Freedom Mentor

Free Bonuses Inside!

HOW TO BE A REAL ESTATE Investor

DISCOVER HOW YOU CAN MAKE FAST CASH AND BUILD WEALTH INVESTING IN REAL ESTATE

by Phil Pustejovsky

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This book is dedicated to anyone who has ever dreamed big.
You are capable of far more than you could ever imagine.

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Introduction

While bored out of my mind, sitting behind a desk one day, I considered how to be a real estate investor. I was fresh out of college with a degree in mechanical engineering from Vanderbilt University. Many well intentioned adults tried to convince me that the American dream was to get a 9 to 5 job with a Fortune 500 company. But, it sure didn't feel that way once I got one! I was falling asleep at my desk and had no freedom. It quickly dawned on me that I didn't want this for the rest of my working life. In fact, it was about that time that I heard someone refer to the word "job" as an acronym standing for, "Just Over Broke." I wanted the exact opposite. I wanted to be financially free.

I began researching how to become financially free at the library and at book stores. Real estate investing surfaced as a common thread amongst many economically successful people that I studied. That's when I began to consider how to be a real estate investor. What fascinated me about real estate was that there were techniques for making money that didn't require investing cash or using my credit, which was perfect for me at that time because I didn't have any money or any credit.

I devoured every book I could get my hands on and attended free tele-seminars, webinars and local live seminars. A whole new exciting world was opening up to me and it appeared to be exactly what I was looking for. It was a way to become financially free. Before I could begin to truly educate myself on the subject, however, my boss and I had a disagreement at work one day that led to me quitting my Fortune 500 job.

Rather than go get another job, I decided to focus my full time efforts on real estate. It was quite a gamble considering I had very little money saved up, no money coming in, and no experience in the field. But, I was determined to make it work. My parents weren't all that pleased with my decision because they had just spent a substantial amount of money on my college education. They reasoned that I didn't need to go to one of the most expensive colleges in America to be a real estate investor. They recommended I get a job and do real estate on the side until my real estate endeavors were paying me more than my job. It was sound advice that went through one ear and out the other.

The books and seminars made real estate investing sound so easy. I thought to myself, "If I have all day, every day, to devote to real estate, how hard can it be?" In hindsight, that one thought was a major miscalculation. I had failed to consider the fact that I absolutely did not know what I was doing. Real estate, as I discovered, is a business that has tremendous potential, but you really have to know what you're doing to be successful with it. At the time, I didn't have any money to invest in my education, so unfortunately, I was learning every important lesson of real estate the hard way...through the school of hard knocks.

I burned through my savings. Because I had no money coming in, I couldn't pay my bills. When I couldn't pay my rent, I literally went homeless. I was forced to live out of my truck. Some have asked me why I didn't move back in with my parents when this happened. Maybe it was pride, or stubbornness or embarrassment, or just plain geography (since my parents were over 1000 miles away), but I didn't tell them how bad it had gotten and I didn't consider moving back home.

Just imagine what it felt like to be me back then. My only credit card was maxed out, my bank account was over drawn, and there was no cash in my wallet. I was living out of my truck, eating off of a case of Bush's baked beans. To open the can, I used one of those cheap can openers that hurts your fingers when you turned the knob. The blade seemed to always slide off the edge and it took several minutes just to open one aluminum can. The beans were cold because I didn't have any way to heat them up. I used a plastic spoon from Wendy's to dig out the beans. Those were some dark days. I would cry myself to sleep each night, wondering how I ever got myself into that mess.

A friend, who knew my situation, recommended I go to church. At first reluctant, I changed my tune when I considered that they may have free donuts or snacks for new guests. So with the few ounces of gas left in my truck's tank, I drove to Christ Church on Old Hickory Boulevard in Brentwood, TN. Not having frequented church as a kid, I didn't really know what to expect. At first I was very nervous about the experience because people were singing, raising their hands, and as I later learned, were in the "praise and worship" part of the service. I settled into the far back row of the second floor of the sanctuary, wondering when the donuts would arrive. The pastor got behind the pulpit and began to preach. It felt like he was speaking directly to me and my situation (even though there were more than 500 people in attendance at that Sunday morning service). By the end, he asked for anyone looking to make a change in their life to walk down to the front of the stage and give their heart to Christ. I was sold on what he was offering so I walked all the way down and gave my heart to Christ. At the time, I didn't know exactly what I was agreeing to, but I knew I needed help and I was desperate. I thought to myself, "Nothing else has been working out lately so maybe this will?"

With the hubbub of walking down that aisle, I forgot about the donuts, the original reason why I attended church, but, I did walk out of there a new man. With my new lease on life, I reassessed my situation and decided I needed some money coming in. I got a job as a valet because it paid immediate cash and a friend recommended I referee pee-wee football because that also paid instantaneously. Soon I was eating food other than cold beans. What's more, this experience of going homeless had taught me that I needed help if I was going to succeed in real estate. I discovered that pulling oneself up by his bootstraps was not what truly successful people did. Successful people don't go it alone, they reach out for help. I needed to truly educate myself with more than just books from the library. I needed the help of another person who had done what I wanted to do. I began searching for a mentor, someone who could take me by the hand and show me the ropes. Have you ever heard of the saying, "When the student is ready, the teacher arrives?"

Right about that time, I had located a property well under value. I had put it under contract to purchase for $30,000. The value of the property could be as much as $90,000 if it was all fixed up. I didn't have the time, money or expertise to renovate the house though. A local investor recommended I "flip" the property, or re-sell the property to another investor. This technique would provide me with quick cash and I wouldn't need the time, money or expertise required to fix up the property.

I put the word out and the details of this deal found its way to a gentleman who was randomly in Nashville because his mother was battling cancer. This guy had come from five generations of real estate investors. He was a Nashville native, but had been living on the beach in Florida for the past several years. He was a street smart person and knew how to make money.

In fact, he was so common sense intelligent that he made more than $180,000 on his first real estate deal when he was only 18 years old. He put a corner lot owned by Exxon under contract for $100,000 and then flipped the parcel to an adjacent property owner for $280,000. How many 18 year olds do that? This person knew business and he knew real estate.

As I was showing him the property I wanted him to buy, he began asking me questions about what I was doing. It didn't take long for me to spill the beans and share with him how bad things had gotten. He was shocked to find out I was a Vanderbilt graduate with a degree in mechanical engineering choosing to go homeless for my dream of becoming a real estate investor. He said, "If you have enough determination to stick with your goal of being a real estate investor to the point of going homeless, I can show you how to make real money in real estate." He went on to propose, "If you agree to split profits with me, we can do something together." And before he finished that sentence, he chimed in with, "Oh, and also don't do anything to get me sued. I don't need the hassle. I can live on the beach with my dog and my Bible, not work and be just fine, so don't do anything that would tie me into a lawsuit." I agreed to his terms.

My arrangement with him was such that he agreed to take me by the hand and show me step by step how to be a real estate investor. My job was to listen to him, however outrageous I thought his instructions were, and do all the legwork and then we would split the profits 50/50. I'll never forget what he told me that first day. He said, "50% of something is a whole lot more than a 100% of nothing." That lesson right there changed my life and it will also change your financial life too. As I later discovered, the principle he was sharing stretches to almost every type of business. The greatest fortunes were built by sharing the profits. Did you know that at the height of Standard Oil, John D Rockefeller was only a 1/6th owner in the company? Wealthy people don’t try to own 100% of a small pie; they instead, align themselves with great people and together take a portion of a much larger pie. 50% of something is a whole lot more than a 100% of nothing.

Here was that principle in action. Our first deal together didn’t at first appear to be a good deal at all. It was a very well built country house on sixteen acres in the rolling hills of Franklin, TN. The owner had built the property to be his family’s dream home and for several years it was just that. But, his financial situation had changed and he began to struggle to make ends meet. He hired a real estate agent to sell the property and for more than one year, the property sat on the market at a list price of $300,000. The total mortgage balance on the property was about $275,000. The seller had two loans. The first mortgage was an interest only loan with a principal balance of $225,000 and the second mortgage was a home equity line of credit (also known as a HELOC) with a balance of $50,000. Together, his total monthly payment was about $1,500 and at the time, he was falling several months behind.

When the deal first crossed my path, it had come to me through another real estate investor in town. I had spread the word out among other investors in my area that if they had any potential deals they didn’t want, to send them to me and if I could turn these discarded deals into money, they would get a referral fee when they closed. In other words, I was asking for their junk leads they were already throwing in the garbage. The concept did generate some leads for me, but most of them were of no value.

I mentioned this lead to my new mentor thinking it was worthless, but to my surprise, he said, "Go sign it up. I smell an opportunity." That was his way of saying, "Get the property under contract." One of the beautiful aspects of real estate is that you can control property without having to own it so long as you use the right paperwork. Furthermore, if your contracts have the appropriate clauses in them, you can make the process of getting a property under contract virtually risk-free. On his recommendation, I made the drive to the property, met with the sellers and offered to purchase their property for the amount they owed. I gave the sellers all the cash I had for earnest money, $1.

Rather than turning me down, I was pleasantly surprised to see the sellers agree. They were a bit suspicious since the property had been listed for over a year with a very well respected real estate agent and wasn't selling and here was a young kid ready to buy it after only viewing the property for a few minutes, but they needed to sell and were open to just about anything. I, however, was somewhat indifferent since I had experienced so many real estate failures up until that point that I wasn't going to get all that excited until the money was in my bank account. I was still impressed though that I could tie up a piece of property so easily.

"OK, what next?" I asked my mentor. He reviewed the details of the deal and determined we needed to see if the second mortgage would take less than their full payoff to release their lien from the property. This is now a much more common phrase in real estate, often referred to as a "short sale", but at the time, there wasn't a name for it. Back then, you simply contacted the department that handled the loans that were in default and you negotiated a reduced payoff (nowadays, it is far more organized and most lending institutions have entire departments that just handle short sale requests). Since the seller had not paid the second mortgage for several months, the loan was already assigned to the default department.

My mentor told me to offer 10% of $50,000, or $5,000. I took his advice but didn't think the bank would accept. Sure enough, they did! The mortgage company faxed a letter stating they would accept $5,000 for their $50,000 second mortgage. Jackpot! Or was it? Where was I going to come up with $5,000?

Rather than give me $5,000, my mentor wanted me to learn how to be self-sufficient, how to be a real estate investor, even though I didn't have money to invest or the ability to qualify for a real estate loan. He introduced me to the concept of offering a "rent to own." The key ingredient to this concept was locating a "tenant buyer," someone who wanted to be a homeowner but was struggling to qualify for a home loan. To round up some candidates, he instructed me to put out hand written signs on a Friday afternoon at busy street corners near the property that said "Rent to Own" as well as a phone number (this was before Craigslist and other online classifieds).

Then, another shocking result occurred. The phone rang off the hook, literally. I fielded incoming calls for several days. It had worked. Some simple, handwritten signs had generated an overwhelming response. After a few meetings with tenant buyers that went nowhere, my mentor told me I needed to concentrate on people who had a down payment above $10,000 since we had to payoff the second mortgage of $5,000 as well as catch up the back payments on the first mortgage which amounted to $4,800. He also said that although there would be far fewer of these people, they would be a better use of my time and I only needed one tenant buyer to do this deal. There's a great lesson in real estate. You only need one buyer to make a deal happen. You only need one.

After pouring through a large number of callers who didn't fit that description, I finally discovered someone who said they had $20,000 to put down. A bit skeptical, I set up a time to meet, but thought to myself, "Who, on earth, has $20,000 available in cash but can't buy a home the traditional way?" Since cell phone coverage was spotty out in the country where that property was situated, we met at a nearby McDonalds and they were to follow me to the actual property.

While on the drive, I prayed for a miracle. I was still struggling to survive, living day by day. The gas tank was so empty that I was almost certain I wouldn't be able to get back home. I was so broke there wasn't even any change in the glove box. I didn't know what I would do if I ran out of gas.

Trailing behind me was a slightly beat up Tahoe with a couple inside who had said they did contract work for Lowe's. They brought in what banks consider self employed income which made it very difficult for them to get a traditional mortgage. Banks far prefer the W2 income that is generated from having a normal job. We drove out past the developments and into the countryside that Tennessee is known for. There were large horse farms bordered by white wooden fences stretched as far as the eye could see. We moved deeper and deeper into the country as we headed toward the property.

I had shown this home before to a few other couples but they had all commented that the property was too far out in the country for them. So I thought its rural setting was a negative. The further we drove into the sticks, the more concerned I got that I would look in the rear view mirror and that Tahoe would be gone. But thankfully, they stayed in tow.

We arrived at the entrance to the driveway. On one side of the road was an old, half full, completely dilapidated garbage truck. The neighbor across the street ran a garbage business and this foul smelling landmark was one of their latest equipment failures. So if you had your window down, on your way in, you'd get a fresh whiff of trash. Since my AC was acting up, I definitely got a whiff.

The actual sixteen acres was not square in shape, but more of a long, rectangular parcel. The house was situated at the highest point of the plot of land, far back from the road. The dirt driveway hugged along the left edge of the property and wound slowly upward before ending at the left side of the home. My truck began to crawl down the long driveway with the crunching sound of tires rolling over gravel filing the air. The truck began to distance itself from the Tahoe behind me, not only because I had been there a few times already and felt more comfortable navigating the winding dirt road, but also because they were inspecting every detail of the property.

I had already parked and was looking back at their progress when something magical occurred. Three small deer pranced across the driveway, right in front of their vehicle. It was as if I had staged the experience, with a walkie-talkie in hand, telling an associate, "Queue the deer." But it wasn't planned. I had nothing to do with 3 deer running across the property. It was a miracle.

The husband and wife emerged from their vehicle with a gigantic smile on their face. They took in a deep breath, the way vacationers do when camping in the mountains. As it turns out, this was exactly what they were looking for in a home. They wanted to be out in the country with lots of land. After briefly reviewing the inside of the home, they came back to me and said, "We'll take it. Who do we make the check out to?"

I was speechless. It worked! This actually worked! Right before my very eyes, this couple wrote out a $20,000 check to me personally. I said to myself, "What do I do now?" After catching my breath from all the excitement, I knew I needed some cash that day just to survive, so rather than deposit the check and wait several business days for the check to clear, I went to the bank the check was drawn on and cashed it. Have you ever had $20,000 cash in an envelope before? It's a unique experience. I was paranoid someone was following me and was going to nab that money. When I got to my bank, the teller, to which had seen my average account balance the past 12 months on her computer screen, looked with amazement (and suspicion) as I handed over $20,000 in cash for deposit. And just like that, there was real money in my bank account.

Since the property was vacant by this time, the rent to own tenant buyers moved in right away. $5,000 was sent to the second mortgage to pay off the loan and then $4,800 was sent to the first mortgage to catch up the back payments. The tenant buyers agreed to pay $1,800 per month and our total monthly payment which included the first mortgage payment, taxes and insurance, was $1,300 each month. So we profited about $10,200 immediately plus $500 per month. Meanwhile, I didn't have to qualify for a loan or use any of my own cash to purchase the property. I was becoming a real estate investor!

We referred the tenant buyers to a mortgage broker to help them get on the path to being able to get a loan to payoff the rest of the property. In 3 months, the mortgage broker had qualified them for a loan. She had found a special loan program for self employed people. The tenant buyers had agreed to pay $275,000 for the property and since they had already put down $20,000, they only needed a loan for $255,000. The first mortgage balance we had to pay off was $225,000. After closing costs, we were looking at earning about $25,000 when the tenant buyers' loan went through.

Right before the closing, there was another twist. The title company had noticed a very odd detail in the recorded loan paperwork. The legal description on the paperwork described the neighbor's property. In other words, the first mortgage was on the little neighbor's home, not the sixteen acres and beautiful country home. I was not sure how this was going to help anything but my mentor had a plan. He reasoned that we could potentially negotiate a lower payoff since the attorneys fees the bank would incur to correct the paperwork could run into the tens of thousands. With a few phone calls, sure enough, the first mortgage reduced their payoff to $206,000. This last minute first mortgage payoff reduction put another $19,000 profit in our pockets.

In all, this deal netted more than $56,000. I didn't borrow any money, didn't qualify for a loan, didn't use any cash to acquire the property and everyone was happy with the outcome. The sellers were happy to have sold the property without owing anything, the new buyers purchased their dream home and we had made a ton of money!

Had it not been for my mentor, I would have received 100% of nothing. Instead, I was $28,000 richer, an amount some people work an entire year at their job to earn. That was the largest amount of money I had ever put into my bank account up to that point in my life. I would go to the ATM just to check my balance because I couldn't believe my eyes.

Interestingly enough, about a year later, I followed back up with those rent to own tenant buyers who had purchased the property and innocently asked how they were getting along with all those deer running across their property. She replied, "Since that day you showed us this property for the first time, we've only seen deer here one other time." Do you believe in miracles?

Think of all the different parts of my first deal with my mentor that most people would never have imagined would have worked. First, that a seller would so easily have sold their home to me with $1 earnest money. Second, that the second mortgage would have accepted $5,000 for a $50,000 loan. Third, that I could sell a property in a few weeks that a top notch real estate agent couldn't after over a year. Fourth, that there would be people out there who can't qualify for a traditional mortgage but have money to put down and can afford the monthly payment. Fifth, that a first mortgage would reduce their payoff due to incorrect loan paperwork. That's one of the powerful aspects of having a mentor. They teach you things you didn't know you didn't know. It turns out that all of those details can be fairly common in real estate under the right circumstances. While most people may never imagine that such series of events could ever come together, for experienced real estate investors, they are considered everyday occurrences.

After that first deal together, we were off to the races. He guided and mentored me to more money than I could have ever dreamed. We did all types of deals: short sales, foreclosures, wholesales, rehabs, lease purchases and creative finance deals. You name it, we did it all. Life was good. With my new found freedom, I traveled, enjoyed life and then met the woman of my dreams and got married.

One day, my wife and I asked ourselves, "Since we can, if there is any place in the world we could live, where would we live and why?" Have you ever asked yourself that question? It's not as easy of an answer as you may think. After several years of deliberation, we decided on a beachfront community in Florida where we bought a mansion on the water (it was a distressed property that we got for about half of its value, of course). It's paradise for us and I surf and fish as much as my wife will allow. *Side note gentlemen: Happy wife = Happy life.*

Each time I would be in an airplane, I would see thousands of homes scattered in all directions. On one particular flight, this thought popped into my mind, "How can I do deals all across the country?" I could see that there were thousands of cities and thousands of homes in each one of those cities. How could I be a part of making money on all those deals?

My first approach was to build a company with employees. Since I could do deals long distance, without ever seeing the property myself in person, my plan was to train my employees on what to do. I began hiring people. Soon, I noticed that my plan was not working out well. What I learned was that employees did about 75% of what I would do, despite how well I trained them. In real estate, 75% doesn't cut it. For a deal to close, someone had to be on top of the details and I found that 9 to 5 employees didn't have any major incentive to take care of the little details to ensure deals closed. They were paid to show up, not to perform.

Then, I had an "ah-ha" moment. I reasoned that perhaps the best way to expand across the country would not be to hire employees, but instead, to mentor those interested in becoming real estate investors the way my mentor did for me. We could split the profits 50/50 and now, instead of a 75% employee that did just enough to not get fired, I would have a business partner that was 100% committed to the financial success of each deal. Plus, I would be passing on a set of skills that could benefit the people I mentored. Not only could I gain economically from this new approach, but also I could pass on a legacy of having helped others achieve their dreams. In hindsight, it seems like such an obvious solution, but at the time, it was a revolutionary idea for me.

As always, great ideas include great challenges. Being a successful real estate investor is much different from being a great real estate mentor. It’s one thing to be able to do something yourself. It’s a completely different challenge to be able to teach someone else how to do it. There were many years of trial and error as I crafted a system for teaching others how to be a real estate investor. Not only did each task, technique, and strategy have to be simplified, it also had to work most, if not all of the time. Anytime you teach someone else a subject, you have to know it so much more thoroughly. It was like being mentored all over again; only this time, my mentors were the students I was teaching.

Mentoring someone outside of your own backyard, in a completely different area with different laws, demographics and market dynamics was another huge challenge for me too. There were many mistakes made, but I grew from them. And, eventually, I made some breakthroughs. Although, the majority of real estate investing is universal, each area is also unique. Some strategies work better in some areas, but not as well in others. In the beginning, I looked at this as a handicap, but now, it has become a strength. I mentor from a nationwide perspective so I see more opportunities oftentimes than those that only see the narrow, local view. You also have more resources at a nationwide level, such as closing companies, mortgage brokers and many other critical team members that allow us to complete creative transactions that oftentimes a local closing company or mortgage broker is unable to do. Sometimes in life, what you think is going to be a hindrance to your success becomes one of the reasons for your success.

I so appreciate all those students in the beginning who endured the kinks and glitches first hand. Thankfully, despite those initial growing pains, my students experienced extraordinary results. And, as luck would have it, teaching others comes naturally to me. At least that is what my students have told me.

In addition to the success of my early students, a few rose above the crowd and truly impressed me with their own creativity and ingenuity. They had taken what they had learned from me and then added their own entrepreneurial touch to it. I was always told to surround myself with great people and so for those students that truly shined and had a heart for teaching, I invited them to coach with me. Together, spread out across the country (but connected by phone and internet), we efficiently and effectively mentor and coach budding real estate investors to success.

Today, we operate one of the most innovative and results producing real estate education companies ever created. We offer stand alone training courses as well as coaching and mentoring programs where we split profits with our students. Each year, people from all walks of life experience true financial breakthroughs as a result of our educational programs. They become independent, highly successful real estate investors, living their dreams. What an honor and privilege it is to be a part of transforming people's financial lives.

Now you know where the author is coming from when you read this book. Not only have I personally experienced a rags-to-riches journey with real estate, I have also proven that it wasn't a fluke by teaching others to be successful real estate investors as well. Amidst thousands of deals and thousands of students through up and down markets, this book comes from the real world of real estate investing. It's the book I wish was available and I would have read when I first got started. It's a book that tells the real story of how to successfully invest in real estate.

Although I haven't read EVERY published real estate investing book, I can safely say that most of the ones I have read don't tell the whole story. For some, I don't blame the author. He or she simply didn't have the distinct opportunity to be as fully immersed in as many different types of deals, with as many people in as many different areas over such a long period of time as I have. For others, like the ones I read when I was first getting started, they focused entirely on the positive aspects of investing but failed to communicate the challenges as well. The goal of this book is to tell the whole story, the good and the bad.

You'll find that success in real estate is not dependant on the area you live in, or the current market conditions, or your cash position, or your credit score, or the way you talk, or how charismatic you are, or anything like that. Instead, you'll discover that becoming a successful real estate investor involves thinking like and doing what other successful investors do. Real estate is rarely a get-rich-quick endeavor, but when you stick with it, it is usually a stay rich long term experience. Apply what you learn in this book and you'll have a set of skills you can take with you the rest of your life that can help you live the life of your dreams.

Welcome to the wonderful world of real estate investing!

Part 1: Why Be a Real Estate Investor?

"90% of all millionaires become so through owning real estate."
– Andrew Carnegie

Why should you become a real estate investor? There are, after all, many different ways to make more money in life. Statistics released by the foremost authority on personal finance, the Internal Revenue Service, revealed that the majority of personal wealth of US taxpayers is held in real estate. Has the thought of running your own business, being your own boss, or calling your own shots ever crossed your mind? The IRS further points out that the most likely way for anyone to become independently wealthy in one lifetime is through entrepreneurship and through owning your own business. Opportunity seekers can spend countless hours researching the best paths for making money. If you are one of those people, you can stop your research. Becoming a real estate entrepreneur provides you with the highest probability for economic prosperity.

One of the reasons why real estate is so good for making money is that it is the IDEAL investment.

> **I**ncome: Real estate can provide you with steady, tax advantaged income, often referred to as *cash flow*. You can rent real estate to a tenant. Overtime, rental payments from that tenant can payoff your mortgage, cover any property management and maintenance costs, and can still leave enough for you to have a steady income as well. Although there are other investments that provide steady income, such as bonds, and stocks that offer dividends, real estate typically provides a larger amount of income than bond coupon

payment or stock dividends and is more tax advantaged.

Depreciation: This term is used for tax purposes and is of great value to real estate investors. To illustrate the concept of depreciation, think of the life span of a t-shirt. After being worn and washed, over the course of several years, it deteriorates. Although you may have t-shirts that have lasted decades, the average t-shirt probably lasts a couple of years. For determining how much you will pay in taxes on your real estate investment, the IRS has recognized that the structure of a property (not the land, just the structure) deteriorates too, and they set the life span of a residential rental property at 27 ½ years. Does a well maintained house simply crumble to the ground after 27 ½ years? Of course not. But for determining how much you will be paying the IRS, whatever you bought the property for (minus the land), can be depreciated over 27 ½ years.

Example: You buy a $100,000 single family home and the land is worth $10,000. That means, for tax purposes, your tax basis (what you bought the structure for) is $90,000. When you divide $90,000 by 27 ½ years, you get a tax deduction of $3,272.73 per year for depreciation. If that same single family home has a positive cash flow of $270 per month, or $3,000 per year, you get to add an additional expense to that property in the form of depreciation for $3,240 and therefore, in this example, you don’t have to pay any income taxes on the $270 per month you were bringing in! This is how real estate rental income is so incredibly tax advantageous.

With all the tax increases and unfair taxing rules, why would the government continue to allow this deduction for real estate investors? The government is giving people an incentive to be real estate owners. They want you to be a real estate investor.

Equity: When you buy real estate, you have the opportunity to purchase property at a price lower than its market value. When you get a good deal, the difference between what you bought it for and what it is worth is called equity. The old saying, "In real estate, you make your money when you buy," applies here. When you buy a property well below market value, you instantly get equity.

By comparison, publically traded stocks are purchased at market value. The market may be undervaluing or overvaluing the stock at the time of purchase, but either way, at the exact moment a stock is purchased, the price paid is what the market will pay for it. With real estate, however, you can buy a property well below market value and literally turn around and resell that same property for tens of thousands of dollars more a few moments later. We do this quite often, actually.

Appreciation: Over the course of the last hundred years, studies have shown that overall, residential real estate has kept pace with inflation. In some areas, residential property values have even appreciated above and beyond inflation. For wise and educated investors, appreciation is an added financial bonus to being a real estate owner, not the reason to buy property. Since predicting the future has proved to be a difficult task, buying real estate based on the other factors outlined earlier is a far better decision then betting on if or when a property will appreciate. You can only benefit from real estate appreciation if you own it. Therefore, owning as much real estate as you can, as wisely as you can, can give you the best probability of gaining from appreciation. And if it comes your way, be appreciative.

Leverage: When you borrow money to buy real estate, you are using leverage. The people and companies of this world that control the majority of the money, such as banks, mortgage companies, hedge funds, mutual funds, pension funds, insurance companies and private individuals, want to lend you money to buy real estate.   That's how many of them make their money; by lending money to you on real estate. There are all different types of real estate lenders, from those that require good credit, lots of money and a great loan application all the way to those who simply lend money on real estate based on the market value of the property. If, for example, you buy a $100,000 property and you put down $10,000, you are using leverage to own a $100,000 asset with only $10,000 of your own money. The ability to borrow money to buy real estate is the use of leverage and it allows you to buy more real estate with less money.

Real estate truly is the IDEAL investment. That is just one of the many reasons why real estate is so attractive. Here are several other reasons why real estate investing may be exactly what you have been looking for in a business opportunity or investment vehicle.

Real estate investing doesn't discriminate based on your age, background or ethnicity. You're not too old or too young (although you must be 18 years old to own property.) Regardless of where you come from, how old you are, or what nationality you are, you're on a level playing field with everyone else.

Real estate investing requires no resume. It doesn't matter where you went to school, how many jobs you have had, the lack of professional skills you may have, or the color and texture of your resume paper. Successful investors come from all walks of life. You're not inferior if you lack higher levels of education. My mentor never went to college. If you have a college or post college degree, that's not a handicap either. Everyone is on a level playing field, regardless of what you're resume looks like.

Buying and selling real estate does not always involve the use of your cash or credit. There are several strategies that you will learn in this book that allow you to not only make fast money but also own real estate for long term wealth accumulation without having to put down any cash or borrow any money. Certainly, when an investor has cash and/or good credit, they will have more ways to invest in real estate, but as you learned from my personal story, it is possible for you to get started from absolute economic ground zero.

Real estate is a basic human necessity. As the saying goes, "Everyone needs a roof over their head." This book will focus on residential real estate investing. Living quarters come in all shapes and sizes too, from single family homes, to duplexes, condos, townhomes, apartments, co-ops, and much more. Real estate, unlike many other businesses and investments, provides something that absolutely everyone needs, shelter.

Real estate is everywhere, including where you live. A common misconception beginners have is, “Real estate investing doesn’t work in my area.” Non-sense! There is opportunity right under your nose. There are diamonds in your own backyard. In fact, once you learn and apply the techniques and strategies described in this book, you will be shocked at how much money you can make with real estate right within your own community. Believe it or not, you have been driving past real estate opportunities everyday. Real estate opportunities are everywhere, including where you live.

You can invest in real estate close to home or far away. You are not confined to just your area. Although we recommend beginners start in an area they are very familiar with, you have the ability to buy and sell real estate anywhere.

Disclaimer: This book will focus on techniques that work in the United States and Canada. I’m not familiar with investing in countries other than those two.

You can make money in up and down markets. When the real estate market is up, certain strategies work very well and then in down markets, other techniques become more productive. Regardless of the market, you can be successful investing in real estate.

Becoming a real estate investor does not require much in the way of equipment to get started. If you have a computer, a printer and a phone, you have all the equipment you need to begin. You can work from home, a coffee shop, or even your truck! Compare this to starting most any other business, which usually requires commercial space, a lease, staff, inventory, equipment, etc.

Launching a real estate investing operation is far simpler than starting the majority of businesses that have the potential to create comparable financial rewards. It doesn't require venture capital, a board of directors or even a detailed business plan. In fact, your investing plan could be sketched out on a napkin.

Investing in real estate doesn't have to be a full time activity. You can invest on the side, in your spare time. Overtime, you may come to enjoy it so much that you want to do it full time, but it's not necessary. In other words, you don't have to quit your day job to give real estate investing a try. You can invest with the limited spare time you have available.

And perhaps most important to most people, real estate can make you very rich and/or provide the lifestyle you have always wanted. Reviewing the list of the world's richest people, many on the list created their wealth in real estate. Many of the people with the biggest houses in your area made their money or maintain their wealth from real estate. Also, many of the people you meet on the street that are financially free come from a real estate background.

You may be asking, "So if real estate is so good, how come everyone isn't doing it?" That is a very good question. Real estate has some barriers-to-entry (a fancy business term to describe what makes a business difficult for competitors to break into).

Real estate investing, like any business, requires very specific knowledge. This knowledge is rarely taught in school. Most people simply do not know how to be a real estate investor. And, the education process requires both study and application. Much like chemistry in high school, where you had the lecture and then the laboratory, gaining the specific knowledge of real estate investing requires both absorbing educational materials as well as applying what you learn and experiencing it in the real world. Some concepts and ideas can rarely be acquired simply by reading about it. You have to get out there and experience it.

Investing in real estate requires patience. We live in a world obsessed with instant gratification. Real estate is not instant gratification. Usually the efforts you put forth several months ago reward you today. Some half-committed would-be investors give up when they are just a few days from collecting a huge payday. I have seen this phenomenon over and over again. Some people simply do not have the patience to see their real estate investing efforts turn into extraordinary financial returns.

Becoming a real estate investor means that you are starting your own business. And like any business owner will tell you, financial rewards from a business come from results. This is quite different from the way most people are compensated in life, which is based on activity; either an hourly or salary wage. Business owners are paid based on the results their business provides in the marketplace. Successful business owners think differently from wage earners.

For most people, the biggest hurdle in starting their own enterprise is not the physical aspect of completing the tasks, but the mental work of re-wiring their brains to think like a productive business owner. As Henry Ford said, “Thinking is the hardest work there is, which is why so few people do it.” Understanding how to think like an investor is so important, I have devoted the entire next chapter to it.

Real estate is truly the most powerful vehicle that anyone can use to produce financial prosperity. In order to take advantage of the many opportunities real estate presents you must have the right education and your mind must be wired for productive real estate business ownership. The remainder of this book will be devoted to providing an extension of knowledge regarding those two aspects of real estate: having an investing mindset and educating yourself in the specific areas that will lead you to prosperity.

Part 2: How to Think Like an Investor

"Man's greatness lies in his power of thought." - Blaise Pascal

In my early years of teaching real estate to budding entrepreneurs, I would skip over the mental aspect of investing and get right into the meat of real estate. It was a mistake. What I discovered was that mentoring people on the mechanics of real estate investing was fairly straight forward. Once they had the instructions on what to do, the difference between those who succeeded and failed was largely due to what was going on inside their head.

Having all the knowledge on how to invest will be worthless unless you have your head straight. Before you can be a real estate investor, you have to think like one. That little space between your ears is extremely powerful and unfortunately, it doesn't come with an instruction manual. The following chapter is your instruction manual on how to operate your brain so that you can be a successful real estate entrepreneur. Plus, at the end of this chapter, you will have an opportunity to test your mental skills with an Investor IQ exam.

Your *Why*

Why should come before *what*. Why you want to do something is far more important than what you are going to do. We humans tend to get excited about new endeavors and then after the new-ness wears off, we tend to move onto something else. Most great achievements in life do not happen overnight. In fact, it's usually the exact opposite. Your greatest triumphs probably took time to come together, right? Real estate investing is no different. After the excitement dulls and new-ness of real estate fades, what is going to be the reason, or reasons, for you to continue pursuing your goal of being a successful real estate investor?

When I first got started, I wanted to work from anywhere, have control over my time, be my own boss, call my own shots, earn what I was worth, make a whole lot of money and become financially free. That's not to much to ask, is it? At my j-o-b, I had to show up at the office, I couldn't work from anywhere. I had no control over my time. I didn't call my own shots. The boss told me what to do. I wasn't able to earn what I was worth, make a whole lot of money or become financially free. I earned what my salary was and the only way to improve that was to hope for a raise. These were strong reasons for me when I began. I didn't want to go back to that life again and this drove me to do what it took to succeed.

Why do you want to be a real estate investor? Are you in a similar situation as I was when I first got started? Or are you happy with your job and simply want to invest your hard earned money into an investment that produces better returns than you are currently getting? Are you concerned that your current financial plan will not create enough money for retirement? Do you want more time with loved ones? More money? More freedom to travel, explore and enjoy life? Your reason for becoming a real estate investor is your *Why*.

In order for your *Why* to be effective, it must be emotional. Emotions drive our behavior. When you harness this power, you can achieve extraordinary feats, well beyond what you may think is possible. Rather than relying on others to motivate you, the beauty of finding your *Why* is that any motivation you would ever want is already inside of you. You simply need to discover what your *Why* is to gain access to this unlimited resource of power.

You're looking for what you really want for your life that you don't already have. It can be positive or negative. Maybe you want to live everyday in a tropical paradise, lounging in a hammock between two palms trees, staying cool from a gentle island breeze. That may create significant positive emotions in you and the thought of creating that life for yourself may be the needed drive behind your success. But, perhaps, what's more important to you right now is getting out of debt and paying for your children's college. The pain you may feel for not being debt free and not currently having the financial resources to pay for your child's college education may be weighing on your heavily. These negative emotions can drive you to succeed as well.

In fact, psychologists tell us that negative emotions are stronger motivators than positive ones. Believe it or not, most people will be more driven to leave their job than to strive for a goal of financial freedom. You can use this knowledge to your advantage by first thinking about all the parts of your life that you don't like that you feel becoming a real estate investor could solve. A negative and very emotional *Why* can be all the motivation you'll ever need to succeed in real estate.

Take a moment to write down your *Why*. The more emotional you get about this *Why*, the better your outcome will be. This needs to burn inside of you every time you think of it. It could be as simple as how frustrated you are with the way your retirement fund investments have been performing and just the thought of lackluster results gets you boiling mad. Or, it could be as significant as not being able to be with your loved ones nearly as often as you want to because of your current financial condition. If nothing is coming to mind right now, spend some time each day for the next few weeks thinking about it until you find it.

Without a *Why*, chances are, you won't take the actions necessary to becoming a successful real estate investor. It's that important. When someone is completely comfortable, they rarely have strong enough reasons to do anything different than what they are already doing. Finding your hot buttons, what really makes you uncomfortable about your current situation, is the fastest and easiest way to have and maintain consistent motivation. You need to find your *Why*. Make this your first priority for becoming a real estate investor.

Pain and Pleasure

The two basic motivating forces in our lives are pain and pleasure. We choose to do something either because of the pleasure we think we are going to gain from the action or the pain we believe we are going to avoid by taking that action. For example, your *Why* may be something along the lines of wanting to fulfill the dream of living everyday on the beach with the sun and the sand. That is an example of striving to gain pleasure. On the other hand, your *Why* could be that you never want to be poor and have to barely get by in life again. That is an example of wanting to avoid pain. As simple as this concept may sound, this is precisely how our brains work.

Applying this simple but extremely powerful concept can open up an entirely new world for you. You can learn to motivate yourself in ways you never thought possible. For example, most new investors struggle with the paralyzing affects of fear. They fear talking to a motivated seller, getting a contract signed, asking for non-refundable earnest money from a buyer, etc. The problem is that so much advice centers around *thinking positive*. Simply *thinking positive* can sometimes push you to ignore reality in an attempt to eliminate fear. There is no need to blind ourselves to the realities of life. On the contrary, fear can be very useful to us. Fear can be a great counselor and guide.

Rather than eliminate fear, why not use it as a motivator? Instead of worrying, "What do I say to this homeowner?," use fear as your motivation and think, "If I don't call this person, it could cost me $30,000 and that would absolutely devastate me and plus, I need the money." Avoiding pain is a much stronger motivator than striving to gain pleasure. Most people will fight much harder to get back $20,000 that someone stole from them than to save little by little until they have built up $20,000 in their bank account. You are far more driven to avoid pain than to gain pleasure. Use this knowledge to motivate yourself to take action.

Specifically, when you hit a juncture in your investing journey whereby fear begins to slow you down or even paralyze you, immediately begin to think of all the things you will lose by not taking the action. Really think deeply about it until you start to feel the pain that will occur if you don't take the action. For example, for some beginners (and some seasoned investors, sadly), asking for non-refundable earnest money from buyers is very nerve racking and scary, even though it shouldn't be. (Ironically, once an investor is burned once by a buyer who walks away from a deal and leaves the investor high and dry, never again is that investor concerned about demanding non-refundable earnest money.)

Here's how to utilize the power of avoiding pain to drive a new investor to get non-refundable earnest money from a prospective buyer. They can have the following conversation in their head, "If I don't demand non-refundable earnest money from this buyer, I will potentially allow this buyer to back out of the deal scot-free and that will cost me $37,000 as well as the time I have spent getting this deal to where it is at and not to mention hurting the homeowner who is counting on me to help him." Do you see how you can use fear and pain as drivers to help you take action? Rather than ignoring pain and fear, take control of it and it will change your life.

Your Comfort Zone

Have you ever known someone that *knew* what to do but simply wasn't doing it? Has that person ever been you, maybe, at times? If so, why did you fall into the trap of inactivity when you absolutely knew what you were supposed to do? The answer is somewhere deep down in your mind. You linked up or associated pain to that action step so that even though you knew how to do the task, you didn't do it because your brain didn't want you to. Our brains are always linking positive and negative emotions to our thoughts. Your mind is constantly attaching labels of "pleasure" or "pain" to each action you take.

For example, many new real estate investors have a fear of talking to property sellers. Instead of getting on the phone with the owner right away to get an understanding of the person's situation, many new investors will take part in the following scenario:

Get in their car, drive over to the house, check out the outside of the home, drive around and study the neighborhood, head back home and finally, do all sorts of research online about the property all before ever having spoken to the property owner.

This eats up hours of time, tons of energy as well as travel expenses and the crazy part is that the property owner may not even want to sell their property or maybe completely unrealistic in their demands! Why would anyone in their right mind spend all that time, energy and expense before picking up a phone and making one simple phone call and asking a few simple questions? This person obviously associates more pain to making that one simple phone call than the pain of all the time, energy, and expense they exerted. People will do far more to avoid pain than to gain pleasure.

To take the above example one step further, the one action that was most out-of-this-person's comfort zone was talking on the phone to the property owner. Driving around and researching online were both well within his/her comfort level. ***Your money zone will always equal your comfort zone.*** To continue to be successful in life, you'll have to be continually stepping out of your comfort zone. Your money zone will always equal your comfort zone.

Everyone has a different comfort zone. What if this person was unable to drive a vehicle? Then, the phone call would be far more comfortable than driving. What if this person had trouble navigating the Internet? Then, the phone call would have been far easier than researching online.

Hopefully your comfort zone encompasses all of the actions in this book. If not, resolve in your mind to be willing to step outside your comfort zone. That may involve getting better at communicating over the phone. That may include using the computer to organize your business online as opposed to just in paper files. The list could go on and on. You need to be willing to stretch yourself. Be open to the concept of stepping outside of your comfort zone. Why? There's that *Why* again. If you have already discovered your *Why*, you should have had an answer to why stepping outside of your comfort zone is so important. Moving from actions that are outside of your comfort zone to more actions outside your comfort zone is where you'll experience your greatest breakthroughs.

Attitude

Extremely successful real estate investors have a unique attitude on life. They view every experience as a test and then every result as a learning lesson. This attitude creates a mindset that does not recognize failure. It never produces phrases like, “Well, that was a waste.” Nothing is a waste to an investor with the right attitude. Every experience is a test and every result is a lesson.

This attitude doesn’t always create a positive, pleasurable feeling though. In fact, sometimes the lessons successful investors learn are painful, and rather than ignore the pain, they experience it so that they don’t have to learn the lesson again. If a test produces a result you didn’t expect, don’t immediately assume it was bad. It could be frustrating and not enjoyable at the time, but later, you may look back and realize that the lesson you learned was so incredibly valuable and necessary for you to close the next deal that came along.

Successful investors have an attitude of gratitude as well. They are thankful to have the opportunity to invest. They are appreciative of the lessons they learn and the experiences they gain. When problems arise, they consider them as challenges and rather than complain, view such situations as opportunities to learn.

Action Over Analysis

The main reason why so many people don’t take action is fear. It’s the fear of the unknown, fear of making a mistake, and fear of moving outside of their comfort zone. Instead, what they should fear most is not taking action at all! Keep in mind that everyone has made mistakes when first embarking on a new journey. The more mistakes you make, the faster you learn. Your biggest fear then should become inaction. In fact, do you know what most successful investors' only real estate regret is? They wish they would have gotten started sooner.

A very common behavior amongst new investors is analysis paralysis. Rather than take action, the person analyzes, analyzes and then analyzes some more, to the point where they become paralyzed. It stems from the fear of making a mistake. These people also tend to read book after book and attend seminar after seminar but never actually buy a property or do a deal. They tell themselves that they are waiting until they know enough to be confident in order to start actually investing. In actuality, what these prospective investors fail to recognize is that they will never reach the level of knowing enough about real estate to be truly confident until they take action. The confidence that is gained from truly knowing what you are doing won't come from a book. It will come from taking action.

Continually educating yourself is vital to your long term success in real estate, but only if you are taking action while you are educating yourself. Investors are always learning new techniques, new distinctions, and new ways of investing. They never reach a point of complete understanding in all aspects of real estate. Therefore, waiting to take action until the point of complete confidence in knowing what to do will keep a person paralyzed indefinitely. Interestingly enough, we have discovered that investors with less knowledge but far less fear in trying new things and taking action actually produce far better and faster results than those investors with much more knowledge but less action. Action is far more powerful than analysis.

Commitment

Sam Walton, the founder of Wal-Mart, the largest retailer in the world, was quoted as saying, “Like every overnight success, it’s usually 20 years in the making.” His point was that success is a long term commitment. The greatest real estate investors the world has ever seen have all had one characteristic in common; they stuck with it until they succeeded. Simple, isn’t it?

In order to ensure you reach your goals, you must be willing to make a sincere and binding commitment to stick with it until you are success. By contrast, what you should not say to yourself would sound something this, “I’ll give this 3 months. If it works, then I’ll keep doing it. If not, I’ll go do something else.” That is the opposite of a commitment and it’s a surefire way to fail in any endeavor in life. Instead, if you really want to succeed, you must make a commitment that you will stick with real estate for as long as it takes ***until*** you are successful. The key word in that sentence is, “until.” That’s a commitment.

You want to be a finisher in a world of starters. Once you achieve success in this endeavor, once you finish, then choose to re-evaluate. That is how successful people think. They say to themselves, “I’ll do this for as long as it takes until I am a success, then I can re-evaluate.”

If you are serious about becoming a real estate investor, right here, right now, make a commitment to stick to this until you are successful. If you can make such a commitment to yourself, your family and your future, then you are on the road to greatness. Congratulations!

You can begin putting this new commitment into practice by finishing the reading of this book!

Possibility Thinking

Successful investors know that there are typically several reasons why a deal won't work and the real big money is made when they are able to discover at least one reason why the deal will work. I call this Possibility Thinking. It's the habit of asking yourself, "How can it work?" rather than dwelling on why something won't work. Unlike simply thinking positive, which can ignore reality and actually prevent growth, possibility thinking involves assessing the cold, hard facts of a situation and then coming up with creative ways to solve the problem. Here's a quick way to begin building your possibility thinking muscle. The next time you are negotiating or making a decision with another person, avoid using the word "no," and instead, replace with, "yes, but." This will force you to begin thinking creatively so that you can come up with more ways to solve problems. To be a successful real estate investor, you need to think in terms of possibilities.

An analogy to illustrate this point involves an experience I had while my wife was swimming with dolphins in the Florida Keys. The dolphins lived in a lagoon that connected directly to the ocean so that the dolphins were provided a completely natural habitat. The only barrier to the open ocean for these dolphins was a chain-linked fence that rose about 4 feet above the water. These dolphins, as part of their routine, performed choreographed jumps of up to 12 feet out of the water. I asked one of the trainers why the dolphins didn't just jump over the chain-linked fence into oceanic freedom? His response was, "I guess they have never been taught that trick." With real estate, any temporary roadblocks you may face will be much like the dolphin fence. They can be overcome because you have the ability to overcome them. Don't make the tragic mistake of allowing a simple four foot fence stop you from freedom.

Repetition

Repetition is the mother of skill. In order to get good at anything, you have to do it over and over again. Regardless of how well you think you learn, or how quick you feel like you retain new information, the key to mastery is repetition.

You'll find that reading the same information more than once can be remarkably enlightening. Plus, as your perspective changes, you will recognize concepts and ideas that never occurred to you before.

As you repeat the skills and techniques you learn from this book over and over again, eventually, they will get buried into your sub-conscious mind and then, you will be able to apply them on autopilot without even having to think about them. That's when real estate investing becomes easy, when you can basically do it in your sleep. The most successful investors have programmed their mind to think like an investor on autopilot. That comes with repetition.

Humility

Humility is an important part of an investor's mental toolkit. Throughout history, the list of famous people who have had great falls due to pride and arrogance are many. Being humble involves doing more listening than talking and being perceptive. It requires removing one's ego and avoiding making assumptions. Humility avoids being easily angered or troubled. It means that you embrace change, you welcome challenges, and you recognize that everything will not work out as you had planned.

Humility also allows you to learn from your mistakes and to open your mind to new ideas. It can be very difficult for someone who thinks they already know everything to allow new ideas into their minds. Some have referred to this behavior as having a cup that is full. You want to your cup to be empty. You want to allow new ideas in. Those with full cups fail miserably in real estate. Those with an empty cups give themselves the opportunity to learn new ideas and ultimately, to succeed.

Humility means that you don't blame others for your shortcomings in business. Instead, you blame yourself. This is how you grow as a successful investor; by taking responsibility for your successes (or failures) and having the character to grow from it.

Humility is not weakness. In fact, humility is a sign of strength. You can be humble and yet still be a poised, confident and assertive leader. However, there is a fine line between confidence and arrogance, between being sure of oneself and being full of oneself. Successful investors are confident and humble.

Taking Advice

Advice is a peculiar thing. Almost everyone has an opinion. But who is right? The simple answer is that the person who has already produced extraordinary results in a given field is usually the person most accurate in their opinions on that subject. For beginner real estate investors, the first few months are a very critical and fragile time in their development. It is here that many well intentioned friends, family members and associates will see the beginner embarking on this new journey and may express their opinions. If the beginner listens to the negative voices in their life, they may quit or at least pull back from giving it their full effort. The simplest way to avoid this devastating outcome is to always ask yourself if the person providing the advice is a reliable source on the subject. Has the person who is providing the opinion on real estate made an absolute fortune investing in real estate? If so, listen to that person. If not, don't. Ask yourself if the person providing the advice is a reflection of someone you want to be.

Ironically, sometimes the people most willing to advise new investors on the business of real estate are those who have failed miserably at it. Such as a local real estate agent who is barely making ends meet, or a friend who invested in a course and never used it or even a family member that heard of someone who had tried real estate and supposedly *real estate* didn't work. The only people you should ever take advice from on a subject are those people who have mastered that subject and are very successful with it.

For example, parents can be a great resource for advice on raising children but if your parents struggled financially their entire lives, they may not give the best advice on becoming financially free. Oftentimes, well-intentioned authority figures, such as parents, provide career and financial advice when they are not the most qualified to provide the assistance. Since we are raised to follow our parents' direction, it is natural to take money advice from parents. But are they qualified to provide advice on financial freedom? You may have a close friend that you confide in with life's biggest challenges. That person may be a wonderful shoulder to cry on, but are they fit to give you solid advice on becoming a successful investor? Beware of financial advice from broke people. It isn't rude or disrespectful to avoid heeding the advice of those who are not qualified to give the advice. Instead, it's responsible.

Therefore, as you begin this journey, make sure you verify the credentials of whoever is trying to advise you on real estate investing. If that person is not a master in the field in which they are speaking, do not act on their advice. They may, in fact, lead you astray. On the other hand, if a local attorney in your area who has successfully worked with real estate investors for the past half century advises you on your local market, this person may be a good source to get advice.

Once you have verified that the advice giver is a credible source, you now need to assess their reason for giving you the advice. Understanding where the advice giver is coming from is also an extremely important skill. Let's take the local real estate attorney example. What if, at the time you were seeking out the advice, that attorney was concerned about a new law that may be passed which would drastically alter the way he could advise his clients. He may be very cautious in his advice and not provide you all the details because of his underlying uncertainty. Or what about the unscrupulous real estate agent who wants to buy the property you located and tries to persuade you that the deal you found is not a good one but meanwhile, is planning to try to buy it as soon as you walk away.

It's like asking the barber if you need a haircut. Regardless of whether you need a haircut or not, you are asking a barber, who gets paid to cut people's hair. When you ask a barber if you need a haircut, his answer will usually be, "Precisely."

How do you combat bad advice from very well qualified advice givers? Align their interests with yours. If your local attorney stands to make money from you on deal after deal by closing your real estate transactions, he/she has a vested interest in giving you advice that will encourage you to do more deals. If the local real estate agent you are working with gets compensated for helping you buy the property or in helping re-sell the property once you buy it, you are aligning both of your interests. Successful real estate investors align the interests of all parties involved in a deal because they know that in the real world, most people do what's best for themselves. When the parties to a deal operate in their own best interest, it also helps everyone else because everyone's interests are aligned.

That's how we built our apprentice program, on mutually aligned interests. My students split their profits with us 50/50. When they win, we win. This ensures that my team and I give the absolute best advice in every situation because the student and the mentor have aligned interests. When the student makes money, the mentor makes money.

Let's discuss the elephant in the room, shall we? You are probably more than convinced by now that I am an extremely credible source for advice on real estate investing. But how can you be sure that the advice I am giving you in this book is good advice for you?

I make money when my students close deals, plain and simple. The only way for my students to close deals is to apply the right techniques and strategies. Therefore, this book has to be the absolute most accurate advice on real estate investing because my profits with my students depend on it. Some of the readers of this book will go on to work with my team and in order for us to produce the best results; they need to have the right education and the proper foundation. That is how all of my courses, articles and trainings have been created; with the end in mind. You're getting the best of the best in this book because of mutually aligned interests. My incentives to teach you are aligned with your aspirations to be a successful real estate investor.

Unfortunately, not everyone reading this will qualify for my apprentice program. We are a small team that can only work with a handful of people at any one time. Our focus is on quality, not quantity. We are looking for people who exhibit those character traits that we have found to produce extraordinary results, such as; honesty, trustworthiness, open-mindedness, coach ability and a strong desire to be a real estate investor. The good news is that you do have a leg up on the competition because you have purchased this book and have actually read it all the way to here! I want to encourage you to go to the special webpage I created just for readers of this book: www.FreedomMentor.com/bonus

You will have the opportunity to apply for my apprentice program there and our system will recognize that you are a "How to be a Real Estate Investor," book reader which will help you with your apprentice application. This is one of the many bonuses hidden in this book to help you become a successful investor.

Who is Your Mentor?

No successful person has ever done it alone. Every great individual in history has had a mentor. So often we see highly successful people in life and assume that they are self made. The truth is; no one is self made. Behind every successful person is a mentor, or mentors, that have inspired, coached and trained that person. Consequently, it's also the fastest shortcut to success. When you have a mentor, you reduce your learning curve by decades and put yourself light years ahead of where you would have been on your own. Successful real estate investors have mentors.

Like most important decisions, you must choose your mentors wisely, though. Oftentimes, new investors will align themselves with the first person they meet and the only thing worse than no mentor in real estate, is a bad one. Thankfully, determining the value of a mentor is not complicated. It is quite simple. As we discussed earlier on taking advice, you want to align yourself with people who are very successful and know far more than you do about the subject. You will be able to tell their value by what they have done personally in real estate and also who they have mentored before. In most cases, it's better to avoid the person who has never mentored someone before, even if they are extremely successful in their own right, because mentoring is a skill unto itself. You don't want to be someone's mentee guinea pig. Life's too short to be someone else's experiment. Go with the person who has a track record for mentoring others to success.

You'll need at least one mentor and the time to begin searching for that person is sooner rather than later.

Partners

A peculiar step some investors take when they first get started is adding on a partner to their fledgling endeavor. Perhaps new investors fear investing alone and want company? Maybe they assume the person they partner with brings tremendous value and is essential to the operation? Partners are very helpful in business, so long as you partner with the right people and you set up the partnership correctly.

First, you want to partner with someone for a definite period of time. Oftentimes, when two friends partner up in business, they do not set a specified time for their partnership and over time, when the inevitable happens and they each want the business to go in different directions, sadly they end up at odds with each other and the business falters. The way to eliminate that from the get-go is to have a specified ending point to the partnership.

Second, you should partner with someone who is providing tremendous value. The conflict that can most likely plague a partnership is when one partner is doing all the work and/or providing all the value and the other one is not pulling his/her weight. The way to eliminate this problem before it starts is to make sure that each partner is bringing value above and beyond simply working in the business. Further, defining the roles of each partner and what each person is responsible for is also very helpful.

With partnerships, you must begin with the end in mind. It may feel uncomfortable to start a relationship already thinking about what happens when it ends, but with business partnerships, that is exactly how you need to enter one.

What if you are already in a partnership right now as you are reading this? Make sure your partner is providing tremendous value. Put together a timeframe when the partnership could end and have a plan for who is responsible for what. If your partner will not participate in this exercise, you may have the wrong partner on your hands.

What's Your Investor IQ?

Congratulations! You now know how to think like a real estate investor. How would like to test your progress? How would like to determine your Investor IQ? I have created a fun and educational test that will help you gauge how well you think like an investor. This is another bonus for reading this book. To claim this bonus and determine your Investor IQ, go to: www.FreedomMentor.com/bonus

The 7 Habits of Highly Successful Investors

In addition to the important principles you discovered in this chapter, as well as the lessons revealed while assessing your Investor IQ, you also can download a special audio training called, “The 7 Habits of Highly Successful Real Estate Investors.” Go to:

www.FreedomMentor.com/bonus

Part 3: Real Estate Investing 101

"Success is neither magical nor mysterious. Success is the natural consequence of consistently applying the basic fundamentals."
—Jim Rohn

Are you certain that real estate investing is right for you? Do you have a powerful and motivating *Why* that will drive you to succeed? Are you confident you now know how to think like a successful investor? Now you are ready for the right real estate education. When the student is ready, the teacher appears.

Real estate investing encompasses a vast ocean of information that can be very intimidating and extremely difficult to consume all at the same time. The goal of this section is to simplify the many different facets of real estate investing and to show you how to understand such a large topic quickly and easily.

To use a fishing analogy, when trout fishermen are trying to assess where the fish are located at on a very wide river, they separate the wide river into many small streams. Some parts of the river may be fast and shallow while others slow and deep. Whereas looking at a very wide river can be very intimidating and confusing, when mentally separated into several small streams, evaluating the river and finding the fish becomes much easier.

We're going to take that same approach here and segment real estate investing so that it is much easier for you to understand the different facets, starting with the simplest segmentation of all. The purpose of investing in real estate is to make money and you make money in real estate either now or later. Therefore, real estate investing can be summarized into two groups; fast cash techniques and wealth building strategies.

Fast cash, or making money now, provides you with cash in your pocket. For many people, extra money is very important to them right now. Wealth accumulation, or making money later, may provide cash flow and/or a big chunk of cash years into the future, which also has its own benefits. Most notably, making money later in real estate is usually very tax friendly. The IRS has enacted numerous provisions that can reduce the tax liabilities of cash later real estate profits.

A very important question to ask yourself is, “What do I want out of real estate?” If you are overflowing with liquid assets (cash) right now, either in a retirement account, an inheritance, a business you just sold or simply the steady accumulation of money overtime in a bank account, the prospects of having that money working for you in real estate in a very tax friendly way may be exactly what you want. Conversely, if you desperately need cash right now, maybe to stay afloat or to pay pressing bills, fast cash may be the smartest course of action for you. And in some cases, you may be in the middle of those two extremes and would like both, fash cash and wealth accumulation. Real estate can provide cash now, cash later or both.

WISDOM KEY: The purpose of real estate investing is to create financial returns, plain and simple. Can your investing actions help people? Certainly! In fact, the way we teach investing is to always do deals that benefit all parties involved. Therefore, it should be a given that when you complete a transaction and make money, you are helping all parties involved. The problem is that sometimes people get so caught up in doing, doing, doing, that they forget to make a profit. Sounds silly, doesn't it? It happens quite often. Whether you are going to make cash now, cash later or both, the purpose of real estate investing is to produce profits (this already assumes that every deal you do is a win-win-win.) Don't allow yourself to fall into the trap of being very active but producing very little economic results.

How to Make Fast Cash

Real estate provides several ways for you to create cash quickly. This section will describe the vast majority of ways to accomplish this. In many cases, you can generate this money without using your own cash or credit. Instead, the reason why you would make money in most situations is because you are putting a deal together or providing a service for a deal.

Plato said, "The beginning of knowledge is the definition of terms." Along with providing you with the techniques that produce cash for you right now, it's also important you understand how each is defined. The world of real estate has its own language and understanding real estate lingo will help you get a better picture of this whole business.

Flipping / Wholesaling / Buying and Re-selling

Although there are numerous terms or ways to describe this action, the concept is quite simple. When you flip, or wholesale, or buy and resell a property, what you are doing is getting a property owner to agree to sell you their property and then you are re-selling the property to a new buyer for more. The original owner signs a contract with you and then as soon as you have the deal *under contract* (whereby you have in writing, a contract stating the exact terms of the agreement), you then find a buyer who will pay more for the property than the agreement you have with the owner. You, then, make the money, or the spread, in the middle.

Although this is quite simple in concept, the actual process of how you get paid from this arrangement can be somewhat complicated at times. For example, once you have a contract in place between you and a property owner, instead of closing on the property the traditional way and then re-selling to another buyer, in certain situations, you can actually assign your contract to a new buyer. Then, at the closing, this new buyer will purchase the property from the original owner and you will step out of the way for an assignment fee.

In other scenarios, as in the case of some short sales (which will be discussed in detail later), you would first buy the property from the original owner, close on it using transactional funding, and then immediately re-sell the property to the new buyer. Both of these examples fall under this same category of flipping / wholesaling / buying and re-selling, but the way in which you obtained the spread, or the money in the middle, were quite different. The concept is simple but the way in which you get paid can be more complicated. To avoid confusion, focus on the concept for now.

The foundation for successfully applying this investing approach is being able to find properties that can be put under contract at an amount substantially lower than the current value (or with favorable terms). And the property must also be attractive enough to another buyer that he/she would be willing to pay you more for it than what you have it under contract for. When these two requirements are met, you can make very good money being the middle person and putting the deal together.

If you are getting paid to buy (or put under contract) a property for less than you can immediately re-sell it for, is that immoral, unethical or otherwise bad? Absolutely not! In fact, these deals can be an incredible win-win transaction for all parties involved given the right circumstances. But unfortunately, the word *flipping* has actually taken on a very negative connotation. In fact, the dreadful word *illegal* has actually been paired with *flipping*. To set the record straight, it's important to recognize that a large portion of the business world has functioned on the wholesale – retail model for centuries.

Real World Example: Look around your home at the many items you purchased from a retail store. The majority of those items wound up in your home from the following process: First, the manufacturer created items and sold them to a wholesaler. The manufacturer made a profit by charging more for the items than it cost him to manufacture them. Second, the wholesaler sold those exact same items to the retail store for more than what the wholesaler bought the items for from the manufacturer. The wholesaler made its profit by being the middleman; buying low and selling higher.

> Third, the retail store sold you the exact same items they bought from the wholesaler for more than what they paid. The retail store made their profit being the middleman and buying high and selling higher. Except for the manufacturer, everyone else made their money buying and re-selling the exact same item for more money to the next customer down the line.

Is it illegal to buy an item at one amount and then resell that same identical item for a larger amount? If it is, then the vast majority of businesses are built on an illegal wholesale-retail model. When you flip, or wholesale, or buy and resell real estate, you are operating under the same model that many of the most well respected businesses in history have operated. You are buying and then reselling an identical item for more money to the next customer down the line.

DISCLAIMER: On any legal related issues always consult a qualified attorney.

The reason why the word *illegal* appears in conjunction with the word *flipping* has to do with a very dishonest trick that unscrupulous people have been employing for a very long time. It is a dirty scam that involves re-selling a property to an unsuspecting buyer for far more than the property's true value.

Here is how the crime is conducted. First, an unscrupulous person finds an equally unscrupulous appraiser to appraise, or value, the property for far more than the true market value. Second, the unscrupulous person finds a naïve and unsuspecting buyer to purchase the property for an amount that is above-the true market-value. Third, the buyer obtains a loan that is based on the inflated and higher-than-true-value appraisal. Fourth, the buyer becomes the owner of a home that is worth far less than what he/she paid for it because the seller and the appraiser operated dishonestly.

That is where the word *flipping* got paired with *illegal*. It was originated from dishonest people selling real estate to a buyer for far more than its true market value. That is NOT the type of flipping we will be describing in this book. Instead, you will be learning how to morally, ethically and legally negotiate win-win transactions whereby you buy real estate at wholesale prices and sell them at true-market-value retail prices.

WISDOM KEY: When dishonesty is introduced into any venture, trouble ensues. Therefore, be honest with all parties all the time. You will be far more successful being truthful anyway. One of the most infamous mobsters in American history was Lucky Luciano. At the end of his life, while spending his last few breathes in a prison, when asked what he had learned from his life experiences, he said something along the lines of, "It took more work to make money dishonestly than it did to do it honestly. I wish I would have just done it right from the beginning."

In any real estate market, there are legitimate opportunities to get properties under contract at an amount less than the true market value. Here is a real world example, one of our students stumbled across a situation involving a very motivated seller. The owner of the property was about to lose her property to foreclosure in less than two months and she owed $50,000 on a home that could be valued at $150,000 or more once it was all fixed up. The owner didn't have the money to do any repairs and even worse, the tenants in the property would not allow her to show the property to perspective buyers so there were no real estate agents willing to help her.

Discouraged, this seller gave up and prepared for the worst possible outcome, foreclosure. Meanwhile, our student was marketing for motivated sellers and their advertisements caught the attention of this seller. Shortly after connecting, the two parties had a written agreement for our student to buy the property for $85,000. The seller was more than pleased with the agreed upon amount because the property was in such disrepair, all previous attempts to get help had failed and there was very little time left before it went to foreclosure.

Our student promptly marketed for an all cash investor buyer since the buyer had to be willing to purchase the property without a full and complete inspection due to the tenants not allowing anyone in the property. A local doctor and part-time investor was located who was willing to pay $100,000 cash and buy the property before the foreclosure.

Let's breakdown why this deal was a win-win transaction for all parties and why our student deserved a profit. Our student located a motivated seller that needed help. Other real estate professionals had turned her down when the seller had reached out for a solution. Our student solved the seller's problem. Further, our student found a buyer willing to purchase the property as-is (in its current condition of disrepair), prior to foreclosure for all cash. Finding that kind of buyer was something the seller did not know how to do. Our student deserved to earn a profit because she applied specific investing skills and knowledge to put together a win-win deal.

This deal exemplified how to do a win-win-win flip/wholesale/buy and resell transaction. Everyone in the deal benefited even though our student got the property under contract for less than the current market value. And moreover, our student didn't take advantage of the seller either. This person was in a real bind and other real estate professionals were unable to help her. Had it not been for our student, this seller would have gone into foreclosure. Instead, she had the ability to sell the property for $85,000, a full $35,000 above what she owed.

The fast cash approach to real estate investing allows you to make quick cash with the limited resources (no cash or credit required) and little or no risk (if the deal doesn't work out, you're not out anything). However, the profits are usually taxed more heavily than wealth building real estate income. Plus, in some cases, the profits can be slightly smaller than if you employ other techniques.

Flipping/wholesaling/buying and re-selling has been the foundation of many investor's careers. It is extremely popular, easy to get started with and can make you very, very wealthy if you do it over and over again.

Buying, Improving, Re-selling

This differs slightly, but significantly from the previous section because here, you are not only reselling the property for more than you bought it for, but you are also improving the property. This is what many people envision when they think of *real estate investing*. People often picture investing as purchasing a beat up, run down foreclosure, fixing it up until it sparkles and then re-selling to a first time home-buyer. This model has produced many millionaires through-out history and it will continue to because it works.

A very common example of this technique is that of a builder. The typical builder purchases a lot from a developer and then builds a property on that lot. Then, the builder re-sells the newly built property.

In fact, the developer is an example of this model as well. One approach that has created many real estate millionaires is to purchase raw land and then to improve it by adding roads and utilities, possibly having to change the zoning and then selling individual lots to builders. You may have heard the old saying, “The two most profitable businesses are buying whiskey by the bottle and selling it by the shot and buying real estate by the acre and selling it by the lot.” Although this approach to real estate investing of buying, improving, then re-selling may sound wonderful, it has it’s drawbacks too.

Improving real estate, whether it be turning raw land into buildable lots, empty lots into new built properties or rundown homes into renovated houses, involves far more risk and resources than flipping/wholesaling/buying and re-selling. First, money is required to purchase the unimproved property as well as to fund the improvement. Second, improving a property requires extensive specialized knowledge. Third, anytime you improve or build, most municipalities have rules that must be strictly adhered to in order to pass inspection. Fourth, a whole new level of liability is introduced when people are on the property working who may injure themselves while improving the property. Fifth, just because you improve the property does not mean the market is going to pay enough to compensate you for your improvement efforts. Developers are among the most at risk of such an outcome. Sometimes they make a gamble on a city growing in a certain direction only to see the population shift in an opposite direction just as they are finishing their development project. Therefore, improving a property as opposed to simply buying and re-selling a property without making any changes, is a significant responsibility.

But in some cases, with much risk comes much reward. For example, many builders make less than 10% profit on any one property. In isolation, that would appear risky, to put in all that time, effort and resources to build one property and get less than a 10% profit. Just a few mistakes and that profit could easily be eaten away. But most builders don't make their money on one deal; their money comes from the volume of properties. For example, if they build 500 homes in one subdivision, then 500 properties times 10% profit per $200,000 house equals $10,000,000. That's good money.

For a house renovater (or also referred to as a "rehabber"), someone who is going to turn an ugly house into a beautiful home, the typical minimum profit target is 20%. This is substantially more than you will usually make simply wholesaling or flipping a property without doing any improvement to the property. To profit 20% on a $200,000 house is $40,000. That's good money.

For a developer, they may purchase farm land at $10,000 per acre and then sell off 4 lots per acre at $20,000 a piece. Assuming some expense for land improvement, this example still yields a huge return.

In each of these cases, by taking on the risk of improving the property can bring a much more substantial reward.

Most investors do not start with this investing approach due to the capital and skill level required. Some progress to it, while others choose to stay away and continue to make their money being purely a middleman. However, some people have extensive experience in building or renovating and therefore would far prefer this approach over simply being a flipper/wholesaler.

> **WISDOM KEY:** When in comes to deciding whether to make some money now or far more money later, my philosophy is that a quick nickel beats a slow dime.

The most successful investors are flexible and allow each deal to dictate the best course of action for the most profit. Oftentimes with really good deals, you will have the option to either earn a smaller amount quickly by selling immediately without improving the property or take on the risk and resources outlay required to renovate the property for a bigger profit down the road.

> **Real World Example:** One of our students found a really beat up home in a not-so-good neighborhood. The seller had moved out months prior and vandals had further trashed the home which was already in serious disrepair. Our student got a contract in place with the sellers at a price of $55,000. It needed about $20,000 to bring it up to the level that a retail home buyer would want to purchase it and move in. Judging by what the other homes in the area had recently sold for, it appeared $130,000 would be a possible sales price but more realistically, it would probably sell to a new buyer at $120,000.
>
> This student had a number of investor buyers come by and most offered between $55,000 and $60,000 for the deal. As investor buyers often do, they made our student feel like the home would require $40,000 to fix up and would only sell for $100,000

(An example of asking the barber if you need a haircut.) When attempting to re-sell a property to an investor buyer, it is common for the prospective buyer to point out the negatives of a property in an attempt to negotiate a lower price.

Our student was wise and didn't succumb to this negative feedback. Instead, he sought out the opinions of a few hard money lenders, people who lend money to investors to fix up property. The hard money lenders all liked the deal and therefore our student decided to borrow the money and fix up the deal himself, weathering the potential risks in search of more than the measly $5,000 profit he would have gathered had he immediately resold it to an investor buyer.

It took a few months longer than he would have liked, 6 months altogether, from start to finish, but his profit ended up being just under $25,000. His biggest mistake turned out to be that his initial asking price of $130,000 was too high and had he listed it at $120,000 from the beginning, he would have found a buyer immediately and the deal would have closed in less than 4 months. However, he was still really happy and made a great profit for his efforts; far more money than if he would have simply resold it to another investor buyer. *In this case a slow quarter beat a quick nickel!*

When you take on the higher level of risk and responsibility to actually improve a property, you can potentially make more money than by simply re-selling it. Also, in some cases, a deal will only make money if you improve it so you won't have the option to immediately re-sell it anyways. The drawbacks are that money is required to purchase the unimproved property and to fund the improvement. Specific knowledge about renovating/building is required and knowledge of codes and zoning is necessary. Plus, there is more liability involved. But with much risk can come much reward.

> **WISDOM KEY:** Some may assume that simply having a *good contractor* will bridge the knowledge gap necessary to improve real estate. Experience has taught us that a *good contractor* is only as good as the person who hires him/her. Herein lies another reason why you need to make sure you align yourself with mentors that can bridge the knowledge gaps for you. Renovating, improving or building a home is a whole lot more technical than simply hiring good contractors to do the work. Oftentimes, asking a contractor about a project is like asking a barber if you need a haircut. His opinion may be biased toward him getting paid to do the work.

Commissions / Fees

The final technique that can bring you cash now in real estate is through commissions or fees. In most cases, you will need to have a license in order to collect this money. Real Estate Agents typically make a 3% commission when they either represent a buyer or a seller in a transaction. That commission percentage can really add up fast and there are many agents that make 7 figures per year.

For some strange reason, as a general rule, the real estate investing community has balked at the idea of investors having a real estate license. They usually site issues about how it limits and restricts an investor's options. On the contrary, having a real estate license is like having a license to print money. Sure, it does hold you to a higher standard in your business practices, but isn't that the kind of business person you want to be anyways? Being held to a higher standard is a great thing for honest people. You can get more money from each closing by not giving that money away to an agent. You can have that commission money come back to you.

> **Real World Example:** Here's an example of where an investor can earn extra money from a commission or fee. One of our students had been investing for sometime and most of the people around him, friends and family included, thought he was a real estate agent. He happened to have his license but had never operated as a traditional agent. A friend approached him and asked if he could help him buy his first house. Since our student had bought numerous properties over the years, he thought it would be a good way to help his friend out and make a little money for the effort. His friend purchased a $350,000 house and our student earned a 3% commission, or $10,500. It only used up a few hours of his time and he helped his friend buy their first home wisely. As you can see, commission income can be a very profitable addition to your investing endeavors.

The drawback to having a real estate license is the expense and time associated with obtaining and maintaining one. It's not cheap. By the time you finish the testing, the continuing education, the E&O insurance, the Realtor® dues, etc, it costs thousands of dollars and consumes large amounts of time to be a licensed agent. The benefit is that you can earn commissions on all the deals you are already doing (more profit per deal) and you can earn commissions on deals that don't fit as an investing type deal. Plus, you get access to your local Multiple Listing Service (MLS) system which allows you access to the most important database in real estate. Unfortunately, only real estate agents are allowed full access to the coveted MLS system.

So you may be asking yourself, "should I go get my license?" The answer is; it depends. For most people, the plan should be to go make some money in real estate investing first and then consider getting your real estate license using some of the profits. If you have a license in retirement already, you may be able to file one document and pay a small fee and you are an active agent again. If getting your license out of retirement is that easy, you may want to re-activate. Otherwise, be patient with taking on such a huge commitment as getting your license until you have made some money and experienced real estate investing first hand.

There are other ways to earn fees or commissions besides being a real estate agent too. Some investors are also appraisers, or inspectors, or mortgage brokers. All of these professions can be great ways to put cash in your pocket from real estate.

You may even be able to simply send the contact information of potentially motivated sellers to other investors or agents and get a small fee for passing along the data, also referred to as "bird dogging". Bird-dogging is when someone finds a good real estate deal and rather than getting it under contract, they simply send the information along to an investor or agent who handles the deal from there. The business plan of a bird-dog is to simply send along a name and number, or an address, to a more experienced real estate profession in exchange for a small marketing fee. It can be a great way to earn quick money in real estate with little or no experience.

However, the marketing expertise required to find highly motivated sellers is oftentimes more difficult than negotiating a deal and getting a property under contract. Therefore, in most cases, a bird dog can earn far more money by simply taking the extra time to educate him/herself on how to negotiate with seller, what contracts to use and how to complete them properly. Instead of making a few bucks as a bird dog, the extra effort to get the deal under contract could be the difference between a few hundred dollars and a few thousand dollars.

Earning commissions and fees in real estate can be a great way to add extra cash to your pocket. The only drawbacks, in most cases, is the time and money required to obtain and maintain the proper licenses.

Those are the three ways people make fast cash in real estate. You can buy and resell a property with no improvement, you can buy, improve and then resell or you can make a fee or commission. Now let's turn to how you can build long term wealth through real estate.

How to Build Long Term Wealth

Real estate is not only a fabulous vehicle for putting money in your pocket now. It can also create long term financial security. In fact, this is what real estate is known for, building long term wealth. As you have already learned, the majority of wealth is stored in real estate. In this section, you’ll learn how you can build your financial empire from real estate.

Buy and Hold

This is the technique most associated with real estate investing. The concept of this approach is that you purchase real estate and then rent it out to tenants. This is sometimes referred to as *traditional buy and hold investing*. It has been the source of incredible wealth. Anyone who has played the board game Monopoly knows the power of owning and leasing out real estate. And as mentioned earlier, this technique can be extremely tax friendly and therefore you are able to keep more of what you earn than with the fast cash approach shared in the previous section.

There are three majors profit centers from buying and holding real estate. First, if the tenant pays you more than your costs (mortgage payment, taxes, insurance, maintenance, etc), you profit from a monthly cash flow. Second, your mortgage payment may include a principle component so each time a payment is made, the tenant is actually paying down the mortgage balance on the property and thereby increasing your equity. Third, in most areas, over a long period of time, real estate appreciates in value, so you profit from the increase in value of the property.

WISDOM KEY: A noted Yale economist conducted a study of real estate in America from 1900 to 2000 and discovered that adjusted for inflation residential real estate does not appreciate in value. His shocking research points out that residential real estate only keeps pace with inflation, as a general rule. In fact, sometimes, real estate doesn't even keep pace with inflation. Case in point, Baytown, TX. In 1981, you could have purchased a single family home on Lariat Dr in Baytown, TX for $80,000. Thirty years later, you could purchase a home on Lariat Dr in Baytown, TX for you guessed it, $80,000. The price didn't increase in over 30 years, even though a dollar was worth far less 30 years later. Surprising, isn't it? The fact is, real estate is extremely localized and every neighborhood behaves differently. Even during a booming market, certain neighborhoods may be struggling. And during a down market, certain neighborhoods may be booming. When it comes to determining which areas will appreciate, the lesson is, *location, location, location*.

The secret to successfully applying the buy and hold strategy is to buy the property below true value so that you have instant equity and then to profit from the cash flow and the principle pay down. Appreciation should be a bonus and an *icing on the cake*. It should not be the reason for the investment. Most investors are unaware of this and therefore, many have lost their shirts on real estate investments that they purchased in the hopes of profiting from appreciation. This is also referred to as *speculation*.

The other issue investors have voiced as it pertains to buying and holding real estate is in being a landlord. Some even associate, *unclogging toilets at 3AM* with land lording.

However, not all people dread property management. In fact, property management has been deemed as one of the most profitable businesses in America (based on almost any measure of profitability). Property management is a challenge if there is not a system in place to handle every issue that comes up and/or if the property does not cash flow strong enough to warrant the expenses associated with leasing. But, property management can also be quite lucrative.

> **Real World Example:** One of our students has a property that will sell for about $125,000 in today's market. It leases for $1000 per month. The amount owed on the property is about $100,000. The total monthly payment is $800. This $800 payment includes principle, interest, taxes, insurance and MI (mortgage insurance). The positive cash flow is therefore $200 ($1000 Rental Income - $800 Expenses). Property management companies usually charge 10% of rental income (as well as 1/3 of the first month's rent when a new tenant is moved into the property.) If our student turned this property over to a property management firm, he would pay $100 per month for their services (or 50% of the total cash flow). That would leave $100 per month positive cash flow. Here you see why property management firms can be extremely profitable. 10% of the gross rental income can represent a huge percentage of the overall profit of the deal.

Enlisting a property management firm can be a wise decision. They usually have a very good leasing system already in place on how to manage properties. They usually have relationships with vendors like eviction attorneys and maintenance men who are needed to run a great management system. And they typically can handle all the issues and calls from tenants, even at 3AM in the morning.

The drawbacks with hiring a property management company can be that they charge 10% of the gross rental income, which can account for a large percentage of your positive cash flow. Also, not every property management company is created equal and some do not have a good leasing system in place.

Further, and most insidious of all property management company hiring challenges, is when the company profits from repairs. Sometimes, the contractor doing the work may provide the property management company referral fees for the work they are given. This incentivizes the property management company to come up with work to be done to the property. Since you as the owner pay all the bills for maintenance, there is no real downside to having you pay for more work. In fact, the more maintenance is done, the easier it will be to lease and for the property management company to collect 10% of gross. They get 10% of gross and they don't have to pay for any of the repairs of the asset, but instead they may ***get*** paid as a result of more maintenance!

For some investors who have hired and subsequently fired their property manager, this one detail was the cause for the dismissal. Ultimately, these investors learned that since the property management firm benefited from a property's need for repairs, the property management firm would not be incentivized to bring in a high quality tenant who wouldn't destroy the place. Sadly, the more a tenant was likely to trash a property, the more potential revenue that property management company could earn from that deal.

How does a property management company have the ability to move a bad tenant into a property? Most property managers send rental applications of prospective tenants to the owner for final review. As a way to control what the owner has to choose from, some property management firms have been known to only produce one or two potential tenant candidates. This forces the property owner to make a choice between a bad tenant and a bad tenant. Next, the property owner typically asks the property manager if the tenant is good or not. Herein lies another example of asking the barber if you need a haircut. The problem is, what may be a good tenant to a property owner may be a bad tenant to a property manager. Because when you factor in the 1/3 of the first month's rent for re-leasing, it can actually behoove the property management company to continue to re-lease the property. Unfortunately, the financial incentives for a property management company can sometimes be at odds with a property owner.

Should a property management firm be hired to manage your property? In the previous real world example, our student actually manages his own property. Why? First, this student has a very solid property management system already established, from how to locate quality tenants quickly, to how to handle 3AM toilet clogging calls. Second, all of the vendors needed to run a great management system are already in place for him, from the eviction attorney to the maintenance person. Therefore, it is worth $100 per month for the student to manage the property without paying a management firm.

However, there are excellent property management firms out there. If the property is located far from the owner, the property owner does not have their system and/or if there is no team in place, it is far better to have a property management company. The best of all worlds is a property management company that you manage who follows your system and uses your team members! To learn more about building your team, see Appendix B.

Buying and holding real estate differs greatly between different types of properties as well. Single family homes can be very easy to re-sell if a tenant moves out and you want to realize your equity profits. However, leasing single family homes can be costly if the tenant stops paying or the property goes vacant because you have no way of offsetting the vacancy and therefore, incur heavy vacancy holding costs until the property is re-leased.

Income producing properties like duplexes (2 units), triplexes (3 units), quads (4 units), on up to apartment buildings have more units to off set your monthly expenses in the event of a vacancy. However, income producing properties can be more difficult to sell and may not gain in value as rapidly. The reason is that income producing properties are typically valued based on how much income they produce, whereas single family homes are valued based on what the market will pay for them. Single family homes are the most desirable residential properties, have the largest potential buyer pool and usually gain in value better than income producing properties. Rental rates, in general, do not rise as quickly as home prices can. So some investors favor buying and holding only single family homes because of the bigger cash payouts they receive when they re-sell.

Income producing property investors opt for the steady cash flow even during the low vacancy times as well as the ability to offset any unit vacancies with other rented units. As you invest, you will find which niche you would rather focus your energies on. Oftentimes, investors own both single family homes and income producing properties as well. Some even graduate to owning larger apartment buildings due to the economies of scale that are created from numerous units all contained in the same place with a full time, onsite manager. One of the great benefits of owning an apartment building above a certain size is the ability to hire an onsite manager to handle everything. As opposed to paying 10% per unit, you can actually put the person on salary and obtain terrific service for far less total capital outlay.

But, the potential downside to putting all of your eggs into one basket is if that basket fails, the results can be devastating. Using 1031 exchanges, an ambitious investor will trade up their single family homes, duplexes, and quads into one large apartment building. At first, all is good. Then, as can happen in business, things change, and their apartment building begins to stop producing. Their basket begins to fail. Since this investor has all of his/her eggs in one basket, his/her long term financial security ebbs and flows by the behavior of their one property. What's the lesson? Try to avoid putting all of your eggs in one basket.

WISDOM KEY: There is another set of expenses that must be calculated when evaluating any buy and hold deal, whether it be a single family home or a large apartment building...maintenance. The reality is that real estate deteriorates over time. As you know, the IRS allows you to depreciate an equal amount over the course of time to account for deterioration. That is certainly a gift considering most buildings are built to last far longer than the IRS allows investors to depreciate. But many parts of a property are not built to last long term. Roofs usually only last 10 to 15 years, depending on the material and the location (the desert is really harsh on comp roofs which is why you often see clay roofs in places like Las Vegas). HVAC systems usually last 7 to 10 years before some part or all of the system fails and tenants that forget to change the HVAC filters can shorten that life expectancy even more. Hot water heaters may last 7 years, if you're lucky. Carpets and floor coverings oftentimes have to be replaced every time a tenant moves out, even if they have only lived in the property for a year or less. Depending on how rough the tenant lived in your property, new interior paint may have to be added every few years too. Therefore, you must account for the costs of maintenance when evaluating the cash flow of a buy and hold investment.

The key to successfully owning and holding real estate is to be very selective in the properties you purchase. If you buy the property right and manage it correctly, it can be a rich and rewarding investment. If you buy the property wrong or manage it poorly, it can be a difficult and frustrating experience.

Some experts have said that even if you buy real estate wrong, given enough time, even a bad investment can correct itself. As you learned from the Yale professor and from the example of Baytown, TX, that is not always true. When you have access to people who have experienced a lifetime of real estate ownership lessons, you can make more informed decisions and ultimately, be more successful.

WISDOM KEY: The main reason why some buy and hold deals are not profitable can be linked to the financing on the property. The financing is a very important component of a buy and hold investment. Sometimes you can even purchase the property with very little instant equity but if the loan terms are right, it can be a terrific investment. Case in point; if you paid $190,000 for a $200,000 property but the seller provided the financing of $190,000 at 0% interest for 30 years, every payment would go directly towards the principal and soon, you would have tremendous equity and hopefully very strong cash flow. Another example would be if you didn't originate any new money to purchase the property, but instead, simply began making payments on the seller's existing mortgage, you could become the owner of the property and actually leave the seller's mortgage in place. This is a strategy known as "Subject To" and investors have been employing this concept for a very long time with great success. The loan usually has a lower interest rate than most investors could obtain by originating a new non-owner occupied loan and also, it's not in the investor's name. You'll learn more about creative finance techniques such as these in a later section.

The government can actually be a landlord's best friend in certain situations too. Section 8 is a program that is linked to welfare whereby the government may pay the property owner partial and/or the complete rental payment each month. As of this writing, the government has not gone broke yet and therefore pays each month, on time. With Section 8 (and any of its local derivatives), the government pays a standard amount per number of bedrooms the property has. In some cases, the tenant has to come up with part of the monthly rent, but in other cases, the government pays the entire amount.

For most property owners of Section 8 housing, the government supplying the entire monthly payment is ideal. The Section 8 department has a strict set of standards that the property must adhere to in order to be eligible for the program. Once a property is eligible to accept Section 8 tenants, it allows the owner to rest easy since Uncle Sam will be paying the rent on time each month (so long as those government issued checks are good and don't bounce due to insufficient funds). Section 8 can be a terrific option for investors who want the benefits of long term buying and holding without the headaches of worrying about their rent payment each month.

With all the apparent benefits, as always, there are a few drawbacks. First, maintenance on Section 8 properties can be an issue since the tenant is not very motivated to keep up the property. Especially if the government is paying the entire monthly payment, the tenant has no vested interest in the property. Second, as the old Chinese proverb states, "those in the free seats hiss first." As counter-intuitive as this may sound, the less someone pays, the more they complain, as a general rule in business. As it relates to property management, a person who pays $8,000/mo in rent for a luxury home will usually give a landlord far less grief than a Section 8 tenant who has the government pay the $800/mo for their 3 bedroom home. Section 8 property management is most likely to generate the dreaded call at 3AM from a tenant that needs a small, petty problem fixed. The solution is a great property management system. It is also vitally important that a Section 8 investor fully understand the rules, regulations and details about the local Section 8 program where the property is located since it can vary from state to state and even from county to county. Government subsidized housing has the great benefit of almost guaranteed income but the drawback of increased management requirements.

Buy/Control and Rent to Own / Sell on Terms

Real estate investors have strived to minimize the risks associated with *traditional buy and hold investing* while still sharing in the benefits. In other words, they have sought to have their cake and eat it too. What they wanted was a tenant that would be ultra motivated to keep up the payments on time each month and would also handle and pay for every maintenance problem that arose. Thus was born the creative investing techique known as *sell on terms, rent to own* or *lease with an option to buy*.

Selling a property on this “rent to own” basis is rarely employed on income producing properties and is therefore most popular with single family homes. The tenant is referred to as a “tenant buyer” and what makes this type of renter different is that they are no longer just a tenant. They are now going to be the owner someday and therefore, hypothetically, they should be more likely to make their monthly payments on time and to cover any maintenance issues that may spring up.

There are many ways in which this concept is executed. Some investors actually sell the property to the tenant buyer and the investor actually becomes the bank and collects mortgage payments. Other investors remain the owner of the property and simply lease the property to the tenant buyer along with providing the tenant with an option to purchase the property for a year or two. Still other investors take this whole concept one step further and instead of buying the real estate, they actually lease with option to buy the real estate from the original owner and then re-lease the property to another tenant buyer, oftentimes referred to as a *sandwich lease option*. Each state has different laws as it pertain to these concepts so what works in one state may not work in another. But rather than get bogged down with the details of creative financing (we'll do that in the next chapter), the key here is to recognize the concept. Instead of just leasing the property to a tenant, you obtain a tenant buyer who wants to purchase the home. The difference is subtle, but can be very effective.

The profit centers with this technique may include all of those included in traditional buy and hold investing as well as the ability to obtain an upfront non-refundable option payment from the tenant when they first move in (as opposed to a refundable deposit) or a down payment if the house is being sold on terms. Plus, you have the ability to get a big profit at the end of the option period if the tenant buyer actually buys the home.

Many rehabbers have been known to employ a combination of the buy, renovate and re-sell technique with this sell on a rent to own basis technique. There are three reasons why this is a good financial combination. First, you can sell a property for a higher price when you are offering favorable terms to a buyer than you could on the open market to a buyer who is getting their own loan. Second, you may not have to pay any sales commissions that are normally charged when you sell a home on the open market which can save you 6%. And third, if the property is held for a least 1 year, as of this writing, currently, the IRS considers the profit to fall under the category of long term capital gains as opposed to ordinary income which can save a tremendous amount in tax liability.

With all of these benefits though, there must be some drawbacks, right? For die hard buy and hold investors, they will argue that if you sell a property, you forever give up the opportunity to profit from that asset. However, seasoned creative real estate investors would counter that argument by pointing out that less than 20% of all tenant buyers ever exercise their option to buy the home. Therefore, the property is actually rarely sold when offered on a rent to own.

In addition, for any property other than a single family home, this approach can be difficult to apply because apartment dwellers rarely want to become the owner of an apartment building. Also, some investors would make the point that people actually treat their own stuff worse than the stuff they borrow from others. Meaning, if you let a tenant think *they own the place*, they may actually tear it up more than if they thought it was a rental.

Outside of these objections, offering your property on a rent to own to a tenant buyer can oftentimes bring you the best of all long term wealth building worlds.

Although there are creative ways to curb some of the inherent risks in owning real estate, at the end of the day, you are still dealing with people and people don't always follow through with their promises. Unlike the fast cash approach to investing whichs allow you to get in and get out, when you acquire real estate you are taking on an important responsibility. If the tenant or tenant buyer does not follow through with their promises, you are still responsible for keeping up the payments and the maintenance of the property.

It has been said that sometimes, it is a whole lot easier to get into a real estate deal than it is to get out of one. The way to minimize your exposure to problems is to be selective and only acquire deals that have lots of room for error. Meaning, they have tons of instant equity, the potential for terrific cash flow, very favorable financing terms or all three. Many people have built their fortune from buying and leasing real estate and it could be your key to financial freedom. But it also has its own set of challenges that you need to account for in your endeavors.

Ambitious people can sometimes be in a hurry for success and they attribute reaching their goals to owning more real estate. The goal should not be to simply own more real estate, but instead, to own solid real estate investments. It is better to own less and own right than own more and have made poor buying decisions. Patiently and wisely build your real estate portfolio. It'll pay dividends for generations.

Part 4: Advanced Investing Techniques

"Education is the most powerful weapon which you can use to change the world." – Nelson Mandela

Now that you understand the basics of how money is made with real estate, now it's time to get a far deeper understanding of the subject. There are several specific techniques that can be applied, depending on the situation. The goal of this section is to introduce you to these different strategies and how to apply them in the real world.

Wholesaling

Wholesaling is the single most popular strategy among those who are just getting started investing in real estate. The reason is that it requires little to no resources, responsibilities or commitments and it can generate quick cash. Also known as "flipping", the concept of wholesaling is that you are getting a seller to agree to a low price or favorable terms and then you are wholesaling, or flipping, the deal to a new buyer for a higher price or fee.

The traditional wholesale transaction looks something like this: a homeowner agrees to sell their home for $200,000 even though the retail value may be $275,000. Then, as soon as the wholesaler has the deal locked up with a contract, the wholesaler then finds an investor willing to pay more than $200,000, say $210,000 or $215,000. Then, at the closing, the wholesaler makes the spread of $10,000 –to $15,000.

The general rule of thumb that has been established with this model is that wholesalers need to find real estate deals at 65% of true market value (or less is even better) and then flip to investors who will purchase that same property for around 70% of value. That presupposes two very important events; one, that there are real estate owners out there willing to sell their property for 65% of value (or less) and two, that there are investor buyers out there willing to pay 70% of value for real estate. In the real world, real estate owners willing to sell their properties for 65% or less of value encompass a very, very small percentage of the total number of sellers. And the numbers get increasingly smaller as you move into areas with higher prices, areas with nicer properties and areas with newer built real estate. On the other hand though, the number of potential wholesale deals increases dramatically as you move into lower priced, older and rougher areas of town.

Why? First, newer built homes, for the most part, lack enough equity to allow for a wholesaler to pick up a deal at 65 cents on the dollar because most have mortgages against the property that are nearly equal to the value.

Second, as property prices increase, the ability to maintain the same percentages becomes increasingly difficult. For example, 65% of $100,000 is $65,000 while 65% of $1,000,000 is $650,000. It becomes more and more difficult to maintain such favorable percentages as the price increases.

Third, nicer areas of town are usually in greater demand and therefore finding buyers is not nearly as difficult, regardless of the property's condition. Most sellers of properties in nice areas can simply list the property with a local real estate agent on the Multiple Listing Service (MLS) and if priced right, will sell very quickly.

Fourth, nicer properties tend to be easier to sell and most owners of great condition properties are not as willing to give up their property for such a low price.

Fifth, as a gross generalization, higher priced and nicer area property owners tend to have access to more information and resources and typically have the wherewithal to get a property marketed correctly so that they can sell for more than 65% of value. Unlike at any other time in history, real estate owners can now go onto the internet and with a few key strokes, they can find out approximately what their property is worth, making it that much harder for wholesalers to find deals at 65 or less cents on the dollar. Therefore, wholesale deals tend to be found in the older and/or lower priced and/or rougher parts of town and the more in disrepair the property is, the more likely the owner may be willing to give up their property on the cheap.

An ethical issue exists with wholesaling that is rarely talked about or mentioned. Sometimes, the only reason why wholesalers are able to get a property under contract for 65% of true value or less is because the owner doesn't know any better or has an inaccurate understanding of what the value of their property really is. Are you really helping a seller if you are getting them to agree to 65% or less of value when you know in your heart that they are unaware of what they actually have on their hands? This is an ethical question that you may have to confront in your investing endeavors. The reality is that for most real estate owners can simply call up a real estate agent and if that agent spends the time it takes to get the property marketed on the MLS properly, most sellers can get at least 80% of value. And in some cases, 90%+ on the open market.

Some investors take the stance that, "if the seller is happy with what I've offered, then a deal is a deal." Other investors think, "If I know that this seller could simply put this property on the MLS and make $25,000 more than selling it to me for 65 cents on the dollar, then I need to at least share this information with the seller so that they can make a more informed decision."

In addition to the ethical issues, there are practical issues that can be argued on both sides as well. The drawback of not educating the seller of all of their options, such as putting the property on the MLS with an agent, is that after the contract is signed, they may begin asking friends and family about their decision. Soon the owner may realize, even before you've closed, that they are selling their property for far less than they should. Their next move will be to try to get out of their contract with you by any means necessary (legal or otherwise). When a person thinks they are being taken advantage of, as you learned from the pain and pleasure lesson, they will go to great lengths to get things straightened out.

However, by educating a seller on how they can possibly get much more for their deal than you are offering, you may lose the deal altogether. Proponents of educating property owners of their options would also argue that some sellers will actually appreciate the information and then still end up agreeing to work with you to avoid any future hassles with real estate agents or other people viewing the property. In such cases, you can feel good that you did provide the seller with many options and if they chose to sell to you, even though you were offering less, it's more likely they won't back out before it closes and all parties will be happy. For our students, we strongly recommend they provide property owners with all of their options and then allow the sellers to make the choice that is best for them.

WISDOM KEY: Always do the right thing in business and operate in such a manner that if your actions were ever recorded on the front page of the newspaper, you would feel good about the story written about you.

You can wholesale all types of real estate, from houses to commercial shopping centers. However, certain properties create terrific little niches for the traditional wholesale strategy. One great niche involves wholesaling vacant lots. There are always local builders looking to pickup vacant lots to build on. Since the property is very simple with very few variables (zoning and if it has power, water and sewer going to it), vacant lots can be among the fastest and simplest traditional wholesales you can do. Plus, the person you are trying to sell to won't easily get connected to the owner because most people don't live on a vacant lot. (A real problem for wholesalers is when the new buyer gets in direct contact with the original seller thereby removing the middleman, the wholesaler).

Another great wholesale niche involves older vacant homes in areas where there are many tear downs and new luxury homes being built. Luxury home builders may be buying properties for $200,000 and then bulldozing the existing structure and building $2,000,000 luxury castles on the lot. Once again, a vacant property makes wholesaling so much easier.

A third terrific wholesale niche involves older homes in an area that is being revitalized. You can spot these areas easily by looking for a disproportionately large number of dumpsters in the drive ways of vacant homes in the neighborhood. That will indicate that rehabbers have moved into that area and are vigorously buying up older homes and renovating them into more modern residences that bring a much higher price than the neighborhood used to bring. With this niche, it really pays to know where the *next big area* is going to be so that you can get there before *everybody knows about it*. As you can see, certain niches are ideal for traditional wholesaling.

> **Real World Example:** One of our students received a call from a property owner who needed some quick cash. He had a small vacant lot situated in a nice neighborhood that he had owned for sometime. The reason for the vacancy was that he had moved his mobile home to his farm in the country years prior. This vacant lot owner was in a hurry and without any negotiation, said he only wanted $6,000 for the property. Our student promptly drove to meet the owner immediately and within the hour had a contract tp buy the lot for $6,000. Our student then put the property on the MLS (check your local MLS policies and procedures because not all allow investors to list properties that they do not own) and had a buyer the next day for $18,000. Start to finish, the entire deal closed in 20 days and the profit was nearly $10,000. That's what a traditional wholesale looks like when everything goes smoothly.

In the end, traditional wholesaling is all about getting to a deal before anyone else knows about it, getting it under contract and then getting a buyer as fast as possible to buy it. When all the pieces of this puzzle come together, these can be very profitable deals and the money can flow in very quickly.

Retail Wholesales

The retail wholesale is a phrase coined by our team to describe when you flip or wholesale a property to a retail buyer. The traditional wholesale typically involves selling the property to another investor buyer. There certainly are instances where this is the most profitable option. Usually when the property is in complete disrepair with fix up tasks far exceeding simple cosmetic work or if the property is vacant land as in the case of the example above.

Our team discovered that oftentimes you could retail wholesale a deal to a retail buyer and make 10 times as much in profits for the same amount of work as traditionally wholesaling it to an investor buyer. Most people would actually be surprised to discover that some retail buyers are not picky and can be very flexible with property condition issues. In fact, some retail buyers actually enjoy painting and doing light, cosmetic fix up projects to a home they just purchased. Further, some motivated sellers own properties in perfect or near perfect condition as well. Thus was born the retail wholesale strategy, whereby you flip the property the same way as a traditional wholesale but your buyer is a person who is going to move into the property (a retail buyer), creating far larger profits than selling to an investor buyer.

Another advantage of having this investing technique in your tool belt is that some deals will not have enough equity to make money as a traditional wholesale but may still have enough as a retail wholesale. For example, let's say the home has a value of $400,000 but the borrower owes $350,000. Although there is some equity, there is not enough for an investor buyer to pay cash for the house and still leave room for a wholesaler to make any money. Remember the 65%

rule? 65% of $400,000 is $260,000. In this instance, a retail wholesale may be the ideal strategy. The concept is that you are contracting to buy the property for one price and then selling the property to another buyer for a higher price. However, in many cases, as opposed to assigning the contract to the new buyer, with a retail wholesale you conduct two separate closings, or what is also called a concurrent closing or a back to back closing.

Both traditional wholesale and retail wholesale deals can be true no cash, no credit investing transactions. Most purported *no cash, no credit* investing strategies actually contain hidden places where real money is required. But with both of these techniques, you may be able to only put down $1 earnest money when the contract with the seller is executed and you may not incur any other expenses out of pocket after that. You can literally make a fortune with no cash or no credit buying and selling real estate through wholesaling.

A retail wholesale can earn you 10+ times as much as a traditional wholesale. Whereas you might get $3,000 assigning your contract to an investor buyer, you may be able to earn $30,000 or more by selling to a retail buyer. But with the increased in economic opportunity comes a far more detailed and potentially complicated transaction. The main reason is that retail buyers typically use standard mortgage loans to purchase property and the underwriting guidelines of some of these loans can be quite stringent. In an attempt to curb illegal flipping, some underwriting guidelines have not only stopped illegal flipping in its tracks but it has also prevented legitimate flipping from taking place as well. As you'll discover later, having the right mortgage person on your team will be vital to you successfully completing a retail wholesale.

Real World Example: A homeowner that had just relocated approached one of our students with a request to purchase his home for $90,000. The home needed a little work, it was vacant and the seller just wanted out. He owed about $50,000 so he was more than pleased to get nearly $40,000 in his pocket. Meanwhile, our student recognized that the home could sell for as much as $130,000 if he just did a few quick cosmetic improvements, such as patch a small roof leak, clean the carpet and thoroughly clean everything else. After getting the deal under contract for $90,000, our student invested less than $500 to quickly make those improvements and immediately put the property on the MLS. He had a buyer quickly and ended up selling it for $120,000. At the closing, our student used transactional funding to purchase the property from the seller for $90,000 and then the next day, re-sold the property to the new buyer for $120,000. After closing costs and commissions, our student earned more than $20,000. xcept for the $500 to make a few improvements, our student used no cash or credit and made a very sizable profit.

Options

Very similar to both traditional and retail wholesaling is optioning real estate. With an option, you are getting an owner to provide you with an option to purchase their property. This is basically the same thing as when you execute a purchase contract with an owner to sell you their property. The main difference with an option is that it usually lasts for a much longer period of time (sometimes years) than the typical purchase contract (usually 30 to 60 days). Much like a wholesale deal, the option investor can then either assign the option contract to another buyer or buy the property and re-sell it or of course, buy the property and hold onto it. Options are often used in commercial deals since they usually take a whole lot longer to close than a residential deal.

> **Real World Example**: Aristotle Onassis, one of the world's greatest entrepreneurs once said, "The secret to business is to know something that nobody else knows." Here's an example of getting to a spot before anyone else knows about it. In Middle Tennessee, just south of Nashville, sits what used to be the sleepy farming community of Spring Hill. One ambitious option investor caught wind that General Motors was going to be building a gigantic manufacturing facility in Spring Hill. He immediately took up residence at the local Holiday Inn and for a few weeks proceeded to contact and meet with every farmer he could, offering them an outrageous amount per acre for their land. He tied up these farmers with simple option contracts that expired after 1 year. The farmers thought he was the out-of-town fool willing to pay double for their land and these farmers thought they were taking advantage of him. Right on schedule, GM moved in and began buying up land for the enormous vehicle manufacturing plant they were building. This ingenious option investor flipped his deals to GM and earned over $15,000,000 (that's right, $15M) for less than 6 months of work. Maybe Mr. Onassis was right, maybe the secret to business is knowing something that no one else knows?

Pre Foreclosures

A pre foreclosure can be defined as a property that has a loan in default and is headed toward foreclosure. The length of the pre foreclosure phase can vary greatly. The state of Georgia can be as short as one month whereas New York can be six months or more. Although the pre foreclosure phase does not officially start until a foreclosure attorney sends a borrower correspondence related to their default, for our purposes, this phase can encompass any time in which a borrower is late more than 30 days on their mortgage. Most lenders have a collections process that starts when the borrower is 15 days past due on their payment.

Typically, if a borrower falls more than 90 days past due, the lender will issue a default or demand letter requesting that the entire outstanding balance be paid or the property will be foreclosed upon. Each property is different, each lender is different and certainly every state has different foreclosure laws so therefore there is no set time frame by which a property goes from past due to foreclosure. The best way to gauge the time period of a pre foreclosure is with the following two benchmarks:

Benchmark #1 – Default Letter Expiration: When a demand letter is issued, it usually contains a date by which the past-due balance must be paid. This is the expiration date of the demand/default letter. In most states, lenders must issue a demand letter with an expiration date before they can foreclose on a property.

Benchmark # 2 – Foreclosure Letter: If the borrower does not cure the past due balance and the demand letter expires, it is at this point that most