost Recovery: Formerly known as depreciation. A provision of the tax law that allows the owner of real and personal property to recover the cost of that property over a period of time specified by law. Cost recovery may be straight line or accelerated.

Counter Offer: A change in price or terms of an unacceptable offer.

Credit Bureau: An agency that compiles data on an individual's credit history and, upon request, distributes a report to potential creditors.

Credit Bureau Report: The compilation of an individual's credit history. Potential creditors may request a copy from a credit bureau.

Credit Limit: Generally found when dealing with credit cards, this is the maximum amount the card holder may charge to that account.

Creditor: The lender. The one to whom the debt is owed.

Cure Date: The last day given for bringing mortgage payments current at the beginning of the foreclosure process.

Dead Asset: An asset that an investor does not want; in the investor's eyes, it has no value.

Debt Service: The sum of the annual principal and interest payments expressed as a percentage of the amount owed.

Deed: An instrument conveying title to real property. It usually must be signed by the grantor (seller), witnessed by two persons, and recorded.

Default: Failure to discharge a duty or obligation.

Deficiency Judgment: A judgment rendered in court for the difference in the amount realized at a foreclosure sale and the amount owed by the mortgagor, if the foreclosure sale fails to completely liquidate or satisfy the debt.

Depreciation: (See Cost Recovery.)

Devise: Disposition of land or real property by will.

Discount: The percentage of the original balance of the loan that is charged to the borrower; sometimes referred to as points. Also, the difference between the selling price of a mortgage and the amount due.

Discounting a Note: The process of offering a promissory note for less than its face value to enhance marketability.

Distressed Property: A bargain property that is substantially below its present or projected renovated value.

Dower: The legal rights of a widow in her husband's estate. These rights have been abolished in many states.

Due on Sale Acceleration Clause: (See Acceleration Clause.)

Duplex: A two-family home where the units share a common wall and are situated side by side.

Earnest Money: A deposit of money given by a party to bind the contract, usually credited toward the sales price.

Easement: An interest held by one party in the real property of another, giving that person the legal rights to trespass on the other's property.

Effective Gross Income: The difference between the total gross income and the vacancy allowance.

Effective Interest: The interest rate the borrower actually pays as opposed to the nominal interest rate. The effective interest rate is made higher than the nominal rate by addition of points or discounting a loan.

Eminent Domain: The power of the government to take private property for public use in return for fair compensation. This power is exercised through condemnation.

Encroachment: An infringement, usually an improvement such as a building or fence, constructed on a

property contiguous to the one infringing. An encroachment is usually revealed by a survey.

Encumbrance: A limitation on the title to real property. A mortgage or easements are examples of encumbrances.

Equity: In Real Estate, the value of an interest a person holds over and above any mortgages or liens on the property.

Equity of Redemption: The rights of a mortgagor (borrower) to buy back a property after a foreclosure sale. While equity of redemption does not exist in some states, in other it extends up to two years.

Escape Clause: A clause added to the contract that allows either party the option of exiting the contract; thus, both parties are no longer bound by any contractual obligations.

Escheat: The reversion of property to the state when an owner dies with no will and no known heirs.

Escrow: Money or documents held in trust by a neutral third party.

Estate: Ownership interest in real property.

Estate by the Entireties: Ownership by husband and wife with right of survivorship.

Estimated Annual Gross Income: An estimate of the total amount of income one will receive in a period of one year.

Estoppel Letter: A letter certifying the exact balance of a mortgage or other loan at a given time.

Et Al: And others.

Et Ux: And wife.

Exchange: The exchange or trade of business property you own for another trade or business property that is like/kind. No taxes are due in such an exchange under a given set of circumstances.

Exculpatory Clause: A clause in a contract relieving one of the parties of personal responsibility of liability. In a lease, the landlord is relieved of any responsibility for injury to tenants leasing his or her property. In a mortgage, the mortgagor (borrower) is relieved of any personal liability or deficiency judgment if a deficit occurs at a foreclosure sale.

Expenses: The costs of maintenance, repairs, and rental costs that are deducted from a property's gross income.

Executor: The administrator of an estate; one who is specified in the will.

Extension Clause: A clause contained within some lease option contracts that provides for the terms under which the contract may be extended.

Face Value: In reference to a note, the face value is the full amount for which the note has been written.

Fair Market Value: The appraised value of a property as compared with other property values on the market.

Flipping: The turnover of property. An investor buys a property to immediately sell it for a profit.

Fee Simple: The highest estate in real property; the ownership of real property without reservation or restriction.

Fiduciary: An agent in the position of confidence to his principal. Also, a relationship of trust and confidence imposed by law.

Financial Analysis: An investor's determination of the value of a property according to his or her specific needs.

Financial Leverage: The use of other people's money for investment purposes.

Financing: The way in which an investor obtains the capital with which to purchase a property.

First Deed of Trust: A deed of trust recorded first. Equivalent to a first mortgage.

Fixture: Personal property attached permanently to Real Estate and thus becoming part of it. A built-in oven is an example.

Flexible Seller: A seller who is willing to sell property in a nontraditional manner. This person may be flexible in terms, price, or both.

Forced Sale: The sale of a property used as a security for a loan in order to repay creditor(s) in the event of a default on the loan.

Foreclosure: The process whereby property pledged as security on a note is sold under court order because of default on the note.

Front Foot: The width of a lot at the front, usually given as the first measurement. (A lot 225' x 175' would have 225 front feet.)

General Partnership: A form of business where two or more persons enter into an agreement to conduct business. Profits and losses are shared in a predetermined fashion and all partners are jointly and severally liable for debts of the general partnership.

Grandfather Clause: Properties that do not conform to current ordinances, codes or regulations, but are allowed to continue to be occupied because the properties predate the institution of the ordinances, code and regulations.

Grantee: A person obtaining title to real property by deed. The purchaser to whom the grant is made.

Grantor: One who conveys title to property by deed.

Gross Income: The total income from a property before the deduction of expenses.

Gross Income Multiplier: That number which, when multiplied times the gross income, would give an indication of property value. It is strictly a guide and frequently abused.

Homestead Exemption: Protection extended by law preventing the forced sale of an owner-occupied dwelling by certain creditors.

Homestead Tax Exemption: The credit against taxes, given in some states, to a person who owns and occupies a dwelling and to certain other individuals including disables veterans, those over age 65, widowed, or handicapped.

Improvement: Buildings or other structures which become part of the land are known as improvements.

Indenture: A contract.

Installment Loan: A loan that must be repaid in no less than two payments. A loan of six months or greater is preferable when establishing credit.

Installment Note: A note which specifies how mortgage payments will be made, when they will be due, and for what amount.

Installment Sale: A sale which, for income and tax purposes, is not taxed totally in the first year of the sale. To be valid, there must a minimum of two installment payments over two tax years.

Interest Rate: An amount a borrower must repay in addition to the full amount of the loan. This is the premium the lender receives for the use of the money, plus compensation for the risk the lender takes in lending money.

Intestate: A person who has died without leaving a valid will.

Involuntary Lien: A lien, like real property tax liens, which are recorded against a property without consent of the owner.

Instant Equity: The difference between the property's value and what you paid for it.

Joint Tenancy: A joint estate whereby upon the death of one joint tenant, his or her interest will go to the surviving joint tenant(s).

Joint Venture: An arrangement where two or more individuals or corporations join together on a single project as partners.

Jointly and Severally: A legal term indicating that a contract has been entered into by two parties and the two parties are not only liable together but individually as well.

Leverage: The borrowing of money in connection with a real estate investment.

Judgment: The verdict of a court on a matter presented to it. A money judgment dictates that a party must make payment to another to settle a claim.

Junior Lien: A mortgage or other encumbrance with a secondary interest. A lien junior to another mortgage or lien.

Land Contract: (See Contract for Deed.)

Land Trust: A form of ownership whereby property is conveyed to a person or an institution, called a trustee, to be held and administered on behalf or another person called the beneficiary.

Lease: A contractual agreement between the owner (lessor) and the tenant (lessee), which allows the tenant use and occupancy of the property for a specified period of time. A lease is an encumbrance against a title and gives the tenant an actual interest in the property known as an estate for years.

Lease Option: An agreement between two parties where the party who owns the property extends, to the second party, the right to purchase the property at a future date. The second party lives in the property until the lease option expires.

Leasehold: The estate of interest held by the lessee in the property of another.

Legal Description: The means to identify the exact boundaries of a property. A surveyor will use the recorded plats method, metes and bounds method, or the government survey method to describe the real property.

Lessee: One who contracts to hold occupancy rights in the real property of another.

Letter of Credit: A letter, usually from a financial institution, guaranteeing (collateralizing) a debt incurred by a third party.

Letter of Intent: A letter stating a buyer's intent to make an offer to acquire a certain property. It is not a binding contract.

Lien: The right of a creditor to take and/or sell a property in the event of a default to satisfy the obligation of a debt.

Lien Theory States: States that allow the lender to collect the debt owed by selling the property in the event of default.

Limited Partnership: A partnership composed of a limited partner(s) and a general partner(s). The limited partner(s) contributes capital but is not liable for any debts of the partnership, nor can he or she manage or control the partnership.

Liquidated Damages: Damages, usually monetary, spelled out in a contract which would be available in the event of a default, to the party not in default.

Listing Broker: A broker from the office which created the MLS listing on a property.

Marketable Title: A title free and clear of liens and encumbrances that might be objectionable. (Also known as merchantable title.)

Mechanics Lien: A lien right existing in favor of mechanics, suppliers, or other persons who have supplied materials or performed work in connection with the construction or repair of a building or other improvement.

Metes: Measures such as inches, feet, yards, or miles.

Metes and Bounds: A measure of land which describes the boundaries using metes and bounds. For example, "Then going north 223 feet to the right-of-way of Oak Street."

Moratorium of Interest: A time during the term of a loan wherein no payment of interest due is made.

Mortgage: A temporary transfer of property to a creditor as collateral for a loan.

Mortgagee: A lender of money under the terms of a mortgage.

Mortgagor: The borrower, usually the owner, who pledges his or her property to assure performance in repaying the loan.

Multiple Listing Service: A multi-realty service whereby members of the local Board of Realtors exchange their listings.

Negative Cash Flow: When rental and other income is insufficient to cover all the costs of ownership.

Net Income Approach: A technique used to evaluate larger properties and determine their values by calculating the net income they produce.

Net Net Net: An agreement which specifies that the tenant pays real estate taxes, insurance, and all maintenance costs of the property.

Net Operating Income: Gross income minus any operating expenses. Debt service (principal and interest) is not deducted as an expense.

Net Spendable Income: Amount remaining after expenses and debt service and any taxes due have been deducted from gross income. (Also known as After Tax Cash Flow.)

No-Doc Loan: A loan where the borrower is not required to present any documentation to secure a loan.

Nominal Interest Rate: The interest rate, usually below market stated on the note.

Note: Legal evidence of debt.

Notarize: To have a document signed by a notary public.

One Time Mortgage Insurance Premium: A refund of a portion of the insurance premiums that have been paid of the years with a 1984 or later mortgage where the mortgage insurance premiums were paid up front.

Option: An instrument giving the right of a party to lease or purchase the property over a specified time period for a specified consideration. It is binding for the optionor (seller) but not the optionee (buyer).

Optionee: The person who has the legal right to purchase or not to purchase (through a contract) a specific property in the future.

Optionor: The seller of a property who extends an option to someone else. If the optionee exercises the option, this

person is legally bound by the contractual obligations. However, if the option is not exercised, then the optionor is released from any responsibilities.

Owners of Record: All owners that are listed on a deed that is recorded in the county courthouse.

Overdraft Protection: An extra service that most financial institutions offer their checking account clients. The client has a credit limit, much like that of a credit card. If the client writes a check for an amount greater than what is in the checking account, the bank automatically writes the client a "loan." Interest is charged on this, as is an annual fee in some cases.

Package Mortgage: A mortgage which, in addition to encumbering real property, also includes personal property such as a refrigerator, dishwasher, or oven unit.

Partnership: Two or more people associated for the purposes of carrying on business activities.

Pay Down: The amount of principal on a loan retired through payments at a given time.

Personal Property: All property other than real property. (It is also known as personality.)

Points: See discount.

Positive Cash Flow: When rental and other income exceed all of the costs of ownership.

Power of Attorney: A written authorization to an agent to perform specified acts on behalf of his or her principal. Beyond these acts, the agent has no power.

Preliminary Title Search: The first review of all previously recorded documents regarding a specific property, to make sure that the property may be sold.

Premium: An additional sum of money paid as an incentive for someone to do something.

Principal: The sum of money used as funds for the investment.

Promissory Note: Usually a note if given to the seller by the buyer, which promises to pay back principal to the seller. It states the interest rate (if any) and the period of the note.

Pro Forma Statement: A financial statement based on anticipated, not actual, income and expenses.

Promulgated Rate: A formally and publicly stated rate.

Pro Rata: Buyer's and seller's portion of prepaid or unpaid expenses such as real estate taxes.

Purchases Money Mortgage: A mortgage given to the seller as part or all of the consideration for the purchase of property. In effect, it is money loaned by the seller to the purchaser.

Quit Claim Deed: A deed transferring whatever interest in the property, if any, that the grantor may have. They are usually used to clear title.

R.E.O. (Real Estate Owned): Properties that financial institutions have repossessed as a result of a default on a mortgage and which these institutions are willing to sell.

Real Estate Agent: A salesperson associated with a broker, who acts on behalf of a broker.

Realtor: A broker who is a member of the National Association of Realtors as well as state and local Real Estate boards.

Recording: The act of entering, in the public record, any instrument affecting title to real property.

Redemption: The buying back of one's own property after a forced court sale. (See equity of redemption.)

Release Clause: A statement in a blanket mortgage that allows a specific described parcel to be released from under the blanket lien after a sum of money is paid.

Reproduction Cost Analysis: A technique used to evaluate a property by estimating the cost of building the same or similar structure, adding the cost of land and subtracting an allowance for wear and tear.

Restrictive Covenant: A clause in a deed in which there is an agreement between buyer and seller stating certain restraints as to the use of the property.

Right-of-Way: An easement on land whereby an owner grants or gives to another the right of passage over his or her land.

Riparian Rights: The rights of a land owner to the body of water adjacent to his or her land. In some cases these rights include the land under this water.

Sales Contract: (See Contract for Purchase and Sale.)

Sandwich Lease: While having the option to buy a property, the investor subleases it to gain a positive cash flow.

Satisfaction of Mortgage: An instrument filed in the public records which acknowledges payment of an indebtedness secured by a mortgage.

Security Deposit: An amount of money paid by a tenant before moving into the premises to cover any damage incurred while living there, or to protect the landlord in the event that the tenant leaves without being current on rent payments. If the tenant is current and the unit only has a normal amount of wear and tear, then the deposit is generally refunded.

Servicing a Debt: The act of paying the periodic principal and interest payments on an outstanding debt obligation.

Specific Performance: A court order requiring a person to act or do a specific thing that he or she had agreed to do.

Tax Certifications: Bond sold to recoup unpaid property taxes by the county in which the property is located. When the property is auctioned, the certificate holders may either use the certificates as money to bid on the property or redeem them for face value plus interest.

Tax Deductible: An item that is not taxed.

Tax Liability: The amount of money one owes to the government for taxation purposes.

Tax Shelter: An income property that generates artificial papers losses, due to depreciation or cost recovery, that are in excess of the income produced by that property. These artificial losses can be used to offset other taxable income earned by the owners. In general, a tax shelter is any deferral, reduction, or elimination of a tax due.

Tenancy in Common: The ownership of an interest in property by two or more persons. Their ownership interest may be equal or unequal and there is no right of survivorship as with joint tenancy. The interest of any joint owner passes to his or her heirs or assigns after death.

Tenant: A person having the temporary use and occupancy of real property owned by another.

Tender: An offer to pay or perform.

Terms: The exact way a property will be purchased.

Testate: One who dies leaving a will.

Time-Share: A piece of property purchased by two or more parties who have set specific times when each may use or occupy the property.

Title Insurance: Insurance issued by a title company guaranteeing the title to be good and marketable. Title insurance policies can be issued to protect the mortgagee only, the full interest of the buyers, or both.

Title Insurance Company: A business that reports on the status for the title on a specific property and whether or not it has any liens against it. After this title search has been completed, the company will issue a deed to be signed by all the owners of the property which should be notarized and recorded in the public records.

Title Theory States: States that allow the lender to become the legal owner at the time of making the loan. The borrower only has possession.

Township: A unit of measure used in the government survey method of land description equal to 36 sections (36 square miles).

Unilateral Contract: A contract in which one party is bound by another to do something. If the second party chooses to exercise the contract, the first party must perform any contractual obligations that party may have. However, if the second party chooses not to exercise the contract, the first party is released from any contractual obligations.

Unsecured Line of Credit: A credit history developed by an individual who borrows small amounts of money which do not require collateral.

Usury: The lending of money at a rate of interest about the legal rate.

Vacancy Rate: An estimate of the amount of time the rental property will be vacant (between tenants) multiplied by the rental rate of the unit(s). The amount is used in estimating the investor's value of an income.

Value, Assessed: The value as determined by the local tax assessor's office for the purpose of levying local taxes.

Value, Book: The value of a property carried on a company's books. It is usually the cost less depreciation or cost recovery plus capital additions.

Vendee: A buyer.

Vendor: A seller.

Warrant: To guarantee something to be as represented.

Wraparound Mortgage: A mortgage held by the seller-mortgagee. The buyer-mortgagor pays the seller-mortgagee the debt service on the wraparound mortgage and the seller-mortgagee continues to pay the debt service on the underlying or original mortgage.

Zoning: The laws which regulate and control for what the property may be used.

About the Author

Gary Wilson has been a Scout Master in Troop 194 of the Greater Pittsburgh Region and involved in scouting for more than a dozen years as an adult and was a scout as a boy.

He started investing in Real Estate at the age of 23, less than one year after graduating from Old Dominion University, and accumulated a 250-unit portfolio while teaching others to do the same.

Gary ranked in the top 5% of all Realtors in the Western Pennsylvania Market (according to annual Five-Star surveys).

He is a licensed broker in Pennsylvania and Virginia. He achieved the Platinum level of service while launching and growing Win Realty Advisors, LLC which merged with Keller Williams to create the KW Win Realty Team.

Gary merged specifically with Keller Williams because of its core values and priorities – God, family, then business. In fact, no other Real Estate Company has as much in common with the Boy Scouts of America as Keller Williams.

Gary currently teaches thousands and has personally coached hundreds of other investors who want to realize the

pleasure of rental profits without the pain, flipping without the risk, and wholesale for profit so everybody wins.

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