THE ULTIMATE BEGINNERS GUIDE TO

REAL ESTATE INVESTING

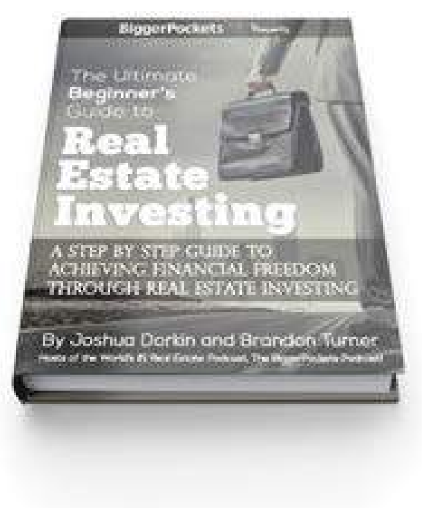
BiggerPockets®

WELCOME TO THE

BiggerPockets

ULTIMATE BEGINNER'S GUIDE TO REAL ESTATE INVESTING

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



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

What to Expect in This Beginner's Guide

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

Your Real Estate Investing Education

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

Choose Your Real Estate Niche and Strategies

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

Create Your Real Estate Business Plan

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

Find the Best Investment Properties

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

Financing Your Real Estate Investments

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

Mastering Real Estate Investment Marketing

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

Knowing and Executing Your Exit Strategies

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

Are You Ready to Begin?

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

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

Josh Dorkin, Founder and CEO
BiggerPockets.com

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

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

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

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

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

CHAPTER 1

HOW TO INVEST IN REAL ESTATE: AN INTRODUCTION

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

Andrew Carnegie

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

THIS CHAPTER INCLUDES:

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

WHY INVEST IN REAL ESTATE?

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

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

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

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

For more details on these reasons, see:

- **Why Invest In Real Estate**
- **Top 5 Reasons to Invest in Real Estate**
- **Top 5 Reasons to Invest in Real Estate Instead of Paper Assets**

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

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

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

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

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

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

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

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

-Brandon Turner
Community Manager, Biggerpockets.com

Advantages of Investing While Working a Full-Time Job

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

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

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

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

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

Also be sure to check out:

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

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

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

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

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

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

Also be sure to check out:

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

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

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

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

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

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

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

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

- *5 Ways to Start with No Money and No Credit?*
- *How to Close a Subject-To Deal with No Money Down*
- *Can You Really Flip Houses With No Money?*
- *Forum Discussion: Wholesaling With No Money Down*
- *Flipping, Marketing, and Wholesaling with Danny Johnson*
- *BP Podcast 050: Getting Started and No Money Down House Flipping with Mike Simmons*

Working in Real Estate Without Investing at All

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

- ✓ ***Real Estate Agent***
- ✓ ***Mortgage Broker***
- ✓ ***Appraiser***
- ✓ ***Construction Worker***
- ✓ ***Resident Manager***
- ✓ ***Title/Escrow Agent***
- ✓ ***Project Manager***

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

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

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

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

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

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

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

Moving On

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

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

CHAPTER 2
REAL ESTATE INVESTING EDUCATION

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

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

In this chapter, we'll cover:

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

Don't Skip Your Real Estate Investing Education

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

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

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

Sources of Real Estate Investing Education

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

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

Mentors -- real estate mentorsPerhaps the most powerful way to gain a good education in any field of study is through a mentor -- and the same holds true in real estate. While there are dozens of professional real estate mentors who charge for their service, there are also millions of mentors all over the world that will cost you as little as a cup of coffee - they are your local investors. People enjoy sharing what they know, and seasoned real estate investors are no different. By introducing yourself to a successful local real estate investor who you would like to become more like, you'll have the opportunity to learn from someone in the field who knows your market and who can ultimately become a partner as you come to become successful yourself. We'll talk more about mentors later in this chapter.

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

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

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

Real Estate Mathematics: No More Complex than Junior High

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

Income:

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

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

Your total income was $1025.00.

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

Expenses:

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

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

Cash Flow:

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

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

Return on Investment:

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

The actual calculation for Return on Investment looks like this:

ROI = (V1 – V0) / (V0), (where V1 is the ending balance and V0 is the starting balance)

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

ROI = (1100 – 1000) / (1000) = .1 (or 10%)

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

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

For more information regarding real estate math, please see:

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

Introduction to Internal Rate of Return (IRR)

Return on Investment (ROI) Versus Cash on Cash Return (CCR)

Real Estate Investing Mentors:

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

Real Estate Investing Mentors in Your Life

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

Parents	**Professor**
Grandparents	**Boss**
Older sibling.	

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

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

How to Find a "Organic" Real Estate Mentor

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

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

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

In other words

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

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

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

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

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

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

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

Should You Pay for Mentorship?

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

If you've been around **BiggerPockets** for any length of time, you'll understand that it is our core belief that you do not need a paid mentor or guru to help you succeed. There is a vast amount of information out there, most of it for free, that you can use to learn and grow as a real estate investor. Furthermore, places like the **BiggerPockets** Forums give you the ability to ask any question you want and receive answers back from many actual, seasoned real estate investors. Think about it -- there are over 219,000 others on our site, and many of them are active on our Q&A forums -- you can pay a single person thousands to be there to answer your questions or you can just ask it for free and get answers from many of your peers who are active in the field. We tend to believe that the input of many is certainly superior to one person's.

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

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

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

Chris Clothier, Investor

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

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

Paid mentors can provide accountability ("I spent thousands... I better make it worth it!") and good information that is neatly packaged for easy consumption. Many investors do find success working with paid mentors. Many others, however, do not. By focusing on finding local mentors, building your knowledge, and researching your potential paid mentor before paying, you are able to increase your chances of finding success and avoiding failure. Remember: there is not a product, coach, or mentor who can make you successful. That is strictly up to you. A mentor – paid or not – is merely a guide to help you get down the path as safely and quickly as possible. The choice to do so is up to you.

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

Life Changing Mentors

How Do You Find a Real Estate Investing Mentor?

How to Find Real Estate Mentors and My Eureka Moment

I Can Do That! No, Sorry, You Probably Can't – Wannabes and Mentorship

The Real Estate Guru Trap – How It Works & 4 Ways to Avoid It

Purchasing a Real Estate Investing Guru Program? Read This First!

Don't be hypnotized by the "Guru of the Week"!

BP Podcast 017 – Finding Mentors, Facing Retirement, and Note Investing with Jeff Brown

BP Podcast 025: Four Newbies and Their Very First Real Estate Success Stories

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Fear: A Roadblock in Real Estate Education

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

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

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

Six Steps to Help You Overcome Fear:

1.) Get off Your Duff.

If you are looking to real estate investing to save you from a job you hate, then you had better start working to replace the income from your job with money made from real estate activities. Develop a plan and work that plan everyday -- just like you would get up and go to work everyday for a paycheck. If you expect to do one deal and end up on a beach somewhere with beautiful people all around -- wake up. Successful real estate investors work hard, and you will need to do the same, but instead of working for a company you're not fond of, you're working for yourself -- a blessing and a curse.

2.) Commit

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

3.) Start Participating

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

4.) Learn the Lingo

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

5.) Learn the Concepts

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

6.) Watch Others

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

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

Analysis Paralysis

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

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

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

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

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

[Advice for New Real Estate Investors Just Starting Out]

[3 Words of Advice for New Real Estate Investors]

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

[Being Committed to Being Committed]

[Paralysis by Analysis]

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

[Frozen by Paralysis of Analysis?]

[5 Ways to Overcome Analysis Paralysis]

Moving On

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

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

CHAPTER 3
REAL ESTATE INVESTMENTS: NICHES AND STRATEGIES

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

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

In This Chapter We'll Cover

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

Real Estate Investments are Like a Box of Chocolates

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

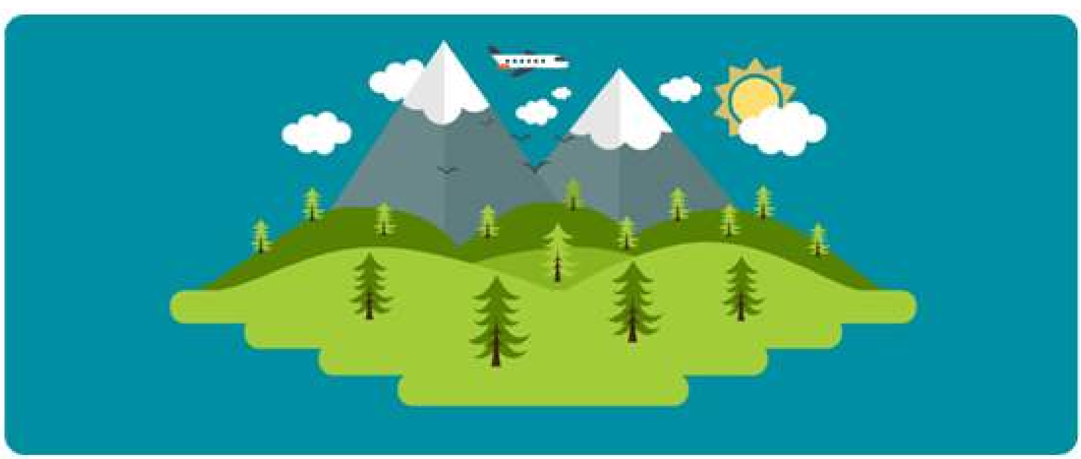
You might absolutely love some niches and strategies, while others might make you shudder. However, unlike that box of chocolates, as an investor, you are able to get a full view of the many different choices available to you, and you can then choose the one(s) that you enjoy the most. Best of all, you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

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

Choosing Your Real Estate Investment Niche

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

Raw Land



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

For More Information on Raw Land, see:

- *Residential Land Development – Part 1*
- *Developing Real Estate: How to Price Land for Profit*

Single-Family Homes

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

For More Information on Single Family Houses, see:

- *Secrets of Single Family Rentals*

Duplex/Triplex/Quads

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

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

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

Small Apartments

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

Instead of being priced based on comps, the value of these properties are based on the income they bring in. This creates a huge opportunity for adding value by increasing rent, decreasing expenses, and managing effectively. These properties are a great place to utilize on-site managers who manage and perform maintenance in exchange for free or decreased rent.

For More Information on Small Apartments, see:

- *How to Find the Best Commercial Apartment Deals*

Large Apartments

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

For More Information on Large Apartments, see:

- *Anatomy of the Grand Slam: How I Made $800,000 on One Flip*

REITs

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

For More Information on REITs, see:

- *Is Now a Good Time to Invest in a REIT?*

Commercial

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

For More Information on Commercial Investing, see:

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

Mobile Homes

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

For More Information on Mobile Homes, see:

- *Mobile Home Investing with Creative Strategies*
- *Mobile Home Investing: AKA The Moolah Maker*

Tax Liens

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

For More Information on Tax Liens, see:

- *Tax Liens: What They Are and How to Use Them In Your Business*

Notes

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

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

For More Information on Investing in Notes, see:

- *Cash Flow Notes: 5 Steps to Investing Through "Lien Landlording"*

A Summary of Your Real Estate Investment Niche Choices

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

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

For More Information on Choosing Your Niche, See:

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

Choose Your Real Estate Investing Strategies

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

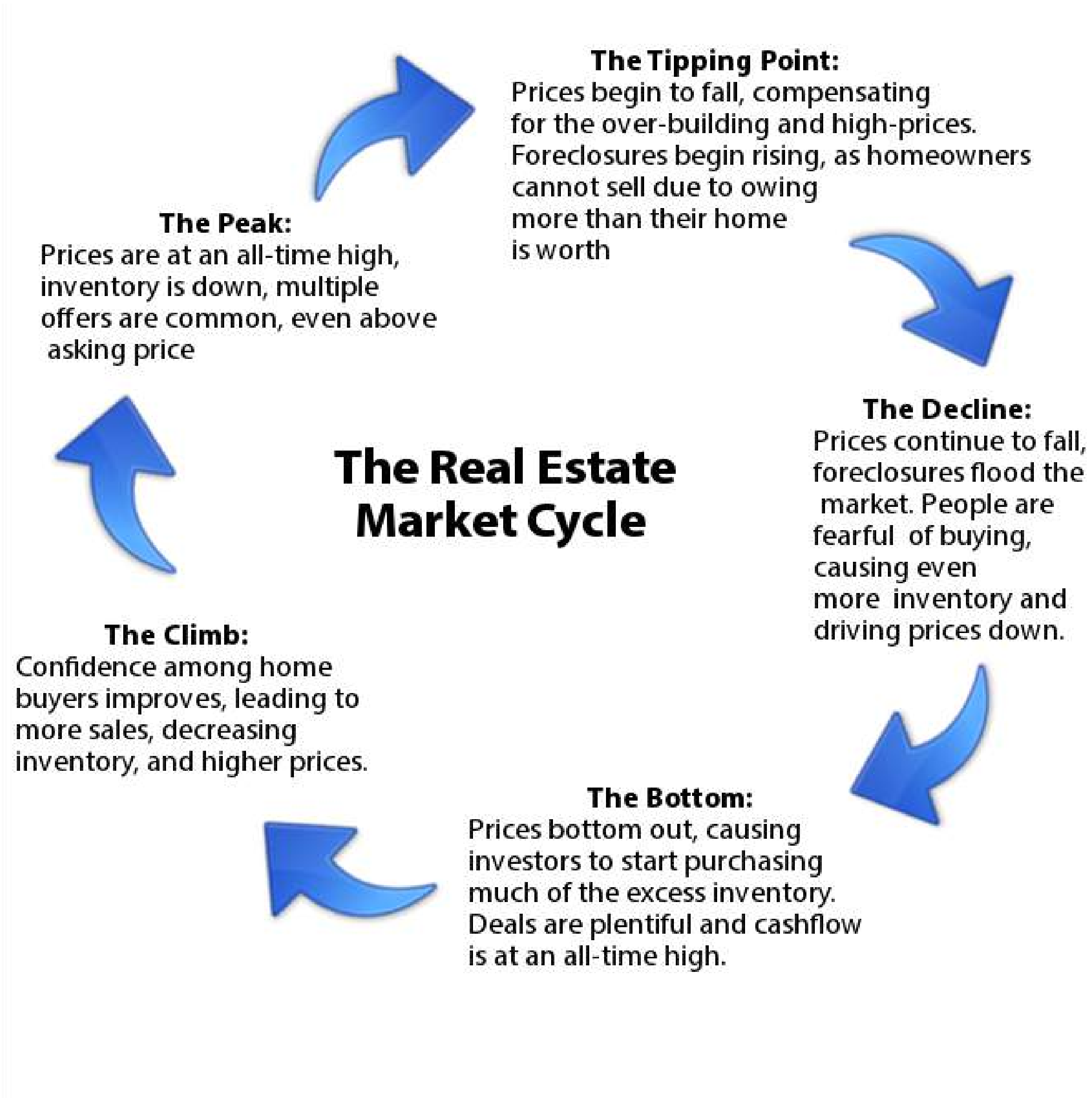
Buy & Hold

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

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

To properly carry out the buy and hold strategy, an investor should learn how to properly identify the ebbs and flows of the market that a property is located in. Ultimately, when they perceive the market and the properties they are interested in to be at a low point (prices low, inventory high), the buy and hold investor seeks to purchase properites. When the market becomes over-heated, an experienced buy and hold investor will usually stop buying until they see things settle back down. During these slow periods, they may sell or simply continue to hold their properties. Some buy and hold investors never sell a property, choosing instead to pay the mortgage off and live on the cash flow or may ultimately sell using "Seller Financing" (see chapter 8 for more on exit strategies).

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



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

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

- *3 Key Factors in Buy and Hold Real Estate Investing*
- *What Is Hybrid Real Estate Investing*
- *Back to Basics on Buy and Hold*
- *The Return Of the Real Estate Buy and Hold Strategy*

Flipping Real Estate

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

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

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

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

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

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

For more information on flipping, please see:

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

Wholesaling Real Estate

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

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

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

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

For more information on Wholesaling, please see:

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

Moving On

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

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

CHAPTER 4

CREATING YOUR REAL ESTATE INVESTING BUSINESS PLAN

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

Saint Augustine

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

This chapter includes:

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

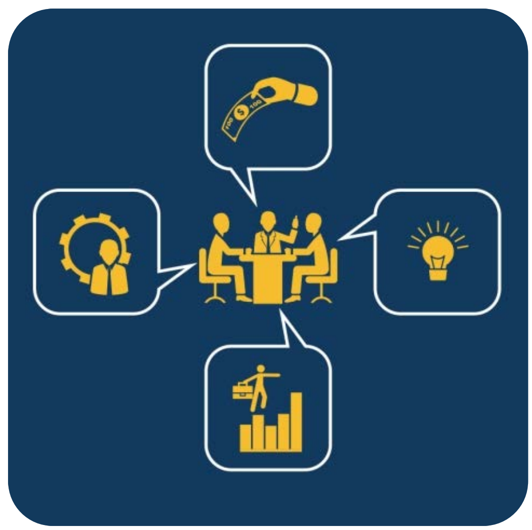
Creating a Real Estate Investing Business Plan

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

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

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

What Your Real Estate Business Plan Should Include



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

It is almost impossible to follow a financial or real estate road map perfectly. While you can plot your course with care and extreme precision, there are still many outside forces at play. However, your road map is designed to keep you headed in the right direction at the correct speed. You may come across bumps in the road, dead ends, and even a breakdown or two. However, if you hold as tight as you can to the map you've created, you will pass through those problems and come out at your destination.

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

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

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

Assembling Your Team

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

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

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

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

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

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

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

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

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

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

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

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

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

What Makes a Great Real Estate Team?

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

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

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

J Scott, Investor

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

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

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

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

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

Should I Use a Partner or Go It Alone?

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

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