Real Estate With
Gary Wilson

WHOLESALING

SO EVERYBODY WINS

GARY WILSON

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

Ordering Information:

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Now you will know how to profit from wholesaling so that everybody wins, you are compliant with the law, and there are no broken contracts.

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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

I believe that investing in Real Estate is the best path to realizing the American Dream. Sit back and relax and get ready to highlight sections of this book that resonate with you or get out a notepad and pen or pencil and take notes.

My promise to you is to teach you what I have learned and not just how but why certain techniques work the way they do. This is something that 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 "Wholesale For Profit So Everybody Wins."

A little history about the author Gary Wilson:

Gary 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, accumulating a 250-unit portfolio while teaching others to do the same. He 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 he 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 KW. Gary currently teaches thousands and coaches hundreds of other investors who want to realize the pleasure of: Rental Profits Without The Pain, How to Flip Without The Risk, and Wholesale For Profit So Everybody Wins.

Getting Started

What is wholesaling? The short answer is that you can get a property under contract and then sell the contract to another buyer. Here is a brief explanation in practical terms.

Assume the owner of a property is Party A.

Another person, Party B, makes an offer on that property.

Party A and Party B come to terms and execute a legally binding contract for the sale of that property. So far so good!

Party B does not intend to actually buy the property. He would like to profit from his efforts in identifying a good deal so he, Party B, sells the contract he has to Party C. He does this for a fee.

In other words Party B charges a wholesale fee to Party C in exchange for Party C purchasing the rights of the buyer in the sales agreement to buy the property form Party A. Party C actually follows through and buys the property from Party A.

Graphically this looks like:

A → B = original sales agreement

B → C = Wholesale Deal

A → C = C buys property from A

Here are two examples of wholesale deals I was involved in. In the first example I was Party B. In the second example I was Party C.

Smithton Avenue

Smithton Avenue was my first experience wholesaling properties. It was almost accidental the way it came about. I was out looking for properties for myself. As usual I had found more than I could take on myself and was dreading the thought of deciding which one to turn loose when I got a call form one of my fellow investors who had a friend looking for an investment in my neck of the woods.

This other person was a dentist and didn't have a lot of discretionary time to spend looking for investments. I was literally standing in the very property I was to eventually wholesale to this other investor. I had gone back to go over my notes and reassure myself that of all the good deals I had this was the one I could most easily let go of and miss the least.

I knew what wholesaling was at the time I just simply hadn't done one yet. I wanted to buy every one that I had determined to be a good deal. Sound familiar?

Right after I hung up the phone with my friend, the dentist called me. We struck a deal right there on the spot. So, I got the property under control with my own offer. My offer had an assignment clause in it so that I

could assign the contract to someone else. And that's what I did. I assigned the contract to the dentist and asked for and received a $2,500 fee. It was truly as simple as that. I had to do almost no work to strike that deal. Now $2,500 may not seem like a lot of money but keep in mind that at the time I knew nothing about wholesaling.

I had not yet been in a wholesale transaction. I did no advertising. The end buyer landed in my lap. All I did was locate the property and do the financial analysis on it to determine that it was a good deal. I certainly should have asked for a larger fee but being that I didn't know any better if though I was doing pretty good by getting $2,500 for doing almost nothing.

I never even had to go to a closing for this one. The end buyer (C) bought directly from the seller (A) and sent the check for $2,500 directly to me in the mail!

There a few lessons in here that we will expand upon further in this book but first I want to give you an example of another wholesale deal where I was on the other end.

1304 Superior

1304 Superior came across my radar screen at a time when I was investing quite heavily. It was located in a part of town that I was not completely familiar with yet but it was in my sights as an area to explore for future investing. The way it came to me was through another fellow investor who had his real estate license with the

same brokerage company that I did. He and his brother, who happened to be running for city council at the time, were well known local investors. They had come across an estate sale that involved multiple properties. They only wanted and could afford two of the three properties that were being sold as part of the estate. They had all three properties under contract as a package deal. They called me because they had heard that was an active investor in the area.

This third property was actually pretty nice. It was completely sided with all the trim wrapped in aluminum. It sat on a large corner double lot. It had a great front porch and new windows. In other words it had great curb appeal. The inside had all the original hard wood floors, crown molding, chair rails, and hand rails. Even though it didn't have separate gas, and it was being used a single family home, it did have separate electric and could easily be setup as a two unit. And that's exactly what I did.

I asked the other investors what they wanted for the property. They wanted only $16,000. It took me exactly .001 second to accept their terms. I spent another $16,000 splitting and renovating the property. When I was all done I refinanced it at 80% loan to value on a $75,000 appraisal. You do the math. As you can see I made $60,000 cash on $32,000 purchase plus rehab. That's a $28,000 cash gain plus another $15,000 in equity all because I bought a property wholesale for $16,000. In other words, all told I more than doubled my money PLUS I had $1,200 per month in rent coming in.

We actually did the entire transaction at the closing table at one time. In other words : A -> B, B -> C, and A -> C all occurred in one sitting involving the seller (A), the wholesaler (B), and me the end buyer (C). Wholesaling has served me well in my investing.

All of you reading this can experience these same kinds of stories. My hope and wish and prayer for you is that you do. Please read on.

II The Goal

Financial Independence then 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.

Wholesaling allows you to have some control over, and therefore, profit from, Real Estate without actually taking ownership of it.

Why It Works

Wholesaling works because of two important factors:

1) Some people have available time but not available money, and…

2) Some people have available money but not available time.

Everyone fits in one of these two categories. There are exceptions. Some people have available time and money. Your goal is to be one of these people!

If you are in category 1 (Party B) then you can serve those in category 2 (Party C).

How It Works

If you have a short-term memory then make sure you implant permanently what I am about to tell you. The way wholesaling works, in fact, the only way it can work so that everybody wins, is that you, as the wholesaler (Party B) must find your buyers first!

That's right. You first market, advertise, and capture and nurture a growing list of people who are interested in finding great real estate deals, whether they be flips or rentals, and have the money but don't have the time to do it.

Then and only then do you go out and find great real estate deals and get them under contract. Nothing could be more damaging to your reputation than getting properties under contract and not being able to sell the contract or follow through on the purchase of the property.

Those who teach that it is easy to get out of a contract if you can't sell it, so it is not something to be overly concerned about, are damaging to the world of investing and wholesaling in particular. This implies a lack of proper execution of the principles and if you have to break a contract then you violate the principle of "Everybody Wins". In this case the sellers (Party A) lose.

And you lose too because you will develop a reputation of someone NOT to deal with.

Don't fall into this trap. Follow the easy, simple processes that I am teaching you here and you will profit so that everybody wins! All you are doing is filling orders. Part of you nurturing your buyer clients is asking them questions, listening to their answers and understanding what types of properties they want. Then you go out and find those properties, get them under contract and sell the contract to your buyer.

How Do I Find Buyers for my Wholesale Deals?

Marketing and advertising! That's right. You market yourself as the go-to guy or girl in your area who knows how to sniff out those awesome real estate deals. You can easily market yourself by creating an impressive image on Facebook, LinkedIn, Google, Twitter, and even more social media venues. You should also create your own website. All of this is simple. It may not be easy because it does take time, but it is simple.

You advertise by sending messages through LinkedIn, and posting messages on Facebook, to those who are following you, showing them the deals you have done and promoting the one(s) you currently have. You can also use Postlets to advertise your current deals. Furthermore, you can identify, through public records, those who are regularly buying properties in your area. You can send them, through the US mail, your latest

deals and entice them to sign up with you as their provider of great real estate deals. Of course you can use Craigslist, bulletin boards in your church or grocery store, and yard signs. Here is a rundown of available advertising mediums:

Craig's List – Bar none, this is one of the best ways to reach your marketplace. It's free and has a wide audience. They even have a tutorial for you.

Facebook, Twitter, LinkedIn – Use your social media networks to get the word out. Be careful how you use social media. There are rules of etiquette you must first learn for each one. The number one taboo is spamming your network. Never abuse the privilege of social media. If you do you will be shunned, un-friended, un-liked, un-connected and unsuccessful!

Church – Churches usually have weekly bulletins in which you can advertise your vacancies. This works well for large congregations but I would use it in small churches as well. Look in your church's current bulletin and there should be instructions or at least contact information that you can use to get started.

Grocery store – Usually have a bulletin board where you can pin a flyer with tear-off phone number tabs. You need to check this regularly. Sometimes they disappear. Sometimes other people will post their notice right over top of yours. If you're really lucky all of your number tabs will be gone!

Restaurants – They often will let you put a stack of flyers or business cards near the checkout. The next time you're dining at one of your local favorite restaurants speak to the owner or manager. Someone with the authority to act is always on duty at a restaurant. Use your imagination!

Local publications – Penny Saver, Green Sheet, they're in every community and are very inexpensive. Unlike the large publications like your big city paper, I have had a lot of success with these types of publications. Call and ask for their rules and regulations. Learn the rules of their advertising game and you will master the game. Some ads you will place for one to two weeks. Some you will place for a year. You will also learn where in the publication to place your ads, how big, how small, special features, etc. Hint – Any time you can have your ad placed in a box you will get better results!

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.

Real Estate – 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 daydream 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.

There are three basic ways of investing in real estate as a beginner.

1) You can invest in rental properties.
2) You can invest in flipping properties.
3) You can wholesale properties.

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 Wholesaling Business Structure

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.

When it comes to wholesaling you have to beware of the rules and regulations regarding the transfer of real estate, and for the subject of this book, specifically those rules and regulations dealing with the subject of wholesaling.

Net Listing

In certain states, like Pennsylvania, if you are a licensed Real Estate agent, you can use the existing Real Estate rules and regulations in your state to participate in wholesaling.

If you are a licensed Real Estate Agent you can play the role of Party B from within the context of serving as a Real Estate Agent to Party A. This is how it works.

Assuming you are a licensed Real Estate Agent and you are also an Investor, you can approach a seller with the

concept that you will list their property for sale under the following conditions:

1. The seller determines what final sale price they would like to see.
2. You enter into a listing contract for that price.
3. You agree that your compensation will be any amount of money that is over and above the final sale price the seller is looking for.

You list the house for a price that you believe it could actually sell for. Here is an example:

The seller Party A wants $100k for the sale of his house. You the agent/investor Party B enter a listing agreement that will net the seller $100k. You advertise the house for $125k, and you sell it for $120k. The seller gets $100k and you get $20k as your commission on the sale.

If you are a savvy Agent/Investor and the buyer of this house is going to remodel it and sell for profit (flip), you can propose the buyer also sells it with you as his Agent when the remodeling is complete and the house is ready for resale.

I'm sure you can see the tremendous potential for licensed agents in states that recognize net listings.

If you are licensed agent in a state that does not recognize net listings, or you simply are not a licensed Real Estate Agent, then I recommend you set up a LLC to conduct your wholesaling business.

LLC – Limited Liability Company

What is the best way to hold Real Estate? I have purchased a lot of properties and most of them have been held in LLC's. 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. LLC is short for Limited Liability Corporation. 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.

Always remember that when you are using a LLC to conduct business, you should always sign with "Your Name, member (your LLC name here), LLC" Here is an example:

John Smith, member ABC, LLC

Do this on any business documents involving your LLC, wherever you would normally sign your name. If you don't do this and you sign your name personally, it could

expose you to liability if there is a problem down the road with this particular transaction.

Note: In most states, if you transact more than five wholesale deals in a year you may be viewed by the taxing authorities as a dealer. Check with your tax accountant and/or attorney to verify the federal tax rules and the state tax laws that apply to you.

V Tax Benefits

Note: I am not a lawyer or an accountant who specialized 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.

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 returns. 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 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 The Right Kind of Realtor

If you are not a licensed real estate agent then read this. If you are a licensed real estate agent then you need to read this too so you will know what all of my students expect from you!

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.

You may want to consider getting your Real Estate License!
I did and yes, it does help – A Lot!
To find out more, check out
"Investor Agent: Make More Money, Not More Work"

https://bit.ly/2WEonGH

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!

VII 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 flip 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.

On the next page I have included a report based on school district that I generate from the local MLS system. It shows me exactly what areas are selling and in what price ranges. This is excellent information to have when you are investing. If you are not a Realtor (and I think you should be, please the Investor/Realtor book. You can locate it on REWGW.com) then I suggest showing this to your real estate agent and ask them to create this for you on at least a quarterly basis if not monthly.

Activity in Pittsburgh Market by School District

Active and sold for previous six month - Oct. 16, 2012 - April 15, 2013

Fox hapel	Fox Chapel	Hampton	Hampton	North Allegheny	North Allegheny	North Hills	North Hills	Pine Richland	Pine Richland	Quaker Valley	Quaker Valley	Shaler	Shaler	Avonworth	Avonworth
ctive	Sold	Active	Sold	Active	Sold	Active	Sold	Active	Sold	Active	Sold	Active	Sold	Active	Sold
11	16	7	18	16	30	58	74	4	15	9	11	35	46	8	12
17	15	5	16	30	52	30	59	6	21	10	9	34	37	12	11
11	8	5	8	20	51	17	16	7	10	9	5	8	12	7	4
15	9	2	12	18	32	10	6	5	13	15	7	7	1	4	6
15	11	3	5	22	26	3	2	8	13	7	6	1	1	2	7
12	14	1	6	8	15	0	0	4	5	5	5	1	0	3	4
14	8	1	2	9	11	1	0	8	4	9	5	1	0	2	2
15	8	4	0	2	3	1	0	3	5	7	3	0	0	2	2
28	11	3	0	9	9	1	0	6	5	10	9	0	0	4	1
10	6	5	3	11	9	2	0	3	6	8	5	0	0	3	0
7	2	1	2	8	2	0	0	8	8	5	1	0	0	0	0
7	3	3	0	8	1	0	1	0	1	10	0	0	0	0	0
13	4	2	0	2	1	0	0	3	2	4	1	0	0	1	0
13	5	0	1	3	0	0	0	4	1	10	1	0	0	0	0
1	3	1	1	0	1	0	0	7	3	5	2	0	0	0	0
North Allegheny		North Allegheny		North Allegheny		North Allegheny		North Allegheny		North Allegheny		North Allegheny		NAL	NAL

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

High-End neighborhoods are not where you want to be in the flip business if you want a decent return on investment (ROI). I know this sounds counterintuitive. But consider this: How many people can buy in a high end neighborhood? How many of these homes can be bought at such a low price that you have enough room to remodel and still turn a profit? How long does it take to sell homes in these neighborhoods? If you have only enough money to do one of these flips and something goes wrong what will happen to your dreams?

The bottom line is that unless you already have a lot of experience flipping and unless you have the luxury of a lot of excess cash and time on your hands for your capital to sit idle, don't play around in these waters. If something goes wrong like an economic slowdown or you discover a major problem with the house that will bust your budget, it is better that it happen with a $100,000.00 house than a $1,000,000.00 house. If you are blessed with an abundance of cash and time and you are in an

area like Southern California, Long Island or Washington, D.C., then by all means flip away. Just remember all those who have gone before you and got caught with their pants down during the last recession (D.C. excluded).

Middle class

Middle class homes are generally where you want to be when flipping houses. This is a broad range and best of all it includes the range where first time homebuyers are active! There are some areas of the country were middle class houses work exceptionally well for flips. If you are in one of these areas middle class homes may be your thing.

There are more people in the middle class, including first time home buyers, than in any other group. Lower income areas usually have more rentals in them and there are far too few luxury homes that can be flipped for profit.

Low-income

Low income may work for flips but it is generally not as good as middle class. 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 people who are good people and there are plenty of wealthy people who are bad characters.

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.

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?

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.

VIII Targeting Properties

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 you 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.

Please keep in mind that some of the entities that you will approach to get their property under contract may be opposed to you assigning or selling the contract. Don't worry. I have a solution to that. Simply set up a simple LLC that will be named as the buyer and then sell the LLC.

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 the laymen's term 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.

Buy Low, Rehab and Sell – Flipping requires the learning of an entirely new set of skills and disciplines and some, especially 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 and sell for profit. Remember though that I had at least fifteen turnkey 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, 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.

IX Analyzing Properties

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

The first type of property we will examine as a wholesale deal is one that would make sense as a flip. The first and most 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

Before you even set foot outside your house and turn over the motor in your car, you must do some financial analysis on your desktop.

But first, before going over the forms to use, let's look at a plan for you to follow when going on your hunt.

This is the exact plan I followed when I made all of my investments. It is the plan I used 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.

FINANCIAL ANALYSIS FOR FLIPS

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.

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. Sometimes you will do this for all the properties.

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)!

If you want a more thorough education in flipping properties, I suggest reading "Flipping for Profit Without the Risk." After reading that book, I recommend you take the Flipping For Profit Without the Risk Training Course

So, as you can see, you are going to peruse the list of properties your investor/realtor has sent you according to your specifications. You will separate the wheat from the chaff according to the instructions. This may take three or more passes through the data.

Remember, it makes no sense to drive by a bunch of properties and do rehab sheets on them only to find out later that they have little chance of making sense economically. Make sure the properties that you will drive by and eventually do rehab sheets on at least have a fighting chance of returning a profit for you.

Once you have narrowed your list of properties down to the best prospects it is time to do drive-bys.

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.

These sheets should be used first, then the sheet on the next page should be used as a summary sheet.

The following example is 3811 Wilkesboro Street—the one I sold for $75k. The rehab sheet states that the

remodeling project would be $28,119. I actually cut back on what I did in the kitchen and bathrooms and made it a $25k project. I came in within $100 of this budget.

That, my friends is a home run.

Here are the typed notes I took when walking through the house. Detailed notes will help you more accurately prepare the Rehab Cost Estimate Sheet:

3811 Wilkesboro

1. Living room:
    - Minor repair
    - Paint
    - Ceiling light
    - Carpet

2. Dining room
    - Paint
    - Refinish floor
    - Redo pocket door

3. Kitchen
    - Paint
    - Install new floor
    - New dishwasher
    - New stove
    - New frig

4. Bathroom 1st floor
    - Paint
    - Install floor
    - Shower rod
    - Med cab

5. Basement

5 glass block windows
Scrape & duralock basement walls
New electric panel

6. 1st floor hallway
Paint
Carpet

7. Stairwell to 2nd floor
Paint
Carpet

8. Bathroom 2nd floor
Paint
New surround

9. Bedroom rear
Paint
Carpet

10. Bedroom middle
Paint
Carpet
Install ceiling light

11. Bedroom front left
Paint

12. Bedroom front right
Ceiling light
Paint
Lay carpet
Repair mantel

13. 2nd floor hall
Paint
Carpet

14. Stairwell to 3rd floor
Paint
Carpet

15. 3rd floor rear

Paint
Carpet
Heat
Build wall and door
Build closet

16. 3rd floor front
    Repair walls
    Paint
    Carpet
    Add heat
    Add outlets
    Add light

17. Exterior
    Replace 2 concrete pads
    Fix rear awning
    Paint shed
    1 piece soffit

18. Yard
    Cut and clear

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

Electric (Service Line 60-150 AMP)		$500 LOT	$500.00	LOT		$ -
Electric (New Breaker Box)		$700 LOT	$700.00	LOT	1	$700.00
Electric (New Funs Per Line)		$100-$150 LOT	$100.00	LOT		$ -
Light Switches/Outlets (est. 30)		$5 EA	$5.00	LOT	40	$200.00
Plumbing 4" Main		$475 LOT	$475.00	LOT		$ -
Plumbing 1" Feed		$125 LOT	$125.00	LOT		$ -
PVC Sewer Line 6'		$275 LOT	$275.00	LOT		$ -
Heater-Gas Forced Air (90% Eff.)		$1500-$2000 LOT	$1,500.00	LOT		$ -
Heater-Boiler (90% Eff.)		$3800-$4000 LOT	$3,800.00	LOT		$ -
Hot Water Heater (30 Gallon)		$450 EA	$450.00	EA		$ -
Property Cleanout		$500-$1000 LOT	$1,000.00	LOT		$ -
Demo Work (3 Men)		$500 DAY	$500.00	DAY	2	$1,000.00
Removal-40 Yard Dumpster		$500 LOT	$500.00	LOT	1	$500.00
Post Rehab Cleaning		$200-$800 LOT	$800.00	LOT	1	$800.00
Parge Basement (Concrete)		$1000 LOT	$1,000.00	LOT		$ -
Concrete Work (Flooring/Pavement)		$6.00-$10.00/SQ FT	$6.00	SQ FT	144	$864.00
Termite Treatment (Whole House)		$500 LOT	$500.00	LOT		$ -
Misc: (Detail Work, Exterminate, Etc.)		$1000 LOT	$1,000.00	LOT		$ -
Soffit Fascia		$5.50/FT	$5.50	FT		$ -
Landscaping		$25-$2000 LOT	$2,000.00	LOT	1	$2,000.00
Interior Trim		$3.50/LINEAR FT	$3.50	L FT	500	$1,750.00
Other:						$ -
Other:						$ -
			Total Estimated Repair Co			**$28,119.00**

X Locating Rental Properties

When you go out on your hunt for rental property you must also keep things in perspective. Remember, 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.

Most of what has been described in the previous sections 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's located.

Just like wholesaling flips, the first and most critical analysis to perform is the 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.

You can use the same forms that are provided for analyzing flips.

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)!

If you want a more thorough education in buying rental properties, I suggest reading "Rental Profits Without the Pain."

After reading that book, I recommend you take the Rental Profits Without the Pain Training Course.

This gives a prospective investor a pretty good picture of what to expect. Not all of your efforts will pay off. This one happened to work out. Using my search methods I usually come up with one to three properties that make sense to pursue with offers. Compare this high percentage shot approach to the shoot your shotgun at everything that moves approach. You can see why good realtors like working with me and now will want to work with you. You're not wasting their time or yours. I can get within striking distance quite a lot with less effort with my approach and make offers with confidence because they are closer to list price as opposed to making

dozens or ridiculously low offers. That approach is for losers and suckers. You are neither of these. Your offers will get favorable responses and you will make a lot of money with less effort as a result.

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.

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.

A final and very important note: When you are filling out the sales agreement to present to a seller you need to include the following verbiage "and/or assigns" after your name is placed as the buyer.

Here's an example:

Buyer is ABC, LLC and/or assigns.

XII Selling the Contract

You have established a database of buyers and now you have filled an order for the buyers in your database who have indicated that want to buy this type of property. So, now you have to tell them about it. You have to sell it so that the current owner gets his price, the buyer gets a great deal and you make a wholesaling fee – your Profit!

Remember this classic description by Bill Cosby: "If you give me a prime rib complete with a potato and sour cream and chives and a side salad served on a trash can lid I won't want what you are offering me. However, if you present this same meal to me on fine china and silverware then I will want what you are offering me."

When you are wholesaling you want to create an investor package showcasing your wholesale deal in such a way that it gets attention and appeals to your buyer(s) enough so that they will want to buy it. I suggest creating a brief portfolio with photos, a written description of the property and the surrounding area, and a pro-forma projecting financial results for the buyer of this property. You can initially create a flyer to pique the interest of several buyers and only provide the portfolio to the buyer who is interested. You will want to showcase this juicy deal on your website and even post a Face Book ad and a Linked In post to attract your buyers. There is a free system called Postlets you can use to drive buyers to your

website along with the Face Book and Linked In traffic. If you have done a good job building your database of buyers, and you have found and secured a great deal, then built an appealing presentation and communicated it to your buyers using the channels available to you then you should make a profit for all of your effort.

XIII Rent, Sell (FLIP), Lease Option

What if none of your buyers buy your wholesale deal?

If you are able to acquire the property, 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! 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 flip then you should usually stick with the plan.

As such there are a few things you need to know about selling your house when you are done remodeling. First of all, let your investor/realtor know. Even if selling these types of properties is not his or her cup of tea they will know who is and refer the job of selling your house to them and make a referral fee in return. This is good business for you because you are acting like a good team player. On the other hand, if you remodeled your house correctly and are pricing it properly then your investor/realtor should have no problem selling it.

Before you put your house on the market, make sure you do a dry run pretending you are a prospective purchaser. When you first drive down the street what do you see? Does it catch your eye from down the street? Does it stand out (in a good way)? It should. How about when

you pull into the driveway. How does the mail box look? How does the sidewalk leading to the house look? How about the front door and storm door if there is one? What about when you first grab the door knob to open the door.

Are you filled with anticipation? You should be. These first few moments are critical. There is a lot of psychological activity going on at this point. First impressions make or break your success on this flip. You have only one shot. Make it your best one. Don't chance anything. Don't take any short cuts.

When you cut a corner to save a buck it will cost you $10 when a prospective buyer sees it. Any negative stimulus has a downward spiraling effect. When a buyer sees one thing wrong they will look for another and hen another. Trust me. I have seen it hundreds of times. I am not a psychologist and can't explain what happens inside a person's head but I can tell you it happens as sure as the sun rises in the East.

On the other hand, when a prospective buyer is wowed, well then the opposite happens. There is an upward spiraling effect of emotion. They will look for more that they like and more and more and more until they are sure they don't need to look any further and want to make an offer right away. That is success and that is what we want.

Lease Option

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.

Having read this book, I recommend you take the Wholesaling Training Course by contacting me:

https://bit.ly/2yEEiNj

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!

XIV 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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