

Making Money in Real Estate

Investing and Selling for Profit

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Introduction

You are bound to have seen or heard those infomercials on TV about making money by investing in and selling real estate.

You have probably also seen online marketing, pop up ads and other advertising that taunt you with claims that you can make millions overnight by investing in real estate.

Many of your friends and neighbors may already have tried this method of investing to build for retirement or for extra money for vacation or large purchases.

While they may not be making the millions promised by those infomercials, there is no reason you can't use this method YOURSELF to make some extra cash.

You may be surprised to learn just how much you CAN make!

Consider the story of our friend, Danny, who wanted to make some extra cash.

Danny decided to take a popular seminar to learn to make money by investing in and selling real estate properties.

Danny's goal was to supplement his small retirement account and try to set aside some money in his estate for his children to use after he is gone.

Danny asked his friend, Jerry to go to the seminar with him, and he paid more than \$3,000 to learn the secrets of real estate investment wealth.

The seminar made Danny feel very enthusiastic about the potential!

The man leading the seminar told Danny and Jerry that he wanted them to succeed and that he believed they could make over a million dollars in less than a year.

But, Danny and Jerry were unable to use the techniques supplied by the seminar leader and never made any money from these ideas.

They did decide to buy an investment property together using bank loans and took a course for \$40 at a community college to learn how to find and buy properties in foreclosure.

Danny and Jerry started small and so far, they have made a reasonable amount of money on their investments and sales.

They are learning as they go and making important connections.

They hope to expand their investments as they build credibility with banks and are able to raise more money for their properties.

Danny says:

"I am not sure I will ever get rich on these properties, but I am building a good nest egg and that is what I wanted.

I am just using common sense and the tips I have learned from bankers, realtors and others as I go along.

I wish I had known all these things before, instead of wasting my \$3,000 to find out that there is no get rich quick scheme.

It takes work, organization and the willingness to build toward your goals".

After reading Danny and Jerry's story you would be right in asking the following questions:

- CAN you make a fortune by investing in real estate and 'flipping' those properties to make a huge profit?
- Do these investment techniques and "make a million" strategies work, or are they just smoke and mirrors?
- Why would people keep trying these methods if they don't work?
- Are my friends and neighbors being hoodwinked by slick marketing pitches and losing their shirts on THEIR investments?

The fact is that you CAN make money by purchasing foreclosures and selling them for a profit, and you CAN buy those run down houses, and restore the properties.

You CAN make money on real estate investment and 'flipping properties', but it TAKES WORK!

The problem with all those slick, marketing seminars is that they make it sound like you can do it in minutes, spending mere days to plan for and purchase and sell a property.

This book is designed to give you some fundamental information about real estate investment and how to tell whether this method of making money is right FOR YOU!

It is also designed to give you some basic techniques and considerations you can use to get started in real estate investment, should you choose to do so.

So, here is the unvarnished version of real estate investment.

If you are game, you may decide you CAN do this and, if you do, you can make a substantial sum of money by purchasing and selling real estate and property.

You may NOT become a millionaire, but you can make a good return on your investment and in an uncertain stock market, this return may be better than what you can find elsewhere.

First you need to understand HOW you can make money buying and selling real estate. In other words, how does the whole thing WORK?

Let's get started!

How Can I Make Money by Buying and Selling Real Estate?

There are a number of good techniques to use when you invest in real estate. Not every technique will suit your preferences or requirements, so we are going to give you several ideas, so that you can choose the one that is right for you.

1. ***Focus on Supply and Demand*** - To understand the more complicated principles behind money-making ventures in real estate investment, you have to remember only one thing: the theory of supply vs. demand.

In other words, follow your old Economics teacher's advice.

Whether you are buying a “fixer-upper” or a property in foreclosure, you should focus on buying the properties that are NOT in high demand.

Of course this does not mean that you buy a run down house in a bad neighborhood and make it into a mansion.

It isn't likely you would get your investment back in a scenario like that, is it?

What it DOES mean is that if you choose your properties wisely and KNOW what your top price is, you will not get dragged into a bidding war on a property that isn't likely to make you any money.

You should know that sometimes a shrewd banker will create a lot of interest in a property so that many people show up at an auction to bid on the property and those people may be oblivious to the TRUE value of the property.

Do your homework. KNOW what the property is worth and do not spend more money on a property than you can reasonably expect to recover and still make a profit.

Let someone else overbid on that house because demand is high.

People often get caught up in the ‘eBay mentality’. That mentality is expressed by the fact a person will not bid on something even if it is reasonably priced, until someone else places the first bid.

THEN, they MUST win the bidding war. In the process, they end up bidding more than they intended.

That is because they lose sight of their goal, and the tug of war ceases to be about the item or property, and becomes all about the competition and power.

Don't let that happen to you.

Remember, you aren't going to LIVE in the house, you want to invest in it and then sell it to make a profit. THAT is your goal! Act accordingly.

Let someone else lose money on THAT deal!

Low Demand, High Supply - So, what if you bought something that was in low demand. You might get a great price but, again, if you do not carefully check the value of the property and location before you buy, you might find that you can't turn the property over because NO ONE ELSE WANTS IT.

If there is too much of one kind of property on the market, or if the property is in a bad area, and one that is not earmarked as an enterprise rehab zone by the city, county or state, there is little likelihood that you will get much money from that property.

So, if the idea is to buy when something is in high supply, so you can get a cheap price when there is low demand, how can YOU change the demand AFTER you have purchased the property, so that you can sell the property at a profit?

The price of the property you bought is not going to increase, unless something changes. So, how do you increase the demand?

One way you can increase the demand (presuming the house is in a desirable area), is to rehabilitate the house so that buyers will WANT to buy the house.

Rehab can make a house skyrocket in value, but you have to be sure you pick the right things to rehabilitate.

Pick the things that will make the house look better and show better, and try to stay away from things that buyers cannot see or do not care about.

Use reasonably good materials, but keep in mind that there is no point in investing in the BEST materials, because the new buyer will probably want to put their own carpet, paint and wallpaper in the house.

If the house is in GOOD shape but just needs some care, spruce it up, make sure it is clean and then sell it.

You might be surprised at the number of houses that do not sell because the original owner did not do the routine maintenance and cleaning required for the house to show well.

Remember, you don't have to spend a fortune to make the house look better.

- Landscaping – Trim the bushes, hedges and grass and plant a few flowers
- Painting – Paint the walls inside with a light, generic color (eggshell or off white) that will show the house well and make it look clean
- Lights – Be sure you have enough lighting in the house to make it look open and welcoming. Install some additional ceiling lighting (perhaps a paddle fan, or some track lights).
- Repairs – Do not leave broken lighting fixtures, or faucets, etc. in place. Be sure the minor repairs are done and all fixtures are in good condition and clean.

Fix holes in the walls or molding. Be sure that outlets have plates in place and that all molding is in place and undamaged so that the house has a finished look.

- Doors – Be sure the doors are clean and painted or stained, and place an inexpensive decoration on the front door if you can to make it look more welcoming.
- Curb Appeal – Look at the mailbox, the driveway, the front of the house and be sure that it looks good when a prospective buyers drives up.

High-End Homes can also be a find if the market is flooded.

What you need to do is to focus on what would normally be the most desirable neighborhood and step up your renovation to make the improvements that a luxury buyer would want to see.

Does the home need a swimming pool or hot tub? Can the bathroom use a Jacuzzi or one of those new fancy showers with the multiple jets?

In these areas you WILL get your money back on those types of improvements, so consider more expensive landscaping, outdoor lighting and other things to dress up the home.

What was once a standard luxury home in a great neighborhood will now be the envy of the block.

Just don't overspend to make the house stand out as an anomaly in the neighborhood.

There is a difference between the best house on the block and a 'wanna be mansion'.

The trick is to find the properties that are in high supply with low demand in your location.

These may be raw land, apartment buildings, duplexes, single family homes or retail space.

THEN consider each of these to determine how you might be able to buy the property for very little money and, in a reasonable time and with reasonable investment, increase the demand to sell the property at a profit.

High Demand, Low Supply - But what if you can find a property that is in high demand, and there aren't many properties like this one on the market?

If you can purchase this property for a reasonable price, you are better off not to sell it right away.

Instead, allow the property to build in value and THEN sell it.

Be sure you monitor the value so that you know when the time is right to unload the property and make your killing! You want to sell before the value begins to decline.

2. ***The Lease Option*** – If you can swing it, this option will allow you to control the property of your interest without having to BUY the property.

The person who spends the most money on this deal will take the most out of pocket risk until the entire deal is done.

So, while they may make more money than YOU make at the end of the day, you will have NO loans or large investment requirements to worry about.

That is why this deal is so well structured for a novice real estate investor who does not have a lot of cash to start doing deals and may not have the credit to get a lot of large loans up front.

The lease option legal agreement provides the right to purchase the property and locks in the price, and you can take occupancy and work on the property without having to purchase the place up front.

Because you are not OBLIGATED to buy the property, you don't need a huge bank loan or down payment to close the deal.

Because you have CONTROL of the property, you can assign your rights to someone else.

If you are having trouble seeing how this benefit you, let's consider the following example:

Let's say you find a property owned by an absentee landlord. The tenants in the house are behind on the rent, have been reported to the police for late-night parties and have generally trashed the premises and the landlord is totally frustrated.

Let's presume that, in good condition, the house is worth \$150,000. The work that now needs to be done to clean up the house will cost \$10,000 and the back rent owed by the tenants is \$1,000.

The landlord has an outstanding mortgage of \$50,000 and he pays \$300 per month for his payment, the interest on the loan, the property taxes and the homeowners insurance.

He is anxious to collect his back rent and to be free of his problem tenants, but he does not relish the thought of having to spend \$10,000 to fix up the house or having to spend the advertising fees to rent the house again after he has completed renovation.

If you can offer him a solution that will reap \$10,000 (for the clean-up), and \$1,000 for the back rent, he will probably be happy.

It may seem that any reasonable landlord would want to hold onto the property and fix it up to get the full value out of the sale.

But, if a landlord has been managing a property as an absentee landlord for a while, and/or after he has had to deal with bad tenants, he often just wants to get out of the obligation with a little profit and forget the whole thing.

He also knows it will cost him up front repair monies and advertising money he may not have.

If this landlord will evict the current tenants, you tell him you will rent the house from him for up to two years, at the same amount paid by the old tenants (\$500 per month), in exchange for an agreement with an option to purchase.

The option to purchase will be locked in at \$75,000, and you can purchase the house at any time during the term of your agreement.

AND, you will have the right to sublet the property to another tenant, and if you choose, to assign your right to purchase to your subtenant.

Of course the landlord is counting on you to make sure that tenant performs.

In this case, you want to make a profit on the sale, as well as the lease, so you are not going to assign your right to purchase. Instead, you are going to give HIM the right to purchase from you at a locked in price of (\$90,000).

Now, find yourself a reputable local contractor and offer to sublease the property to him in exchange for his working on the house to make the required repairs.

The contractor will rent the property from you at \$2,000 per month (with two months rent paid up front) for 12 months during which time he will make the repairs, in exchange for the purchase option at \$90,000 (well below market value).

During that time, he can also USE the property for storage, offices or living space.

The contractor will pay \$30,000 in rent and repair fees over 12 months and can then buy the house for \$90,000 and re-sell it at market value for \$150,000, so he makes \$30,000 on the deal. Well worth his investment!

You have paid \$500 per month to the landlord for 12 months (\$6,000), and collected \$2,000 per month in rent, and made \$18,000.

With the deal on paper for the contractor to buy the house from you, you secure a temporary loan for the \$75,000 purchase price and close with the landlord.

THEN you turn over the house to the new owner and make another \$15,000 for a total profit of \$39,000.

These numbers may seem small for one house, but you can see where you could manage this process on 4-5 houses per year and really start to see some income.

In exchange, you can form partnerships with local contractors who will also make a lot of money and will probably offer you discounted work on other houses you have to repair at your own cost.

Because you don't have to take a loan up front and pay interest, your dealings with a bank are limited to obtaining a loan to buy the property from the landlord and with a buyer already in hand, most banks will not give you any trouble on that front.

As a beginner, you can earn a monthly income and, if you structure the deal right, look forward to a lump sum pay day at the end of the road.

As we proceed through this book, we will give you some answers to questions about getting financing for purchases, and getting organized so that you can make several deals at one time and stay focused.

We will also give you some tips on how to present yourself, where to find houses to buy and more, so stay tuned!

Next, let's ask the really important question:

Are YOU cut out for real estate investing?

Is This Really Right For Me?

Now that you understand some of the options for making money on real estate, there is only one thing left to do.

You need to decide whether this investment idea is right FOR YOU!

Remember, that the 'make a million' seminars will make it sound as if there is no work involved, but in fact, if you want to make this work, you need to do some work.

It isn't impossibly difficult or reserved for geniuses, but it IS work.

Depending on the type of deals you decide to take on, you may or may not become a landlord for a while, and you may or may not have to come up with financing – at least temporarily.

So, understand the choices and workload you will have before you jump in!

It is important to understand the risks, the workload and the options you have before you decide to get involved in real estate investment and BEFORE you decide just how you want to structure your real estate investment deals.

- Do you want to deal with tenants?
- Do you want to deal with contractors to do repair or construction work?
- Do you want to deal with bankers or financial institutions?
- Would you rather find other ways to make money?

It is important to decide whether your personality and lifestyle can accommodate the tasks of finding properties, negotiating, financing, managing and selling properties and all the work that goes on in the interim.

If you are doing this as a joint venture with someone else, be sure that you know how you will split the work, so that one person doesn't end up with all the frustrating, grunt work, while the other gets the fun activities.

That will definitely not work for very long!

Let's think about some of the tasks you may have to perform, depending on the type of deal you structure and the type of property you buy and/or sell.

If you want to be a landlord, you have to be organized, have some ability to manage a property and get service providers like plumbers, carpenters and others to work on the property.

You may even have to manage an employee if you are buying a rental property with multiple units and you need an on-site superintendent.

Are you good with the bookkeeping aspects of that kind of business, or will you have to hire someone else to do that work? Are you willing to get calls in the middle of the night if something breaks or there is a problem?

Consider all of the not-so-fun aspects of being a landlord and NOT just the collection of money at the end of the month!

Financial and bank management is also a concern, even if you are not buying a property to keep it for some period of time.

You still have to know how to structure your deal to get funding, how to deal with bankers and how to read a loan document to be sure you get what you THINK you are getting in the deal.

You will also have to be on speaking terms with phrases like “loan-to-value ratio”, “net worth”, “annual percentage rate”, and other financial and lending terminology.

It is important to be a calm, organized person who isn't going to fly off the handle when a crisis erupts, or when something little glitch happens in a deal with a seller, buyer or bank.

If you don't deal well with pressure and stress, then this type of investing may not be for you.

It is also important to have specific goals for what you want to achieve and to do the research to find out whether your goals are realistic. Do not start out thinking you will make ten million dollars.

Write a business plan like any other small business person would and figure out if you can make what you expect to make, given your current credit rating, your current ability to find and get funding and the time you have to invest in finding, fixing up and selling properties.

- Do you want to make an extra \$100,000 per year? Is that reasonable?
- What can you buy and sell that will make you that kind of money?
- How much money do you have available without depleting anything you really need (like college tuition or retirement funding)?
- How much risk can you afford to take?
- What properties do you want to buy?

You may think you don't need to know that yet but if you haven't done any homework to figure out what you might be able to buy and how you might get it, then you really don't know whether you can swing this.

Do some research first to see just how difficult it might be to achieve this goal in your geographic location, given your restrictions and requirements for funding.

Later, we will talk about training courses and books you can consider if you are really serious about this goal, and you really want to become an expert.

One of the most important things you need to understand about training courses, and reading books on real estate investment, is the fact that you will always have to live with some uncertainty when you invest in and sell real estate.

It is part of the environment and it never goes away.

As your experience increases, you will become more comfortable with these uncertainties and, as you learn the ins and outs of the business, you will build your confidence.

But, make no mistake, there is always some risk.

The trick is to manage your risk and not to go crazy and take more risk than you, or your family, can afford.

If your life is too busy or your schedule is too restricted, you may not have the hours you need to do this job right.

Here are some of the things you will need to do:

- look for properties
- go to auctions
- sit with bankers
- negotiate deals
- deal with sellers, buyers or tenants,
- work on rehab or manage contractors who are working on rehab
- make phone calls and follow-up on deals

If you only have a couple of hours in your week, you are not going to be able to manage all of this activity.

Here is something else you need to remember:

- ***If you make a killing on your first deal, do not jump to conclusions.***

Be ready for some good deals and bad deals and stick to your plan.

Do not get overly confident before you have the experience and seasoning. The money will come in time, but you don't want to risk it all to get there.

- ***By the same token, don't draw conclusions if your first deal goes bad either.***

Be willing to stick with this idea for a reasonable period of time, provided you have the money and the time do so.

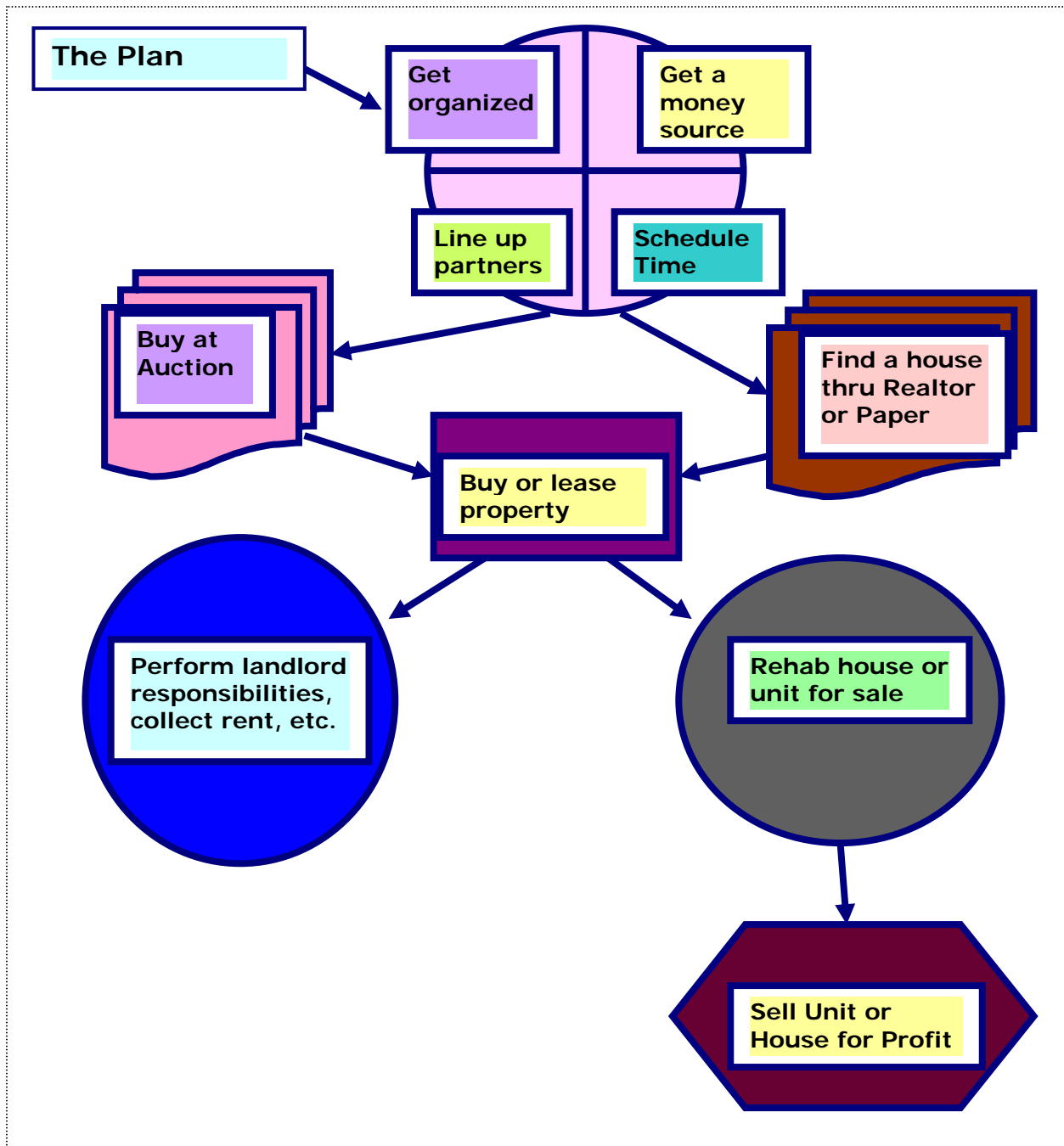
Things do change!

Being a real estate mogul takes time and energy and persistence – and it isn't a matter of 3-4 hours per week. You need a plan, a structure, and a persistent attitude to get it right.

And don't forget the elbow grease!

The first time you buy a 'fixer-upper' and face an empty dumpster with nothing but elbow grease and a strong back to help you clean out that mess, you will know the meaning of the word "tired".

Your deal might take on the shape of one of the scenarios here:



When it comes time to line up those partners, here are some partners you will need to find:

- A good real estate attorney
- An accountant
- Contractors and sub-contractors for repairs and construction work
- Realtors

- Title companies (go with the ones that specialize in real estate investors, not the big, expensive guys)
- Insurance agent
- Mortgage broker or banker
- Silent (funding) or working partner

You might be surprised to see that we have included realtors on the list of partners. Don't hesitate to involve local real estate brokers.

Remember, you are a BUYER to them and if they know you are doing deals throughout the year, they will not hesitate to call you.

In exchange for a few good deals per year, you can probably negotiate a lower deal on their commission for the sale of the house you just bought and you won't have to sell the house yourself.

Just remember to figure the commission into the deal, so you are still making a profit, if you want to structure your deals this way.

If you don't have a lot of money to get your started with financing, and your credit is not perfect, you can either get a partner who HAS money, or structure your deal for a lease-purchase option, and avoid banks.

Remember that if you have the time, the initiative and the organizational skills to try this investment scenario you are likely to make money faster than you would in the stock market and with less disastrous results.

You will have to manage expenses, fund some operating costs and sometimes, move things along by sheer force of will!

But, if you are diligent, and invest in the research and elbow grease, you will succeed.

Remember that if you incur debt to buy properties, YOU have to decide how you want to structure your deals to get your debt reduced more quickly, or to carry some debt in exchange for some cash flow in the form of rental properties.

Banks like to see the cash flow, so it isn't such a bad thing to have some debt, as long as you are not in over your head and paying more in interest than you are adding to the profit side of the ledger.

And, if the market itself is appreciating in the area in which your property is resident, it might make sense to hang onto it and make some payments right now in order to get a larger pay day when you finally sell.

You may also be able to leverage that owned property to get more investment financing for other properties, because you have an asset that the bank can count on to help pay them back, if you default on your original loan.

There are also some tax advantages if you own real estate, so be sure you look at the big picture for your ANNUAL expenses versus income and profit, to be sure that you aren't being too short-sighted in paying off your debt as soon as possible.

So?

What do you think? Do you still want to consider real estate investment as a money-making proposition?

OK, here are the three most important things you will need to succeed:

Persistence – Did you know that most real estate deals are not closed on the first try?

A good, persistent dealmaker will probably go back five or six times before he closes the deal.

Keep a calendar and set reminders to follow-up on deals, even if they seemed dead the last time you talked to the other party.

Information – The more information you have, the more research you do, the better your deals will be. You need options.

You need to know what is happening out there. Read the paper, death notices, real estate auctions, and keep your ear to the ground.

Don't go in cold to ANY deal you want to negotiate.

Know your choices and know who else might be participating or vying for the deal.

Business Focus – Do NOT treat this venture as a part-time hobby. Anything with this much money riding on the outcome is worth treating like a business.

Be sure you have the right lawyer, accountant and service providers.

Spend the time to do the job right and keep records and documentation.

Do NOT expect to do everything right, every time. Like any new job, real estate investment takes practice and experience to do well.

Reading books and taking seminars can only help so much. The rest is seasoning and experience.

You will need to learn about:

- The market in your area
- How to FIND the best properties
- How to INSPECT and decide on properties to buy
- How to get financing
- How to close
- How to sell

Fundamental Wisdom: Find, Finance, Rehab and Sell

This section contains basic and fundamental information on the various aspects and phases of real estate investment.

Later, we will focus on specific types of investments you might make by purchasing properties in foreclosures and the things you will need to do to prepare for an auction if you choose to buy properties on auction.

Find Property – There are a number of ways you can locate properties for consideration. The BEST way is to always be on the lookout.

No matter where you are driving or going, look for properties. Check online property boards, check realtor ads, check foreclosure and auction notices in the newspaper.

If you can get sellers to contact you, that is even better!

While you certainly don't want to find the family of a recently deceased person and ask if they want to sell dearly departed Dad's house, you can advertise on the same page as the death notices in the online and traditional newspaper.

You can also find the family in the telephone book and send them a postcard that advertises your service to buy homes.

You do not have to mention the fact that someone has died, so you aren't going to look like a ghoul.

You will simply be someone putting an offer in front of the family at an appropriate time.

In many cases, the grieving family is so overwhelmed with the details of estate settlement that it may be much easier and efficient for them to consider your offer than to deal with real estate agents, etc.

Another way to find properties is to look in areas where you know there is a crying need for rentals.

These areas may be neighborhoods that have had a recent resurgence where young adults may be living to go to college or to start a career or if they are in the military – before they have the money to BUY a house.

Buy a property at a reasonable price, put a small amount of money into paint and carpet and then rent it for a good profit.

Here are some other ways to find property for consideration:

- Run a regular ad in a local, free 'shopper' newspaper (Greensheet, Pennysaver, etc), or in your most popular regional paper, advertising that you buy homes and/or apartment buildings.
- Look in your local papers and/or drive around your region and look for homes that advertise 'for sale by owner'.
- Look online and in real estate handout papers for listings, especially expired listings.
- Contact building owners who have posted eviction notices in the newspaper, or who are advertising rental property.
- Look for foreclosures or tax sales, in the newspaper or at the tax office in your area.
- Look in new government enterprise zones (you can get properties AND financing in some of these cases).
- Look for HUD or VA housing sales
- Stop at estate sales and talk to the people running the sale to get information about the owner or seller of the property
- If you are enterprising and don't mind putting some work and money into a property, look for properties damaged by fire or condemned.
- Put a sign on your car, in your office window and hand out fliers and business cards so you can network with as many people as possible and let potential sellers know you are around.
- If it is legal in your area, go to a mall or other shopping parking lot and place fliers under car windshield wipers.
- If you have the money, run a radio spot, or take out a larger ad in the local yellow pages.

You should consider more than one property so that you can review the options and offsets for each and decide on the best deal before you buy.

Finance Property – When you are considering financing for your property, you must first consider how much money you can make on this property, versus how much money you will have to invest.

Compare the expenses and income on each property. Look at the market now and where the market is predicted to go and consider the baseline financial advantage for each property.

If you are investing in and holding a property for period of time, look at the income you expect to make on rent versus the amount of money it will take to maintain the property, pay taxes, pay interest on your loan, etc.

Be sure you have a firm handle on the vacancy rates in your area, and what you can expect to get in rent. Be sure you understand the tax implications and whether taxes are expected to go up, whether a new tax assessment is expected while you own the property, etc.

If the anticipated cash flow from this investment property is between eight and ten percent, it should be a good deal for you.

But, you have to look at your expenses and offsets in order to decide if it is enough money for you to justify the work and investment in the property over that period of time.

If you are buying a property to turn it over right away, consider the payoff versus what you might make in other investments like the stock market.

A well financed deal may only cost you \$10,000 to \$20,000 out of pocket, but if you are turning over the property right away, you will have your profit much faster than you would if you invested in the stock market.

Once you have figured out what the property will cost you, and how long you want to keep the property, and what you anticipate making on the property, the next step is to find financing.

Private Funding - If you plan to use private investment funds, you will be looking at investing your own money or the money from friends, relatives, co-workers, neighbors, accountants, doctors or lawyers.

In short, anyone who has the money and with whom you have a good relationship, MAY be willing to give you some money for investment, provided they feel you have a good plan to get their money back, plus a profit.

To get private funding you have to have a compelling presentation. You must carefully plan and articulate your strategy to convince someone to give you a chunk of their hard earned dollars for investment.

The way the deal works is that you buy the house, fix it up and sell it for a profit. In exchange for using their money for the purchase, the private investor gets 10-15% simple interest for a year.

You will ONLY pay them interest for that time (monthly, quarterly or whatever you negotiate). They hold a first mortgage position in the property and you ensure that you have covered the property with insurance.

You then negotiate the percentage of the profit the investor will take home after sale (remember that they have already gotten interest payments from you during the course of the year, so don't give away ALL your profits).

Here's a possible example:

- You buy a house using \$100,000 of a private investor's money
- You make payments of 10% interest to them, on a quarterly basis for 12 months
- You pay a \$10,000 over that 12 month period to fix up the house and sell it
- The house sells for \$175,000
- You pay the private investor his \$100,000, plus a profit of \$20,000
- and you make a profit of \$35,000 after all expenses

Not a bad deal, right?

Funding for Rental Property - What if you want to hold onto the property and collect rent? How does a lender analyze THAT deal and come up with the amount they are willing to give you?

Banks will usually consider 75% of the monthly rental amount toward an offset to the mortgage. So, if your tenant is paying \$2,000 per month, the bank will consider \$1500 of that to offset your mortgage payment.

But, the building must be leased for this calculation to apply. If the building is vacant, the bank will say you have no offset rental income.

The problem with buying a rental property as an investment is that most of these properties need work, and it is hard to do the work to improve the value for sale when you have tenants in the building.

So, you may find it hard to get financing on these kinds of investments.

Which means that you have to come up with the money to buy the building, fix it up and pay operating costs and taxes until you can sell the building again.

That is why many novice real estate investors do not take chances on rental properties.

One way that an investor can get around this problem is by purchasing a rental property with only one or two rental units (a two-family house, for example) and moving into the property themselves while they are renovating.

This works well for young investors who don't mind pulling up stakes to live somewhere else temporarily and it means that you can work on the property to renovate in your spare time, because you are RIGHT THERE where the work needs to be done.

OR you can rent the property at a reasonable rate to a person who can do the work, and let them live there and renovate at the same time, and pay less rent than they might pay in another house or building in the same neighborhood.

Other Financing Options – Here are some other financing options to consider.

- Get a home equity loan or line of credit and use that to finance the purchase. Then do the repairs and flip the house for sale to make your profit and pay off your loan.
- Refinance an existing property you own to get the down payment on the property and then get a traditional loan from a bank.
- Buy a house where the owner is behind on their mortgage payments and in jeopardy of going into foreclosure. Agree to buy the house if the seller will give you a certain amount of time to find a buyer.

This gives the owner time to find another place to live, and In the meantime, you will make the seller's mortgage payment plus a small profit to the seller to offset the inconvenience of his wait.

You can even have the seller show the house FOR YOU. Then sell the house at the market value and collect your profit.

- Buy and sell a house the same day so that there are no operating or holding costs and you don't need to hold a lengthy loan and make interest payments.
- Buy a house that is about to go into foreclosure. The purchase price will be enough to pay off the seller's investment in the house.

You will take the rest of the profit (less a small profit for the seller) and YOU will find a new buyer.

- Buy a house that is paid off from an older couple or individual.

Give the seller a good sum up front and then pay them a steady income monthly, so they are essentially carrying a mortgage until you sell the house to another buyer.

Bank Loans – If you have to resort to traditional financing, be sure that your choice of a property to purchase warrants the investment the bank will give, and that you (or the person getting the loan FOR YOU) has enough credit to get a loan at a reasonable rate.

Ensure that the loan contract does not include pre-payment penalties, so you can pay off the loan as soon as you sell the property.

And, don't take out a traditional loan on a house unless you got it for a great deal and can sell it to make a profit.

While you are thinking about the money you need to cover the cost of your property, don't forget to get insurance. AND, talk to your agent about the type of policy you need. If the house is going to be vacant and/or under construction you must be sure your policy will cover damage, vandalism and fire while it is vacant.

Check the policy carefully, because some policies limit vacancy to 30 days.

One last thing about financing your deal and dealing with money issues.

People often ask us about flipping a property, and whether they have to make a deposit on the house they buy if they are going to sell it right away.

The answer is 'no', you do not have to make a deposit. However, the seller may ask you for one, if they do not understand that you already have a buyer for the property and that they are guaranteed their money on a certain date.

If you choose to tell the seller you are flipping the property, you can simply remind them that all monies will be paid at closing.

However, you do not HAVE to tell your seller that you are flipping the property. That is your business.

As long as the seller gets the money you promised them in the purchase contract, it should not matter that you are reselling the property to someone else and it may actually sour the deal if they believe you are making more money than they are making.

You don't want THEM to think about doing what you are doing with the house or you will lose the profit. It is neither illegal or unethical to keep this information from the seller.

What you do with the house after you buy it is your business!

However, it may mean that you will want to make a deposit on the house just to keep things within standard practice and avoid answering questions from the seller about why you DON'T feel you need to make that deposit.

Rehab Property – The reason that a lot of real estate investors buy properties that require rehab is that they can typically buy them for less than they are worth and fix them up at a reasonable price and then make a profit.

Whereas, if you buy a house in pristine condition, you may not get much of a deal, unless the owner is in foreclosure (which we will talk about later).

If you have lined up your contractor partners and can do the rehab work for a reasonable fee, OR if you are a contractor yourself, and can do the work for less money, then buy yourself a house that needs CONSIDERABLE WORK, not just a house that needs paint and carpet.

These rehab jewels will usually need new floors, or roofing, or they may need a new boiler, a new driveway, new siding or other major work.

Look closely at the house before you buy it and KNOW what you are getting yourself in for and then negotiate a price with the seller by listing all the repairs needed and the associated costs so that they know they are lucky to have someone who even WANTS the house.

Chances are you are not telling them anything they don't know, but you need to let them know that YOU KNOW, so you can buy the house for the best price possible.

If you are going to 'flip' the property by buying it, doing the rehab and then selling it right away, you can make \$30,000, \$40,000 or \$50,000 buying a house in poor condition and selling the restored house at a market value.

As long as you have to put all this work into the house, do yourself a favor and do some research to find out what is selling in the area. What are the hot features on which you can make the most money, what are the preferences of buyers in that area?

Be sure you KNOW the market value of this home in GOOD condition, so you don't buy the house thinking you can make \$50,000 and find out that your real profit will be about \$10,000.

Remember, it is going to take time, management and money to fix up this house, so don't buy it unless it is a good deal.

If you intend to buy the property to rehab and rent, you can afford to wait for the property to come up to the value you anticipate, provided you have a tenant who will take care of the freshly renovated house and not trash it again.

You also have to KNOW that the market is on its way up and sell the property at the right time before it goes down again.

As you can see, there is a lot of research and planning that goes into this process, if you are to strike while the iron is hot!

We thought it might be helpful to provide you with a sort of 'walk through' list so that you are sure to look for all possible rehab issues before you make an offer.

If you are not good with such things, hire yourself a good inspector and tell him/her to be brutal in their evaluation, so you will know what the house will take in the way of investment.

Depending on the work you plan to do, you may need permits and inspection after the work is completed, so allow for that time, investment and effort as well.

This walk through list does not include minor items. Those should be easy to see and to estimate. Instead, it is focused on those major items that will cost you the most money.

- *Structural* – Walk around the entire house and look at the foundation. If there are bushes or plants in the way, push them aside so you can see the foundation.

Look for cracks or other damage. Foundational damage is VERY EXPENSIVE to fix and if you have any questions about the condition of the structure, you should hire an inspector.

It is worth the investment.

The alternative is that you buy a house that will cost you a fortune to repair and you will LOSE money on the deal.

Inside, look for cracks in the walls near or on the arches of the doorways, or near the floor or on the walls themselves.

Look for recent patch repairs on the walls that may tell the tale of something else going on.

- *Roofing* – While you are outside, look at the roof. Look for loose shingles, rot or places where the water may have seeped in around the chimney.

Look at the overhang and see there is rot there or if there are signs of termite damage. If the siding, roofing or other wood trim is soft to the touch or crumbles, you have to replace these items.

This is not as expensive as foundation work, but roofing is not cheap, so be sure you get an estimate of cost before you make an offer on the house.

Look for dried water spots on ceilings inside and other signs of leaks (flaking paint on the walls or soft ceiling tiles).

- *Trees* – Look for large trees that are close to the house. Their roots could cause plumbing problems, and their branches may cause roof damage.

While a large tree can be a real complement to a house and help to sell it, be sure the tree is in good health and that it does not threaten the house in any way, or you could have a problem later on.

- *Electrical and Wiring Issues* – Look for the fuse box or breaker system and check to see how many connections are on the main breaker. Ask how long since the electrical system has been updated.

If the house is very old, the chances are the wiring is very old, as well and you will have to replace wiring, add outlets and fixtures to update the house.

This requires opening up walls and can become expensive, so be sure you know what you are getting into.

If there is a central heating and/or air conditioning unit be sure that the electrical system is sufficient to handle the load and will not cause a fire hazard.

Again, this is a place where you may want to invest in a professional (a licensed electrician) to be sure you catch all the issues the house may hide.

- *Plumbing and Heating Systems* – Look under every sink to be sure there are no leaks or dried water spots, mildew or mold.

Find out how recently the boiler and heating system (hot water heater, etc) has been replaced and turn on thermostats and other controls to be sure everything works well.

Listen for tell tale sounds of a limping boiler to be sure it isn't turning off and on all the time or making strange noises when it runs.

For the more minor rehab issues, find out if the market in that area seems to prefer paint or wallpaper, carpet or tile or finished wood floors and rehab the house accordingly.

If you are going to paint or wallpaper, choose light, simple colors and patterns that will appeal to most people and make the house seem more open and well-lit.

If you are putting in carpeting or tile, go with a solid, generic color that will not be so light that it will easily show the dirt. A tan or camel color or other medium earth tone is fine.

If you are refinishing wood floors, stick to a lighter finish and stay away from dark wood stain. It will make the rooms look smaller.

Some minor landscaping and plantings will dress up the 'curb appeal' and make the house more welcoming.

Be sure you consider the driveway or parking area and make sure that is neat and well-maintained.

If you are doing the work yourself, be sure you know all the local code and requirements so you do your rehab in compliance with standards.

If you are hiring a contractor or handyman, negotiate a discounted fee in exchange for future work on other houses you buy.

Ask that they work with you to decide where you can cut corners on expenses and what work is going to be crucial to sell the house. Be specific about what you want done and how you want it done or you could have a nasty surprise at the end of the project.

When you consider the cost of a professional carpenter, electrician or plumber or roofer, remember that, unless you can work on this full time, you are likely to get your money out of the house sale faster if someone else is working on the property.

That way, you can keep the project moving toward sale.

Figure that into the equation as well.

It may be worth the investment in professionals if you want to sell the house before the market dips when winter sets in, or before other houses come on the market in the Spring.

You can also consider the possibility of asking the contractor not to charge you for the work until the house is sold and in exchange, give him/her a percentage of the profit that will be larger than what you might have paid before.

IF this works for you in terms of cash flow, it may be a way to get the work done without out of pocket fees. Of course, you will have to offer guarantees to pay for the project if the house does not sell within a certain time frame.

If you are paying the contractor out of your pocket, pay them a percentage up front and ONLY pay the rest after a certain part of the project is completed.

For example, if they are putting in a new kitchen, you might pay them one third up front and two thirds when the kitchen is completed to your specifications.

Decide who will buy and deliver the supplies and whether the contractor will bring their own tools or whether you will supply tools, storage etc.

Consider opening an account at a local hardware, paint store, or large home improvement store (though the large stores tend to be more expensive) and have the contractor put the charges for supplies and tools on that account.

This way, you can keep track of what they buy, the quality of materials and how often they are running out for supplies.

If they do not plan well and have to run to the store twice a day, that is taking away time from your project!

Even if you are not doing the work yourself, be sure that YOU or someone else acting as your agent, visits the job site often enough to keep the contractors on their toes.

You can ask questions, look at progress and keep an eye on your project as it nears completion.

Be sure you have considered security on the house you are fixing up. It is not uncommon for unoccupied houses under renovation to be vandalized.

Secure the house with locks and outside lighting systems that will keep away burglars and teenage vandals.

Give your contractor a key and instruct him NOT to give the key to anyone other than the project foreman on the job.

And be sure all your contractors are licensed and that they have THEIR OWN insurance so you don't lose your investment if they do damage or burn down the house!

Keep the project low key, if you can.

Have the contractor store supplies at the back of the house if possible or INSIDE, so that it is less likely someone will drive by and see that the house is under construction and unoccupied.

Do not place signs outside on the lawn.

Put up some temporary curtains or blinds to block the view from outside.

Try to avoid town or county inspectors until you are ready for review.

If inspectors can see that construction is going on and they believe it is of a critical nature, they may show up unannounced while you are not there and have free access to the house while your crew is working.

Ask the crew to unload their trucks in the morning and then park trucks with commercial signs a few houses down the block if they can.

If you are doing structural work, roofing, electrical, or plumbing work you may need a permit in the town in which the house is resident.

Check the local laws so you know what you need to do before the work starts. Otherwise your job may be shut down in progress!

Selling Property – If your house is in rehab, do NOT advertise the sale until the house is at least 95% finished.

No one wants to walk through a house with walls opened up and wires hanging and try to imagine what the house will look like when it is finished. You won't find a good buyer that way!

Once the house is finished on the outside, you can place a sign up to attract attention and then collect names and phone numbers of people who want to see the house.

You will have to put YOUR phone number on the sign so that people will call you for an appointment.

You can then make appointments or tell them you will call them back when the house is ready to show, and in this way you can start to build interest, without spending a lot of money on advertising.

You can also place a protected box with brochures near the sign. In the box, you can put brochures for this and other properties you are selling, including a description, pictures, and the price.

You can also include your website, phone number and other contact information on the brochure, and even a loan application so you can pre-screen people before you engage in any negotiation.

They can fax this to you or drop it in the mail for your attention.

You can also consider printing fliers and placing them in mailboxes in the neighborhood.

Give the neighbors your contact information and offer them a fee if they refer a buyer to you (\$100 or \$300 is usually sufficient, depending on the neighborhood demographic and average income of families in that area).

You can also choose to hold an open house to get interest after the house is completed. Call any buyers you have on the hook from brochures or fliers or ads, and put a sign in the yard a few days before the open house.

Have plenty of brochures and information on hand about the other houses you are selling so that if the prospective buyer is not interested in this place, you might be able to get them interested in another property.

If you think you can make enough money from the market value of the home, you can bring a realtor in and negotiate a reduced fee in exchange for future business on homes you buy and sell.

If you can keep the commission to 3% and your profit margin is good on the house, you may be well advised to use a realtor so you don't have to worry about the time and effort and expense of selling the house yourself.

You can also ensure that the realtor will qualify all buyers before bringing them to see the property so you don't have to go through the time of qualifying the buyer yourself to be sure they can get the mortgage they need to buy the property.

Negotiate an early closing date up front (30-45 days) so that you can make your money back as soon as possible.

Whether you sell the house yourself and use your own real estate lawyer to draw up the contract, or use a realtor as the middle man, be sure the contract stipulates that says that the buyer must produce verification of mortgage approval within 1-2 weeks, or the deal is off.

You don't want to get tied up with a buyer who cannot afford your house.

Before we close this section, here is one last tip for the novice real estate mogul!

Whether you are buying a house, going for financing, walking the yard of a property in rehab, or dealing with a realtor or buyer, be sure you LOOK the part of a professional real estate investor.

You don't have to wear an Armani suit or dress in expensive clothing (that will only intimidate the other party and make them feel like you are a 'shark' and not someone to be trusted). But, you MUST look and act professionally.

Women can wear slacks and a cotton shirt or a nice blouse with simple jewelry. No cleavage, heavy jewelry or heavy make up, or crazy patterned outfits, short skirts, or high heels. Wear sensible shoes (nice boots, sneakers or flat heels).

You may be climbing stairs or walking in mud or wet grass, or crawling around in an attic or crawl space.

Men can wear jeans and a clean dress shirt (maybe a tie, though that is up to you), or a clean, solid colored golf shirt with your logo if you have a business name and logo for your company.

If you are wearing a jacket, be sure it is clean, not frayed, simple and professional looking. No grease stains or tears.

Carry a clip board or notepad so you can take notes and write down telephone numbers.

Bring your calendar or Palm Pilot so you can make appointments without having to call someone back.

Carry gloves, a flashlight, a cell phone, masking tape, a small tool box and first aid kit in the trunk of your car.

You should be prepared for anything when you are inspecting or trying to sell a house.

A friend of ours who invests in real estate, always carries a clean change of clothing neatly folded in his trunk in case he gets dirty on the job and still has another appointment to keep later in the day.

It is easier to dash into the bathroom and change clothes than to show up at the next appointment looking like something the cat dragged in.

Treat everyone with whom you interact, with respect. It doesn't matter whether you are dealing with a seller, a contractor, an inspector or a buyer or realtor, you should always be respectful.

You don't know when you might meet up with them again and need their cooperation.

Call them Mr. or Ms. Smith, unless you are specifically told to call them by their first name.

It goes without saying that you should not be too familiar in professional dealings. Don't swear, use slang, make derogatory remarks about anyone, about the neighborhood, or be otherwise too familiar.

You want to make a good impression and you never know who you are dealing with and whether something you say may be considered offensive by the other party.

Be on your best behavior.

Be prepared to answer questions confidently and if you don't know the answer, SAY you don't know and that you will find out and get back to the other party. Don't lie or embellish!

You will get found out sooner or later and it will harm your relationship with the other person.

Whether you are agreeing to buy, sell or hire, always put it in writing. Get all the details into a contract or letter so that there are no questions later on. Get a signature on the dotted line so you have some legal recourse if someone does not perform an obligation.

Document what YOU and others will do to complete a job or fulfill a contract.

And, if there is ANY question about terms, you should also document what you WILL NOT do to perform the obligation, e.g. you will sell the house to your new buyer for 'x' dollars within 'x' number of days, but WILL NOT leave the appliances or lighting fixtures.

You can find some standard real estate forms and contracts by visiting this link online.
<http://www.creonline.com/real-estate-law/legal-forms.html>

But remember that you should ALWAYS hire a good real estate attorney and never try to complete and sign contracts on your own, unless YOU are a real estate lawyer.

Lastly, if you are doing a deal and you get stuck or have a problem, do not hesitate to ask for help.

Depending on the nature of the problem, you may talk to your lawyer, the realtor with whom you are dealing or another professional.

DO get the help you need.

Feeling embarrassed about asking isn't as bad as losing \$50,000, right?

Always remember that, as with any other job or position you hold, your reputation is worth its weight in gold.

A bad reputation will follow you wherever you go and a good reputation will buy you a lot of trust and good references.

So think about how you dress, act, and speak and the type of deals you do. Don't take advantage of, lie to or otherwise try to hoodwink others, or it will come back to bite you!

Now, it is time to talk about some market and deal specifics.

The information that is contained in the following sections should help you decide what kinds of properties you want to buy and sell and how these deals compare to other options.

Single Family Homes vs. Apartment Buildings

In general, you probably don't want to start out your real estate investing career by investing in apartment buildings.

These deals and maintenance and rental issues are more complex than buying a single family home and selling it to make money.

However, you may want to consider this option later in your real estate investment career, as you gain more experience and confidence.

The first thing you need to know before you decide to buy an apartment building or multi-unit rental property is how to figure out whether you can make a profit on this building.

First, find out what the current owner pays for ALL operating expenses (utilities, taxes, repairs, heating oil, salaries, etc., but leave out the mortgage payment). Then find out what she/he is currently making from tenant rental payments.

Now, take the yearly income number (let's say it is \$50,000), and subtract the expenses (not including the mortgage payment).

Let's say the expenses without mortgage payment equals \$37,000. The net operating income for this example would be \$13,000 per year.

If you multiply that number by 10, you can get the approximate value of the property (\$130,000). But what if you raised your tenant rent by \$30 per unit (not that much to the tenant, but look at what it does for you).

For 20 tenants, that extra monthly income will amount to another \$7200 in annual income, and will increase your net operating income to \$20,200.

Now, do the math again, by multiplying the income times ten, for a total of 202,000. You just increased your property equity over \$70,000.

Not bad, is it?

The trick is to keep your paying tenants (presuming they are good tenants) by raising the rental payment just ENOUGH so you can make a good profit, but not so much that they don't want to stay or that the rate goes over the rental market rate in that area.

When you are considering whether to invest in an apartment building or multi-unit building, you must also look at the tax assessment to be sure that the assessor has not over-appraised the building.

Often, local assessors will do this to get a better tax income from what they consider 'commercial' properties.

But the valuation must be reasonable and based on good assumptions, so these over-appraised properties can often be challenged.

If you can get the tax rate down, you will make even more money.

But don't buy a building based on the assumption that you can lower the taxes, unless you have done the research and decided that this decrease is likely after talking to the pros.

Check the tax tables for comparable properties in the area as these numbers can help you justify your request for a decrease if comparable properties are assessed at a lower rate.

When you are calculating your possible income on an apartment investment, be sure you look at the improvements you may have to make to make the building more desirable for rental.

If the building is in a good area and you can make some minor improvements and spruce up the building, you may be able to increase the rent even more.

This is a delicate balance, so be sure you know what you are doing before you raise the rent through the roof and overprice your rental rate for the comparable market in that area.

If you are going to make money on this kind of investment, the cash flow is the important factor in this calculation.

If that cash flow isn't there after expenses, then your deal is no good!

The Foreclosure Market

If you are interested in buying houses that are in foreclosure, you need to be prepared, and you need to know that these properties are not as plentiful as those marketing sharks might lead you to believe when they sell you a real estate investment course.

The way these purchases work is fairly simple on the surface. You buy the property at a bank auction, fix it up and sell it or rent it, as you choose.

This is certainly an inexpensive way to get property and it means that you can make a good profit on rent or sale, but you DO need to be careful.

Depending on the situation with the property, whether it has been abandoned or damaged by the previous owner or tenant, and how much work it will need, you have to carefully consider the expense and the time to get the property back into shape.

You MUST do your homework on these properties BEFORE you make a bid to be sure you know what they look like, how much work they need.

Be sure all systems are functional and that there are no other liens or tax issues with the property that may prevent you from doing what you want to do with the property.

One friend of ours bought a property that was in such bad shape that it was easier to knock it down and build a pre-fabricated house on the property to make the sale.

The property itself was in a good area so the price on the pre-fab house sale was suitable for his needs.

There are options and ways to work around the issues that come up in foreclosure, but you must go into every deal with your eyes wide open.

Remember, the bank is selling the property 'as is', so you have no recourse if there is a major structural problem or other issue you uncover after you make the purchase.

There is a lot to foreclosure processing that you might not anticipate. Because the property is in foreclosure, there is a lot of paperwork, legal legwork and other effort that may not be apparent when you are considering making a quick fortune.

If you have the time and the patience, you can work through all these things, but you may hit snags and it may cost you more money than you thought, so be sure you get the best deal possible on the purchase.

You should also remember that when you are buying a property in foreclosure, you may be dealing with shoddy property management and that, in the course of trying to salvage their financial freedom, the previous owners may have done a lot of damage to the house.

Or perhaps they built illegal rental units inside the house trying to make back money on rent, or maybe tried any one of a dozen other schemes. It will be your responsibility to deal with zoning issues, taxes, neighbors, angry tenants, etc.

We would suggest that you start with the purchase of homes NOT in foreclosure, fix them up with a little elbow grease or with a LOT of rehab and sell or rent them for a profit.

This is a good way to get into the real estate investment market without having to learn all the details of foreclosure and legal factors included in the process.

After you get your feet wet on a regular sale, you may feel confident enough to try your hand at foreclosures.

However, we would recommend spending a few years and doing a few deals first before you jump into auctions and foreclosure activity.

If you don't know what you are doing, you can wipe out your credit, your savings and your career in real estate investment with one bad foreclosure deal.

It isn't our intention to scare you, but you should be forewarned of the complexity and problems that may ensue if and when you buy a foreclosure.

Forewarned is forearmed!

Let's look at the things you need to know, the things you must consider and the things that can go wrong in a foreclosure deal!

You can buy a property just before it goes into foreclosure, you can buy at a foreclosure auction or you can buy the property from a lender who purchased the property during an auction.

When we talk about the lender purchasing the property, we simply mean that no one bid on the property during the auction, so the original lender or banker ended up with the property at the end of the day.

If you buy the property after the lender is stuck with it, you have more options and recourse than if you buy the property during the auction.

Since the bank owns the property, you are entitled to more information as a buyer than if you just took the property sight unseen at the auction.

While you may be unable to see the property in advance, depending on state laws, you MAY have recourse if there are problems after you buy the property.

Check your state laws to be sure of your rights before you enter into such an agreement.

If you buy a property before it goes into foreclosure, you also have to be careful.

Owners are desperate to save themselves financially and they may do anything possible to hide problems from a prospective buyer.

There may be major repairs, liens on the property, back taxes, etc.

Be sure you check your state laws to find out if any apply to buying a property from an owner who is in default on a loan. If you have the right to ask for inspections, title searches, etc., then do so to protect yourself.

The other reason you need to know about foreclosure and pre-foreclosure law in your state is to ensure that you don't spend a lot of time and money working on a foreclosure deal, only to have the seller sue to reverse the sale.

It is always smart to have a lawyer who understands these laws and to let her/him ensure that the seller can actually sign over the deed to you, that his property is not tied up in bankruptcy proceedings in this, or any other, state.

While attorneys may not be able to prevent any and all unanticipated problems, they can protect you from many of the consequences.

When you buy in pre-foreclosure, you should therefore protect yourself by doing what you would do for any potential house closing. Get an inspector, check titles, etc.

If you chose to buy at an auction, you are at the most risk, since you have no real estate agent, no attorney with contract in hand, no title report and no insurance.

Most states require cash in hand for foreclosure purchases at auction, and some will give you a week or more to pay the money.

However, since your deposit is not refundable, if you do not pay the full amount, you lose the property AND the deposit.

You have no warranty from the bank that the property is free and clear of liens other than the outstanding mortgage, so there could be contractors who have liens on the property, or there may be tax liens, etc.

Unless you know the neighborhood, you really won't even know whether you are buying a property that is in a good market area, and you won't be able to see the inside of the house to judge how much work it needs, until after you make the purchase.

IF the house is occupied by tenants, you will be responsible to evict those tenants.

As you can see, there are many risks with a foreclosure property. If you hit it right, you can make a lot of money with some time, investment and leg work. If you do NOT hit it right, it may cost you a lot of money and time and you may be stuck with a bad property that you cannot sell.

Therefore, we do not suggest that you get into the foreclosure market until you have some seasoning as a real estate investor and you can set up a process to effectively protect yourself from as much risk as possible.

If you want to explore the laws of your state regarding lender rights, owner rights and foreclosure proceedings, you can look here: <http://www.findlaw.com/>

If you are up for the challenge, and wish to look for a pre-foreclosure property or look for bank-owned properties that did not sell at auction, you can start looking for these properties.

Go to your county courthouse and asking to see the Notices of Default filings that a lender must file with the court before a foreclosure is begun.

Pre-Foreclosure - If your local court will not allow you to do this research, you can ask about available online data, or visit this link to see if your court lists this information here: <http://www.netronline.com/>

You can also look in the library to find the legal notices from the local newspaper. There is a list of public auctions for trustee sale, sheriff sales, etc.

If there is other information there (like the address of the property, the local tax number, etc.) write all of that down so you can do your research by driving through the neighborhood to look at the house

Go to the tax records office at town hall to look for outstanding back taxes, liens on the title, etc.

You will need all this information before you approach the owner to make an offer on the house that will keep them away from the auction block. But you have to act fast in many cases, because the foreclosure itself may be imminent.

Properties Owned by the Bank - You can also look for properties the bank has in its owned inventory (because they did not sell at auction) by looking at the online site for a bank and searching for listings they have given to a realtor to offload.

If you want to approach the realtor to make the purchase, you can then work through them, instead of directly through the lender.

You can also call the bank and ask to speak to the officer who handles the repossessed properties they own. If the bank branch does not handle these properties, ask for a contact in the bank headquarters office.

The other option is to look in free neighborhood publications like the Pennysaver, for properties that are listed as owned by the bank, repossessed, etc.

You can call the realtor for THIS property and, at the same time, you can find out about other properties they are selling for the bank.

Usually the government foreclosure ads will lead you to a dead end with a voicemail system where you must leave a message. Rarely does anyone ever call you back, so don't waste your time.

And, even if they DO call you back, you may find that the properties are very old, that the list is out of date or that the property is in another state.

Stay away from listings that say VA, FHA, HUD owned, unless you are able to find a local contact.

Here is a tip to get you some exposure to auctions without the risk of bidding at an auction.

- Go to the auction, not to bid but to get information on the properties. Write down the address of the properties and wait about two weeks.
- Then take a drive by the houses that were auctioned off and see if there is a realtor sign posted.
- If so, call the realtor and see if you can make a deal on that house or if you can find out what other properties they have in foreclosure that you might want to see and buy.

Preparing for and Attending an Auction

So you insist on buying a property in foreclosure? OK, well we should give you the basics, so you won't be totally overwhelmed.

Remember that we do not suggest that you engage in this buying process until you are more seasoned! So consider yourself forewarned!

Know the Law – The first thing you have to do is to research the law in your state to know what your rights and obligations are if you buy a property in foreclosure.

Depending on the state, you may have more or less time to prepare for the auction. In some states, the lender is obligated to advertise the auction two weeks in advance, but the lead time does vary.

Find out all the information here:

http://www.foreclosures.com/www/pages/state_laws.asp.

Get the Facts on the Property - Look here to find out in what state the deed is filed, which lender holds the mortgage, and more:

<https://www.foreclosures.com/www/order/default.asp>.

You should also find out the outstanding amount owed by the current owner. To get this number, you can try to do the research yourself through your County Recorder but it isn't going to be easy in most cases.

You can also pay a fee to find out more about the title and the exact position of this property in terms of ownership, liens, loans, encumbrances, etc.

Try one of these two sites:

<http://www.americantitleinc.com>

<http://www.titlesearch.com/>

Use an Attorney – Once you have the preliminary information, use a real estate attorney to review the documentation (or to FIND the documentation if you are not good with online research or dealing with county office personnel), so you know whether this is going to be a good deal for you.

The attorney will also look for IRS liens, taxes, subordination documents and other legal agreements or issues that may impact the purchase.

Calculate Your Expenses vs. Property Value – If you are unable to see the property (even in a drive-by) you will have to use a worst case scenario for repairs, assuming there will be some major repairs like plumbing, electrical or structural work.

These expenses will affect the price you offer at auction.

With the address of the property you should at least be able to see the outside of the structure and you can probably walk around it and perhaps look in the windows.

Do whatever you can do to get some idea of expenses for repairs.

Now, figure out the market value of the house you will rehab and sell. Find out what well maintained houses are going for in that neighborhood.

How desirable is the neighborhood in terms of the proximity to shopping and highways. Are the schools good? Is there a low crime rate in the area?

Now calculate the highest bid you are willing to offer on the property. Having this number in hand before you go to the auction will ensure that you do not bid over your head or over the value of the resale value of the house.

Prepare for the Auction – Call the lender or trustee who is running the auction and confirm the location, date, time and any minimum bidding or other guidelines.

Find out the name of the person, company or bank to whom you must address the check you will bring, and whether you are obligated to pay the entire fee at the auction or if the auctioneer will take partial payment with the final payment due within 2-4 weeks.

Get a cashier's check for the minimum bid you will make (remember, you have to pay at the auction in many cases), one for a medium amount and one for the HIGHEST amount you will bid.

These incremental checks will assure that you have covered your positions AND that you will not be tempted to place some other bid in the heat of the moment.

Check the title again to be sure no lien or claim has been filed against the property at the last minute.

The Day of the Auction – Register with the trustee or representative so you can bid. You will need to show the registrar your checks so that they know you are a qualified buyer.

You will usually make your bid verbally after the property is announced. Though there isn't ALWAYS another bidder, you should still be prepared for competition.

If you are the winning bidder, the trustee will take your money, and record the deed so that you are on record as the new owner.

Note: Be sure you obtain insurance on the property immediately after your successful bid.

Now, the hard work will begin. You may have to evict tenants or the old owner, you may have to do some heavy rehabilitation, and THEN you will have to sell the property.

So, get moving!

You have a lot to do before you can collect your profit!

Finding a Good Lawyer

You may have noticed that we mentioned real estate attorneys a number of times throughout this book.

If you are going to invest in real estate, you will want to find an attorney you like, one who is reputable and can represent your interests as you continue your investment practices.

Here are some tips to follow in finding and hiring the RIGHT real estate attorney:

1. **Go With an Expert**

Choose an attorney who spends at least 60% of her/his time doing real estate deals.

That attorney is likely to have seen it all, or will at least be familiar with MOST of the scenarios.

Finding someone who represents other small real estate investors is a real plus! If they do represent other investors, in what kinds of properties do these investors deal? Commercial, rental, single family homes?

Be sure this attorney has specialized in real estate law for AT LEAST five years. The longer, the better!

2. **Ask for References**

We will talk about real estate investment clubs in a moment. This is a good place to get references for a good real estate attorney and to hear the horror stories that will prevent you from going with someone who really doesn't know their stuff!

If you do not belong to a real estate club, you can talk to a realtor to get a reference or ask your neighbors, co-workers or family.

Find someone they have used more than once and ask a lot of questions about how much they dealt with the attorney, what they did for them that was over and above the call of duty, and whether the attorney was responsive to phone calls.

Ask about their prices and how comparable they are to other attorneys in the area.

3. **Organizations and Associations**

Find out if the attorney belongs to local, regional and national real estate organizations like REIA, and if they buy and/or sell real estate on their own.

Find out if they have affiliation or partnerships with any local realtors. You can often tell the reputation of a real estate attorney by the company they keep.

If the realtor is well-recognized and successful in the area, then they are likely to be using and referring GOOD attorneys.

Does this attorney belong to a local real estate club, teach classes in real estate or legal issues, or belong to the local bar association, zoning board or other related committee or organization?

4. **Client Management**

You don't necessarily need a huge law firm with lots of partners (in fact they are likely to charge you for EVERYTHING and you will end up with a huge legal fee), but you do want someone who will be available, responsive and easy to find when you have a question.

Try to find someone who loves what they do and who is creative and enthusiastic about your deals, but also practical and risk-averse when it comes to your money!

Networking and Partnerships – An attorney who has connections in the CPA community, the realtor community and other related professionals can help you find someone you need quickly, at a reasonable rate and with good references, as well!

5. **Fees and Expenses**

The cheapest attorney is not necessarily the one you want to hire. You have to consider all the other factors before you choose. If the person you like is not the cheapest, but you can afford to use their services, then go with them.

Stay away from attorneys who want you to pre-pay for services.

Once you have paid their fee, you may not be able to get them on the phone quickly enough to close a deal or answer a question. If they have to provide the service BEFORE they get paid, they are more likely to respond to your needs.

6. **Service Contracts and Agreements**

Don't sign any long-term agreement or commitment until you KNOW you want to stay with this attorney.

If the attorney wants you to sign a contract for their services, insist on a 90-day trial first and be sure you will USE their services enough during the 90 day period to be able to judge whether you want to continue as their client.

Read the contract carefully, to be sure you know with whom you will be dealing (just that attorney, or others in the firm) and what the contract includes and excludes, so there are no surprises.

As your relationship with your attorney-of-choice progresses, you may be able to negotiate and solidify an up front fee for these kinds of transactions, so that the fee is fixed and does not vary from deal to deal.

Training and Skill: Taking a Course or Joining a Club

Before we end this book, we felt it was important to talk more about building your skills and knowledge.

It is true that the best, most effective way to invest in real estate and learn the ropes is to get started.

Yet, you want to avoid the worst mistakes and most costly errors if you can. So, the faster you can get training, knowledge, information and skill, the better off you will be.

How do you do that?

There is nothing to replace experience, but you CAN take a good seminar, join a local real estate investment club or go online to read and learn more and protect your interests and financial position.

There is no ONE magic bullet to teach you everything you need to know. Networking is a great way to get information and learn from the experience of others.

Clubs - Like any kind of club you might join, you may be surprised at how forthcoming the members are with information, advice and insider tips.

SIMPLY BECAUSE you are all interested in the same thing, the club is a great way to meet people and share information.

Just be sure you are comfortable with the club you join. There may be more than one choice in your area so pick one where you can actually LEARN something and make good networking connections.

Any club that just specializes in bashing the national, regional or local experts, or talking trash about others is not going to serve your purpose.

You want a club with a reputable circle of members, who can speak intelligently on various topics and who are MAKING MONEY by investing in real estate. If they are not making money, they are merely 'wanna be' real estate people from whom you will learn nothing.

Stay away from clubs that require you to invest a significant amount of money to join or do a deal with the other members.

You will probably have to pay dues or the cost of a meal when you meet, but you should not have to front \$1,000, \$2,000 or more to be a member of the club!

Here is an idea of a good club scenario:

The club will have 300-600 members, and of those members about 100-150 will show up for each meeting, so you'll have plenty of networking opportunities.

Members will bring fliers announcing events, business cards and other information and this information will be made available to the group on a table in the back of the room.

Members have the time for networking either before or after a presentation or speaker and can exchange business cards.

Members will usually have time to give a 30-60 pitch about their business, services and events during the meeting.

A speaker may talk for 30, 45 or 60 minutes about a particular topic of interest to the group. Sometimes the speaker is a member and sometimes they are hired as an outside expert and paid a fee to speak to the club.

These clubs may also sponsor Saturday or Sunday seminars that last from 10:00 a.m. to 3:00 or 4:00 in the afternoon and cover a topic in depth.

An annual membership fee of \$75-\$150 will give you access to newsletters, legal research, online research, etc. You may also have to pay a 'meeting' fee to cover snacks, beverages or food or the cost of a speaker. That fee may be \$10-\$25.

The meeting is likely to be in the evening on a week night and will last from 7:00 to 9:00 or 10:00 p.m.

One word of caution. If you are looking for a mentor or partner, be sure you get references and ask around about that person before you select them to help you or to ask them for advice.

People can often seem knowledgeable or reputable, but that does not mean they know what they are doing or that they are a good person to give you advice.

Take heed, especially if the person wants to charge you for advice. You can find friendly, free mentors by networking and talking to people during these meetings and in between meetings.

If you decide that a paid mentor can help you move forward more quickly, be sure you understand what you are getting for your money and **GET IT IN WRITING.**

A written agreement will protect you if the person does not fulfill the contract terms. If the mentor does not call you back when you need advice, or otherwise disappoints you have some legal recourse in the form of a signed contract.

Make a good impression by offering whatever value you can offer to the other members.

Throw good information their way and make yourself valuable to them in some way, and they will probably return the favor.

Don't be afraid to ask questions. If you are in a room full of people who have more experience than you do, take advantage of that experience!

You can find a list of local real estate clubs, organized by state, by visiting this link:

<http://www.creonline.com/real-estate-clubs/index.html>.

Books - You can also learn by reading. Go to your local bookstore and purchase 5-10 short books on real estate investment.

Look for the common factors. These are usually the ones that everyone uses with the most success.

Create your own process and then run it by someone else (a friend in the business or a mentor) to see if you have covered all the basics. Use this process as a checklist to be sure you do what you need to do to cover yourself in any deal.

Remember that you can't possibly anticipate EVERY problem, but the more you CAN anticipate, the better off you will be.

Here is a list of some good real estate books to get you started:

<http://www.creonline.com/catalog/index.html>

Online Message Boards and Forums – Try some of these if you have questions, or if you just want to read comments from others and learn more about the business.

<http://www.creonline.com/real-estate-financing/index.html>

<http://www.creonline.com/wwwboard2/index.html>

<http://www.creonline.com/mobile-homes/index.html>

<http://www.creonline.com/wwwboard/index.html>

<http://www.creonline.com/commercial-real-estate/index.html>

<http://www.creonline.com/cash-flow/index.html>

<http://www.creonline.com/real-estate-law/index.html>

You will notice that all of these message boards and forums are sponsored by Creative Real Estate Online, a website that has a wealth of information, articles and networking opportunity for the new real estate investor.

You will also find many other real estate investment books and articles online. Be sure you don't spend your family savings on courses, books and other 'make a million' schemes.

Remember that a good solid foundation, increasing experience and a great local network combined with time, the willingness to work for your money, and a low-risk financing strategy will get you far.

You don't need an expensive 'millionaire' method to learn how to invest in real estate and make money.

Use your head. If it seems too good to be true, it probably IS!

Training Courses – Here is a site where you can find a list of courses if you choose to take a live course or seminar.

<http://www.real-estate-online.com/catalog/index.html>

Before you sign up for a course, you may also find it helpful to look at THIS link. It rates and articulates people's experiences with the various 'real estate investment EXPERTS' in the market.

<http://www.johntreed.com/Reedgururating.html>

Information about Legal Issues – Last, but not least, here is some information about legal issues, legal forms and other investment, foreclosure and property law data:

<http://www.creonline.com/real-estate-law/legal-forms.html>

<http://www.creonline.com/real-estate-law/index.html>

Summary

It is time to close now, and let you head off to begin your journey into the wonderful world of real estate investment.

Remember, you are unlikely to make a million overnight.

BUT, with the proper preparation, good partnerships with other professionals and the willingness to spend the time and money to get started, you can make a return that is usually better than what you might make in the stock market.

To succeed as a mini-mogul, you must:

- be adventurous
- be dedicated
- be creative
- be persistent
- have time to invest
- love to get your hands dirty
- have financing and/or be creative in getting start-up funds
- like dealing with people
- love solving problems
- LOVE a challenge

If you possess all of those characteristics, then real estate investment may be just the thing for YOU!

Good luck!

We wish you much success, and the fulfillment of your financial dreams!