RISK VERSUS REWARD:

A Simple Guide for Investing In Real Estate

Dave Bedient "The SPECIALIST"

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Table Of Contents

Table Of Contents

About David

I specialize in servicing retail customers, real estate investors and house flippers. As a skilled negotiator, I will reach the best terms for my clients. Understanding the importance of communication in a client-agent relationship, I am always available to answer any questions or concerns throughout the entire process.

For the last decade, I have actively invested in reinvigorating and renovating properties, which has given me a deep knowledge of the inspection and appraisal processes. Through this, I have formed many relationships with other real estate agents and over time, created an accessible extended network.

Before obtaining my real estate license, I was educated as an engineer. Thus then becoming self-employed and built my own computer engineering company from the ground up over the past 30 years. My entrepreneurial spirit led me to begin a new adventure in real estate because I have always enjoyed the idea of buying, selling and improving properties. My engineering background has fine-tuned my attention to detail and problem-solving skills, two important traits clients appreciate.

My greatest influence is my father, who taught me to continually improve myself, work hard but smart and never give up on projects. I have been married for almost 30 years, and a proud father to my daughter and grandfather to my grandsons. When I have time to relax, I enjoy photography, play time with my grandkids, woodworking and supporting my church, foster care groups and various non-profit organizations.

CHAPTER 1

Introduction

Have you ever watched one of those house-flipping or income property T.V. shows? They seem to just update what needs to be updated, then sell or rent it — and quickly — at a profit. Sure, there are always unexpected expenses, but it seems to always work out in the end.

And it's exactly that portrayal of real estate investing that draws people in. Who wouldn't want to do a little work to make a place look more attractive and walk away with thousands (or tens of thousands) of extra bucks in their pocket? I'm guessing you, since you're reading this book, and I don't blame you one bit.

The problem is that there is so much more that goes on in real estate investment than television can show you in 30-60 minutes of heavily edited content. That doesn't mean there isn't potential to earn money this way — there definitely is. It's just that there's a lot you need to know in order to actually make this happen.

This book will help someone exactly like you: hardworking, intelligent, realistic, and ready to change your financial situation — and your life — through real estate investment.

In the following pages, you'll learn about how to get started in real estate investment, including what types of properties to invest in and how to finance your purchases. (Note: If you're already an investor, I suggest reading through this section anyway, just in case there are strategies you haven't tried yet that could enhance your ability to make more money.)

I'll also teach you the different types of real estate investing, which includes resources and tips to succeed in each arena, the real ROI (return on investment) for home projects (i.e., how to spend your money the right way), marketing techniques that will make you and your properties stand out, how to build your investing team, and the benefits of working with an agent.

CHAPTER 2

Thinking About Investing?

Before we begin, I want to point out that this section is geared more toward people who are interested in becoming a real estate investor but want to know more. If you've already started down this path, you could theoretically skip this section; however, if you flip through the pages of this section as you move to the next, you might find some new information. Maybe you'll learn some strategies you haven't tried yet, or weren't even aware of. Maybe you'll just find validation you're on the right track, or a reminder of you why you got into investing in the first place…

What I'm saying is that there's a lot of good information here, and it can't hurt to give it at least a quick glance.

As for those of you who are looking to get into the real estate investment game, my goal here is to give you all the information you need to decide whether real estate investment is right for you, and then teach you how jump in. So let's get started!

THE STATS

According to a 2019 article on Investopedia.com, the average commercial real estate investment returns over 20 years are around 9.5%. Diversified and residential investments average around 10.6%.

Both of these are higher than the S&P 500 Index, which has an average annual return of about 8.6% over the last 20 years. By the way, all these figures include the housing price burst in the 2008 recession, during which time real estate investment still did better than the housing market as a whole.

These stats alone obviously show a great reason to buy real estate. But what do investors hope to get when they're buying property? According to the 2017 National Association of REALTORS® (NAR) Investment & Vacation Home Buyers Survey, 37% plan to rent it for income, 16% for the possibility that the price will appreciate, and 15% because it was a good deal.

This all sounds great, but I'm guessing the main stat you're interested in is how much you can make. (Am I right?) Well, here's the answer you've been waiting for: According to a survey of real estate investors done by ZipRecruiter.com in spring 2019, investors make an average of $123,937 per year, with the low end at $47,000 per year and the high at $261,500. Most make within the range of $100,000 to 150,000 per year.

CHAPTER 3

Financing Your Investments

Now that you know *why* real estate investment is a good idea, it's time to learn *how* to do it. But before we get into the nitty-gritty details of each investing method, let's address the elephant in the room: To make money, you need to have money to invest, right? Well, yes and no.

While you do need money to invest, it doesn't necessarily need to be your own. If your only reference for real estate information is house-flipping T.V. shows, you might assume real estate investing is all about cash buying. There are many investment deals that transpire throughout the real estate market on an annual basis. The majority are achieved through traditional lenders and institutions such as banks, but some are accomplished through less traditional means. In most cases, it's because the investor couldn't raise the capital or didn't have the credit score to do so.

According to the 2017 NAR® Investment & Vacation Home Buyers Survey, 47% of investors financed less than 70%. And more than half — 64% — used a mortgage. So, whether you're reading this as a newbie or a seasoned pro, you shouldn't feel bad — not even for a minute — if you don't have the cash to use.

In fact, the ultimate goal for real estate investors is to not use *any* of their own money at all! This works to every investor's advantage — those without the funds can still get in the game, and people who've been playing for a while can use other people's money as a way to invest more, which leads to increased income.

Obviously, there isn't a bunch of people out there willing to just hand over their cash so you can invest. This is when having a solid network is important. You've got to be clear on whom you access for help and how to best use the help they give you.

It's also to your advantage to have a high credit score. Why does this matter in this business? First, you'll get more access to working capital, but you'll also have lower interest rates if you do take out mortgages or loans, which can lead to significant savings versus people with "so-so" or low scores.

WHERE TO GET MONEY

Investing without Your Own Money

The first and most common option is *hard* (i.e., private) *money lenders.* In this case, people or businesses loan you money as an investment for themselves. They make money through fees and interest rates, both of which tend to be higher than other types of loans. One way to make sure you still come out ahead in the deal is to use these loans to buy homes at 50 cents on the dollar.

Partnerships are another popular way to get funding. These can work in a variety of ways, but you want to make sure that you balance each other out well. For example, if you have a less-than-stellar credit score, make sure your partner has a great one. Perhaps you can be the one to find the ideal properties and your partner can get the financing, which will come with lower fees and rates thanks to that higher score.

Keep in mind that you don't want to partner with someone just because you already have a good relationship. The key to a fantastic partnership is being in sync, such as agreeing on what kind of risks you're willing to take, determining what short- and long-term goals you have, figuring out who will do what, and deciding what kind of return you'd like.

Investing with Your Own Money

If you don't have access to private lenders or partners, you can still start your investing career without having all the money on hand.

One way to do this without paying any money upfront is through *home equity.* You can use this by taking out a home equity line of credit (which leaves your mortgage as-is) or rewriting your mortgage and getting a cash-out refinance. Of course, this works only if a) you currently own property; and b) there's capital in it.

Another route is a *lease-option,* also known as *option to buy.* In this situation, you would rent the property, but sign an "option to buy" at a later date for an agreed-upon price. This legally binding path to property ownership might take a little longer, but is still a viable option if you have the funds.

Seller financing is just like getting a loan through a bank — except you agree to the payback and terms directly with the seller. This loan should include a repayment schedule, interest rate, and consequences, should either party default on their agreement. Often, these agreements include a significant down payment (sometimes higher than mortgages). Many of these agreements also involve the seller holding on to the deed until the buyer has completed all the payments.

An option that may or may not work for you is *investing your retirement funds.* This typically doesn't work for people over the age of 60 because there's not enough time for rental income to pay off the mortgages. The so-called "sweet spot," age-wise, is around 35 to 40. This is because people this age have theoretically been paying into a retirement account for about a decade and might have a fair amount to spend. Also, there's time to get a good return. Perhaps the mortgage will be paid off in 10 years; after that, the net income after operating costs is all yours.

Your retirement account can be used for purchasing and maintaining properties as well as collecting rent. However, none of that money can go directly to you until you've reached the age when you can start withdrawing money out of the account. (Well, you technically *can* withdraw in many cases, but if you're younger than the legally allowed age for withdrawal, there might be a significant penalty. This could mean losing thousands of dollars, depending on how much you take out.)

Self-Directed IRAs (SDIRA) are traditional or Roth IRAs (individual retirement accounts) that allow you to invest beyond the usual mutual funds, stocks, etc. With an SDIRA, you can invest in precious metals, tax lien certificates, and — most importantly, for our purposes here — real estate.

When you use your IRA to buy real estate, there are some important things to keep in mind. First, you're required to report the value of your investment to your IRA custodian every year. Also, the fee structure can be complicated, so you need to understand what you'll owe and how that relates to your overall profit. Also, your investment needs to bring in enough money to pay for both regular maintenance and any expenses that come up without you having to add cash.

The major benefit of using an SDIRA for your real estate investments comes down to taxes. With a traditional IRA, it's tax-deferred income, but with a Roth IRA, your gains are tax-free, and the money will also be tax-free when you ultimately withdraw it. If you go this route, you can move funds around from multiple projects without affecting your taxes. (Keep in mind that tax and another financial laws can change at any time, so make sure you keep on top of any changes, and make any adjustments, as needed.)

One tax downside is that if your property has a net loss, you don't get the tax breaks other investors get. You also can't claim

depreciation.

Another advantage of real estate over traditional retirement accounts is the return. Real estate can net you perhaps an 18-20% return over 30 years, whereas the more common accounts, IRAs, 401(k)s, etc., might only get you 3-6%. Not only that, but you can use compounding to your advantage. If you keep investing your money for the first 20 years, you can leave it for the last 10 and just let it grow. Doesn't doing almost nothing while still making plenty of money sound great?

As with any investment, there are risks to using an SDIRA. You might make a bad decision or get scammed, which is so common the SEC has an investor alert about the scamming risk for SD-IRAs.

Other risks include not having enough diversity in your investments (it's hard when you have limited funds) and potentially not being able to access the money — even once you're retired, due to liquidity issues. This means you might not be able to take out the required minimum distributions. Again, this is why diversification is important; you need to have enough cash to meet *all* the requirements.

Speaking of "following the rules," it's vital you know them all. If you do something wrong, you might accidentally disqualify the IRA, which means you'd owe taxes. This includes not purchasing property for yourself your immediate family members. (You can't buy property from them or sell property to them, either), but there are many other more nuanced rules, as well.

TAX BENEFITS FOR REAL ESTATES INVESTORS

Because both federal change and state local taxes can vary, there's no specific guidance I can give about that here. However, please understand that the tax ramifications of any kind of real estate investing will depend on your particular location and circumstances as well as annual changes in the tax code. I strongly recommended that you consult with a CPA or tax attorney before beginning any real estate transaction or investment.

With that said, at the time that I write this book, there are some general tax-related benefits for real estate investors that I want you to know about.

The first has to do with all the deductions real estate investors can get: mortgage interest; business expenses, such as property management, office, mileage, travel, educational events, etc.; repairs; and improvements made that increase your property's value. All of these can be immediately deducted, with the exception of improvements, which are depreciated over time.

Depreciation of the property itself, regardless of any work done, is also a tax deduction, and it's done over the course of time. Commercial properties can depreciate over a longer time than residential (currently 39 years versus 27.5 years). The land on which the property resides never depreciates. If you rent out a property, sometimes depreciation can get you a *phantom gain*. Here, on paper, the numbers look like a loss; however, because of the depreciation amount, you actually come out ahead. A tax attorney or CPA can help you figure out exact numbers for your situation.

1031 Exchange

Another benefit is the 1031 exchange, which allows you to put off paying capital gains taxes if you use your profit from a real estate sale to buy another property. This makes your income essentially tax-free, and you can put all your profits toward the next property, which is called *trading up*.

A 1031 exchange covers only business or investment properties. In general, vacation or second homes don't qualify, but you should check with a tax expert to see if there are any exceptions, especially when it comes to the usage test.

There are three specific requirements to qualify for a 1031 exchange, and you must meet all of them:

- **The like-kind exchange.** The property you buy must be similar to the one you sold. The purchase price of the new property must be the same as, or more than, the one you sold.There's no switching from commercial to residential or vice versa; however, you can often exchange property and land.
- **Time restrictions.** You must officially record identifying a new property within 45 days of selling your old one. There are different ways to identify replacement properties:

1. Find three properties, not worrying about their fair market value.
2. Identify as many properties as you can, as long as their aggregate fair market value is less than 200% that of the sold property on the date of the transfer.
3. If the above two rules are exceeded, you can buy 95% of the aggregate fair market value of the identified properties.

You also have to close on the new property within 180 days of the previous property's sale.

- **A qualified intermediary.** Not only can you not be directly responsible for the transactions or money, your intermediary must be someone with whom you haven't worked for at least two years.

Let's use this example from a March 2019 interview that "The Motley Fool" conducted with Thomas Castelli:

Let's say you have a property you bought for $100,000. Ten years pass, and now it's worth $150,000. You have a $50,000 capital gain. Break it up in between capital gain and depreciation recapture however you want. You're still going to have to pay tax on that $50,000. So, when you pay tax on that $50,000 of capital gains, you're going to have less money you can reinvest. What a 1031 allows you to do is invest that entire amount so you're not paying the taxes today, and you can purchase a larger property.

You could continually purchase larger and larger properties and continue to use the 1031 exchange pretty much forever. And if you really wanted to — I'm just going to be honest, as it's easier said than done — you can eventually leave the property to your heirs and they'll receive that property at the fair market value on the date of your death by eliminating all of this capital gains depreciation recapture that you should have paid during your lifetime. In theory, you can just keep purchasing larger and larger properties, making more and more cashflow, but never actually paying any taxes on that property.

In the interview, Castelli also talked about *opportunity funds*, a new way to possibly put off or completely eliminate capital gains taxes. Opportunity funds are a way to invest in opportunity zones, which low-income communities' governors have identified, and the Treasury has approved.

The funds come with tax incentives, including the ability to defer capital gains on a variety of capital assets. These include not just real estate, but also stocks, bonds, and more. A CPA can give you all the specifics.

The timeline has the same 180 rollover as the 1031 exchange, but you're only required to roll over the capital gain, which means you're free to do what you want with the money you invested.

Castelli gave this rundown of the numbers:

If you hold that capital gain in the fund for five years, you're going to receive a 10% stepped-up basis in that gain. Let's just say you have a $100,000 capital gain, and in five years, you receive the 10% step-up; you're only going to pay tax on $90,000 of that capital gain. If you hold it for another two years for a total of seven years, it's going to step up [an additional] 5% for a total of 15%, and you only pay tax on $85,000 of that gain.

Now, if you hold that investment in the fund for 10 years, your investment in the actual fund itself will be tax-exempt. Just, say, that $100,000 you put into the fund; 10 years from now, it's worth $150,000. That $50,000 capital gain is completely exempt from tax. Now, this is a little longer-term play. You have to keep your money in there for at least five years to see any benefit from it.

I think there's over $7 trillion or some crazy number of appreciated gains in the United States. So all of those appreciated gains are technically eligible for opportunity funds, and I think the background behind this is they want to take those appreciated assets and move them into low-income communities that need renovation and raise the status of those communities and opportunity zones. Opportunity funds are the way to do that.

Castelli pointed out one important aspect of opportunity funds for investors to keep in mind:

Because of the requirements to have an opportunity fund… You have to substantially improve these assets, which means doubling the property's basis. Essentially, it's the building's basis, but just *think about it, I guess for this purpose, as the purchase price. You have to add as much as the purchase price basically in capital improvements, so it's substantial. Or you have to develop the property from the ground up and you have to hold it for 10 years.*

RENTAL TAX SPECIFICS

Rental property owners are open to a variety of benefits, which I've listed below. You'll notice that several are the same as for other real estate investments.

Also, as with all properties, if you sell within a year of buying, you'll be taxed at your income rate. If you hold on to a property for a year or more, as is usually the case for rental properties, you'll deal with capital gains tax, which is a lower rate.

Your overall tax deductions can depend on what type of investment business you have (sole proprietorship, partnership, or corporate entity). And, as always, do your research to make sure you're up-to-date on all the latest tax laws, as these can, and do, change.

Rental property tax benefits:

- home office, office supplies, computer software
- mileage
- travel
- meals (50%, as long as you're having a business meeting while eating)
- mortgage, unsecured loan, and credit card interest
- loan origination fees or points (they're considered kinds of interest)
- utilities, trash, and recycling
- property taxes

- licensing fees
- occupancy taxes
- insurance, including liability, hazard, fire, sewer backup, flood, and loss of income (talk to a tax professional if you have an umbrella liability policy or a landlord liability policy)
- maintenance, repairs, improvements, and cleaning
- advertising
- commissions to real estate agents or property managers who find tenants and renew leases (this is considered part of marketing, not property management)
- property management fees, salaries, and benefits (if you manage yourself and your business is an LLC or corporation, you may be able to be employed and have your salary be deductible)
- homeowners' association fees (HOAs), as well as whatever HOA requires, such as specific "For Rent" signs
- professional and legal fees, including bookkeeping, filing taxes, and all legal work
- any losses incurred up to $25,000 per year; anything over that can be carried over to the next year. Note that your tax savings will be less than you lost
- Social Security (FICA) or self-employment taxes (the benefits vary, but can range from about 7.5% to 15.3% of your profit)
- second/vacation homes rented out for at least two weeks per year might allow you to write off advertising and rental commission and prorate other expenses
- some states have historic tax credits that include both the rental operation and/or any renovations
- incentives from your state or locality to invest in lower-

income areas

You're also required to take a deduction for depreciation. Just know that when you sell a rental property, you're subject to *depreciation recapture.* Any gain that has to do with depreciation is taxed at 25% (as opposed to 20% for regular capital gain). The depreciation-related gain is also called *unrecaptured section 1250 gain.*

One way to mitigate this is to always keep track of passive activity losses. While they may not be deductible while you own the property, they are when you sell it, which means the amount you'll owe will be less.

By the way, if you're thinking, "Well, I just won't claim depreciation, then," I'm sorry to tell you that this simply won't work. The IRS states that the recapture's calculation is based on "allowed or allowable" depreciation, meaning that even if you didn't claim it, you'll still have to pay it. You might as well get the deduction while you can, and perhaps consider setting it aside for when you do end up selling the property.

ALL ABOUT CREDIT SCORES

As I briefly mentioned, credit scores can play an important role in getting financing and the rates you'll need to pay. I want to talk in detail about what makes up a credit score so you'll know what you need to do, should you want to improve it.

First, your score is a number that tells lenders how likely you are to pay back the money. When you have a higher score, you get better rates, which leads to long-term savings and more money in your pocket.

Credit scores are often based on the FICO scoring model. They can range from 300 to 850:

- Bad credit: 300-600
- Poor credit: 600-649
- Fair credit: 650-699
- Good credit: 700-749
- Excellent credit: 750-850

The determining factors and how much weight they carry vary between credit agencies (TransUnion, Experian, and Equifax). However, the following five are the major contributors to your score:

- Payment history: 35%
- Outstanding balances: 30%
- Length of credit history: 15%
- Types of accounts: 10%
- Credit inquiries: 10%

By knowing your credit score, you'll have a clearer picture of your investment strategy. If your score is high enough, you might be able to get a traditional loan and help with down payments. If your score is lower than you'd like, take a look at the determining factors and see where you can improve — making on-time payments should clearly be a priority. You can also consider paying down balances as you're able, and not opening up a bunch of new credit cards.

BEWARE OF SCAMS

With so many people out there looking to make money in real estate, it's pretty much expected that there will be people out there ready to take advantage. The two main types of scams to watch out for are *seminar scams and lending scams.*

Seminar scams can give some truly helpful tips, but it's always used as a way to gain people's trust. Once they have the trust, they'll offer "limited-time" investment properties or expensive classes.

When people fall for the trick and buy a property, they often find that it's got a lot of issues and is quite likely a money pit. However, signing up for classes can be negative, too. Why? Because people often end up spending thousands of dollars for little to no new information when that money (and their time) could've gone toward their investments.

To make things even worse, people who get taken in by scammers often sign agreements without reading them through. These documents often include a section that keeps the scammed people from taking legal action against the scammers.

So how do you find genuinely helpful seminars? (Yes, they do exist.) Do your research! Look up the organization, the presenter, the properties, and the courses. You can also start by looking up certified experts and see if they offer any educational opportunities.

Lending scams are another common scam in real estate. It's a fairly easy type of scam for real estate investors to fall into because often they're looking for alternative financing (i.e., private lenders) that doesn't have the same qualifications required by traditional mortgages.

This kind of financing often has a requirement to pay back the money more quickly and tends to have higher interest rates than mortgages. Those things alone don't mean they're a scam, though. The problem is that lenders don't have to be licensed to hand out money, so it can be a bit tricky to make sure the lender's legit.

So, how do you make sure the lender you're working for is on the up-and-up? First, you find the lender through one of the following ways:

- Through a certified real estate investing website
- Through referrals from people in your network who've personally worked with the lender

Second, you should ask the following questions (and if the answer to any is "yes," it's probably a red flag, pointing to a scam):

- Does the lender seem to know details about investing and lending, including the correct jargon?
- Is there a major upfront fee?
- Does the lender seem a little too eager to give you the money? In other words, do they skip asking you essential questions and get right down to the "money talk?"

CHAPTER 4

Homes to Invest In

So now that you've got the financing in place, how do you know which homes or properties to buy? There are plenty of factors you need to consider to ensure the purchase makes sense.

As the saying goes, you make money when you *buy*, not when you *sell*. This is why it's key to buy the *right* property, which entails being clear on where you're trying to sell and who your buyers are. Also, keep in mind this saying: "You don't have to like the house, just the numbers."

Read on for more details on how to make the best choice, particularly when it comes to flipping homes.

WHERE TO START

The first thing you have to do is choose your market. If you're flipping, consider looking for the location closest to you that has a population of at least 100,000 people. (Bigger market = more opportunity.) This is considered your *local market*.

Another option is *remote investing*, which could theoretically be anywhere. However, be sure to choose someplace that's not only familiar to you, but also a place to which you feel emotionally attached. This might surprise you, as most people have been told that emotions should stay out of these kinds of decisions. I don't disagree when it comes down to the details, like which specific property to buy, what to fix up, etc.

However, in this one case, emotions are important. You'll be spending a significant amount of time there doing some pretty hard work, and being in a location that you enjoy and feel connected to will help. Plus, you'll know the area well, which can be advantageous in many ways, as well.

Once you've decided on a market, it's time to look at *inventory levels*. This means finding out how many homes are for sale. Keep in mind that low levels (e.g., few houses for sale) can be a good thing, because it means it's a seller's market. Ideally, you want your market to have less than four months of inventory. The following are the different types of markets to look for:

- **Hypermarket:** Less than one month of inventory; little to no competition. Listings tend to sell above asking price after receiving multiple offers.
- **Seller's Market:** Less than four months of inventory; low competition. You will likely sell for a good price.
- **Stable Market:** Four to six months of inventory. Properties might take longer to sell, and could sell at or below asking (if they sell above, it probably won't be by much).
- **Buyer's Market:** More than six months of inventory; lots of competition. Properties take a while to sell, and often sell below asking.

I suggest that flippers focus their efforts on hypermarkets and seller's markets, as these will bring in the most profits. It might be hard to find that initial right property, but it'll be worth it in the end.

In addition to looking at the overall inventory, you will want to look at the average *Days on Market (DOM)*, so you'll be able to make an educated guess about how long it will take a property to sell. This is something I can help with by researching similar types of properties that have sold in the previous 30 days.

MAKING THE NUMBERS WORK

The most important thing you can do is to conduct your research about the structure, the land, and the surrounding areas. This includes seeing if there are any new roads or construction planned, ensuring there aren't any liens on the property, looking at comparable properties, and researching anything else that could affect the value of the property. If you're just buying land, go over the deed with a fine-toothed comb.

After you've accumulated sufficient information on all applicable factors, it's time to decide whether it's a wise investment. That said, remember that even with the most detailed research, things can change. Maybe the up-and-coming neighborhood takes an unexpected downward spiral, or maybe it up-and-comes more quickly than expected.

Unless you're psychic, there's just no way to predict what will happen, so making the most well-educated decision you can is the best way to mitigate — but not eliminate — the risk.

The most important part of running the numbers is calculating your *Return on Investment (ROI)*. Here's how to do that:

- Figure out the *investment gain*. This is the amount of money you'll make before expenses. So, if you make $500 per month on your rental property, multiply it by 12 months a year, and your investment gain will be $6,000.
- Add up all your operating expenses. This should include taxes, insurance, repair costs, and any other expenses you know or think you might have. If you pay $1,200 in taxes, $450 for insurance, and $900 in repairs, your total expenses would be $2,550.

- Subtract your expenses from your investment gain: \$6,000 - \$2,550 = \$3,450.
- Divide the figure from step three by the price of your investment. So, if you bought the property for \$75,000, then \$3,450 ÷ \$75,000 = .046
- Finally, turn the figure from step four into a percentage. In this case, 4.5%. This number is your ROI.

You need to know what your bottom line is, i.e., how much you want to spend and what your ROI should be. If the price of buying and/or fixing up the property is too high and/or the ROI is too low, it's time to move on and find another property that better fits your goals.

WHICH HOMES TO BUY

While some investors might look at *For Sale By Owner* (FSBO) properties, many others focus mostly or completely on purchasing bank-owned properties. Some go to sheriff's sales or other auctions. But what type of properties should you be looking for? 1) *Distressed properties;* 2) *foreclosures;* 3) *short sales;* 4) and *REO/Bank-Owned* properties. Let's take a look at each of these options in more detail.

Distressed Properties

Owners of distressed properties tend to be pretty desperate to sell, which means investors can often get them for less than market value.

For these types of buildings, a popular option for investors is to *wholesale* them. This means the investors get the home under contract, then market it to other buyers for a higher price than their contract, and ultimately assign the contract to another buyer. The investor ends up with the difference between the new

contract with the new buyer and their contract with the seller.

For example, if an investor gets a home under contract for \$60,000, then finds new buyers who agree to pay \$70,000, the investor will make \$10,000.

A major advantage of wholesaling is that you don't have to have a lot of capital, and there are many cheap — or even free — options to find them. They can use auction websites, including Hubzu.com, Hudsonandmarshall.com, Auction.com, and Zone.com.

Because I have access to *MLS (Multiple Listing Service)*, I can help locate properties, as well. In addition to my own MLS, I can look through others in the area, which helps to expand your search.

Foreclosures

According to the 2017 NAR® Investment & Vacation Home Buyers Survey, 18% of investors buy foreclosed homes. In order to purchase these properties, investors must go through auctions. If they're the highest bidder, they have to pay the full amount at that time. They will then get the trustee's deed once the sale is complete.

Foreclosed properties' prices are determined differently from other properties. Instead of using what the home is worth, the starting bid includes the following:

- How much is still unpaid on the loan
- Interest owed from attorney's fees
- Any costs stemming from the foreclosure process

Sometimes, properties don't even get that starting bid. When this happens, it becomes *bank-owned,* or *Real Estate Owned (REO)* property. The loan lender owns the home and will use a real estate agent to try to get it sold. One thing to note is that these properties are sold as-is, so if you're looking to buy one, that's something to keep in mind.

There are three main ways to find pre-foreclosed homes. The first is to check with the County Clerk at the County Recorder's Office. There, you can look up *Notice of Default (NOD), lis pendens* ("an official notice to the public that a lawsuit involving a claim on a property has been filed," as defined on Investopedia), or Notice of Sale public records. There's also a good possibility that you'll find properties that aren't yet online.

Speaking of online, that's another good way to find properties. There are national and regional listing services. Most have a weekly fee but offer a free trial so you can get a "feel" for them and how they work. I suggest taking them for a trial run so you can see which site or sites best fit your needs. You'll likely find out all the important details, including name, address, amount owed, and outstanding loans. Sometimes you'll even find contact phone numbers.

These listing services may also have REO properties, but don't let that be a factor in deciding which sites to use, as most of these properties will already be listed on their lender's (e.g., bank's) website, which you can access for free.

The third option is to look through newspapers and business journals. This is because when a foreclosure is filed, the Notice of Sale has to be published. You can look in the Public Notice section for trustee sales to find these notices.

REO/Bank-Owned Properties

The main advantages of buying REO properties is that you can

get them at below market value without having to worry about unpaid taxes or liens. The downside is that it can be an intense process to buy one of these properties, but the ultimate profit is usually worth the effort.

Earlier, I mentioned these homes tend to be sold as-is. However, buyers are allowed to have an appraisal and inspection done. The bank won't make any changes to the property itself, but they will likely negotiate the price down so you can use that money to make the repairs yourself.

If you want to buy an REO property, you have to have your financials ready. Lenders set the prices low so properties will sell quickly, and if your finances aren't in place, you could miss out on a great deal.

To prepare, you need to make sure you're pre-approved and have a letter from your lender. The letter must include the pre-approval total, how much you'll pay for the down payment, and how to reach the loan officer. If you're paying cash, you'll still need a letter from the bank. This will state that you have enough money to cover what you've offered.

One step that's different in making an offer on REO properties is that you include an *earnest money deposit.* Essentially, this is a show of good faith that you're truly interested in purchasing the property. The deposit will stay in an escrow account, then go toward your down payment and closing cost. These deposits tend to be 1-2% of the full offer, and may or may not be refundable. For example, if you decide not to buy after all, you likely won't get the money back. However, if the bank backs out of the deal, you will probably get a refund.

There are a few ways to find REO properties. A good place to start is by enlisting the help of a real estate brokerage that can search lists the general public can't access. Sometimes the brokerage has one or more realtors that focus solely on REO properties; sometimes, they have an entire department dedicated to REO.

Second, you can look online at websites like Foreclosure.com, Auction.com, and RealtyTrac.com. Just be aware that you might have to become a paid member in order to search these sites.

In addition, you can look at government and bank loan sites, which often list relevant properties. You can search national and regional banks and the government-run sites HomePath.com (Fannie Mae) and HomeSteps.com (Freddie Mac).

Short Sales

The 2017 NAR® Investment & Vacation Home Buyers Survey also looked at how many investors bought properties through short sales: 17%.

A short sale occurs when the buyer purchases a property for less than what's still owed on the mortgage. The lender must approve of the transaction. They usually do this when the seller is going through a hardship (divorce, health problems, job loss, etc.), and the home doesn't have enough equity to cover the balance of the mortgage, especially when factoring in sale costs. Part of the process of short sales is that sellers must give the bank their financials. What exactly this entails varies between banks, but the process tends to be comparable.

Why would lenders be okay with getting less than they're owed? Because the loss they take in short sales can be less than the loss they'd take if the home went into foreclosure. Plus, they won't have to deal with marketing and selling the property. Just so it's clear, this doesn't mean you'll get the deal of the century on a short sale. Lenders still want to get the most they can! (Wouldn't you?)

Overall, short sales are good for everyone. Investors get a good deal, lenders get a significant amount of money without having to deal with the foreclosure/REO process, and homeowners don't get foreclosed on, which can tank their credit score.

CHAPTER 5

A How-to Guide for Wholesaling

For those of you who skipped Part 1, or who simply need a refresher, wholesaling involves an investor putting a contract on a property for below market value, then finding a buyer to buy the contract (called *simultaneous closing*) for a higher price and/or a fee. Another option is for the wholesaler to buy the property outright, then quickly sell it.

The wholesaler uses a *purchase and sale agreement* (also known as a *purchase contract*, *sale contract*, or *agreement of sale*), which states the purchase price and terms of purchase.

Wholesaling can often be one of the faster ways to make money in real estate (sometimes it takes just a few hours!), which is why some investors center their business on this strategy (although many still include other types of real estate investments as well).

In order to be successful, you need to learn how to find the great deals before the general public knows about them, which is where a professional like me can be helpful. Real estate agents and brokers can search the MLS for properties. Experts in wholesaling can also help you throughout the process, which varies from a typical real estate transaction.

Of course, this process won't work if you don't have the buyers, so you need to make sure you've got a thorough database complete with buyer names, contact info, and property preferences.

THE WHOLESALING PROCESS

The good news is that anyone can be a wholesaler. There's no license required, although knowing how real estate transactions work can be helpful. Another advantage involves working with a real estate agent or broker, since they can search the MLS for properties.

I can also help you find a title company that's open to the wholesaling process (not all are). And each company has different requirements for all the parties involved, so I can educate you about that, as well.

Finding the Right Properties

When I'm helping my clients look for properties to wholesale, there's a specific number to keep in mind: 70. End buyers (think flippers) tend to want to pay 70% of what they can get once the house is fixed up. Here's the formula to use:

fixed-up resale value – repairs – wholesale fee = max offer you should make

Here's an example if you want to make $7,000 on a home that should be worth $125,000:

$125,000 (ultimate resale value) – $15,000 (repairs) – $7,000 (wholesale fee) = $103,000 (max offer)

If you work through this formula and the deal seems to be possible, it's time to see the house in person. Of course, there are usually unexpected expenses that come up in renovations, but by seeing the property for yourself, you'll be able to get a better estimate about potential repairs.

After you've done this, rework the formula, then figure out an offer. It's often advantageous to offer less than your max so there's room to negotiate, if needed. (Or maybe you'll even get it for that price, which means more money in your pocket!)

Closing

Before I continue, it's important to understand what exactly happens during closing. The buyer signs closing documents, including papers that allow the money to be released to the seller (which will happen within a few days). Then, the seller signs the deed over to the buyer. The buyer will get a title insurance policy. This proves that the property title is legal. Finally, the County Recorder's Office will record the deed and other pertinent documents.

One option for wholesaling is *assigning the contract*. In this process, you never actually buy the property, although you do put down an earnest money deposit. Also, not only is the seller aware that you're selling the property to someone else, but they will also know who that is and what your profit is. The contract with the seller will state your name; however, it will also say "and/or assigns" for the buyer.

You will also assign the contract with the buyer, which means the buyer assumes all of the contractual obligations, not just the purchase price. This contract states your assignment fee, letting the buyer know your profit as well.

One benefit to this process is that your assignment fee isn't used for closing costs, so your profit will be exactly what is written in the contracts. One possible downside is that you're relying on the buyer and seller to address any problems along the way and to officially close on the deal. You get paid at or after closing, so it can be stressful waiting for that to happen, especially since sometimes deals do fall through, and you have no legal recourse if that happens. However, if you know your buyers, your risk can be significantly mitigated.

Another wholesaling option is a *double closing* (a.k.a.

simultaneous closing or *back-to-back closing*). This process involves two contracts generally signed on the same day, sometimes with a mere 20 minutes between the closings. The first is the seller selling to you (the A-to-B transaction), in which your or your company's name is put on the title.

The second contract involves you selling to the buyer (the B-to-C transaction); the second transaction typically pays for the first, which means you don't have to put any of your own money into purchasing the property. Because the attorney already has the money for the B-to-C transaction, it's clear that the A-to-B transaction will happen, so the B-to-C typically takes place first.

Neither party will know your profit, so this is the best option if you'd rather keep that private. However, there's a downside — you'll have to pay closing costs both when you buy it and sell it, so your total profit might be lower.

There are a few important points to keep in mind with both types of transactions. First, if you're a real estate agent, you often can't assign the contract because you're cutting out the broker. If you're not an agent, you can put the deal together yourself and then hire an agent to do the work. The agent's commission should be written into the contract.

As for double closings, investors need to be careful. Depending on the mechanics, it might be that the investor is essentially doing what an agent would do, which could be viewed as illegal if the investor isn't a licensed agent. It's important that you're clear on the laws of your state and that you bring in a licensed professional, if necessary.

Finally, if a real estate agent is involved in either kind of transaction, they *must* disclose this. This is because, theoretically, there could be an unfair advantage.

FINDING BUYERS

I've already mentioned this, but I want to be clear: The key to successful wholesaling is having a solid list of potential buyers you can trust. Without them, you might find yourself stuck with properties you don't want.

Your buyers will mostly likely be other investors, including both flippers and rental investors. Just keep in mind that people who own rental properties often don't want to do major repairs. This is why it's crucial to know exactly what your buyers are looking for — the more you know, the more likely you'll find the right buyer quickly, which means the process is more likely to go smoothly. Also, it can't hurt to have a potential backup buyer, just in case something unexpected happens.

So, how do you build your list? There are several options:

- Search the Internet for properties. Then, you can reach out to anyone to has rental for rental listings or purchase listings with a "for rent or lease" option.
- Network. Post on social media, talk to or email family and friends, and reach out to related professionals you know, like lawyers, mortgage brokers, and financial planners. You can also go to more traditional networking events.
- Search the newspaper for ads from people paying cash for houses.
- If you already know hard money lenders, ask them if they (or others they know) are interested in buying.
- Call the numbers on the "We Buy Houses for Cash" signs. Just explain what you do, ask what they're looking for, and see if it feels like a good potential business

relationship.

- Join all related investment and real estate groups you can find, whether it's online or in person. Whenever you make a new contact, connect with them quickly, learn exactly what they're looking for, and stay in touch, even if you don't have a property that fits their needs at the moment. A trusting relationship is just as important as a good deal.

Keep in mind that while a good list is important, sometimes all you need are a few investors to make your wholesaling a success. That way, you'll always have people who want the kind of properties you find.

One potential obstacle to overcome is that many investors will want to work only with wholesalers who have experience. If you've been doing this a while, be sure to have a portfolio you can show them. This can be a website showing all your deals — both past and present — so it's immediately clear you're serious about wholesaling and they can count on you to find good deals.

Cash Buyer Advantages

In an ideal world, you'd always work with cash buyers. Why? Because the process tends to go more smoothly and quickly, which means you get the money in your hands faster and with less stress!

But that's not all. When you get a cash offer, you don't have to pay closing or realtor fees, and you don't have to deal with banks' red tape or refusal to give buyers a loan. In addition, cash buyers, particularly those who are investors themselves, are often willing to buy the property as-is, so you won't have to spend any money to fix things up.

While a buyer's cash might come from their own bank accounts, they might also have obtained a HELOC (home equity line of credit), used a self-directed IRA, private or hard money from other investors, or even a loan from a bank that works with investors. (These loans are closed in at most two weeks, making them close enough to cash to count for these purposes.)

One important thing to keep in mind is that you need to do your due diligence to make sure the cash buyer is legitimate. Research the buyer or the company they work for and make sure you talk to the person over the phone at a minimum (ideally, meet them in person). And while sometimes real buyers don't want to see the house themselves before purchasing, this can also be a red flag that they're scammers, so be sure to listen to your gut.

I'm sure you're wondering how to attract cash buyers. There are a few places to look. The best place to start is by using your network. Ask hard money lenders and real estate agents if they can connect you with any cash buyers. (Just know that agents might charge a small finder's fee.) In addition, you can look for investors in classified ads.

You also might have seen those signs or billboard-style print advertisements saying, "We Buy Ugly Homes." In general, these companies pay considerably less, so it's best to look for individual cash buyers instead.

CHAPTER 6

Benefits and Risks of Wholesaling

As with any investment venture, wholesaling can be profitable, but it's certainly not without its risks. Let's first look at the positive aspects.

BENEFITS

Wholesaling is a good option for anyone who wants to start real estate investing.

There are a few reasons for this. As far as investment options, the risk is lower with wholesaling. It also serves as an experiential learning opportunity to help you understand how finding, evaluating, buying, and selling properties works. Further, you can do this as a side job — learn how transactions work, figure out your system to decide on deals and keep track of all related information, and get your marketing plan set up, and you're pretty much good to go.

You don't need to put up much of your own money.

As previously discussed, when you assign the contract, you're selling that contract to the buyer, not the property itself. It's the situation I discussed earlier — using the B-to-C transaction to pay for the A-to-B contract. And unlike flipping, you don't need to do anything to fix up the property. At most, you'll put down an earnest deposit.

Double-closing requires a little more money, because you'll actually be closing on the first property. But don't forget, you can get that money from a variety of places (banks, private investors, etc.), so it doesn't have to come out of your pocket.

You can make money pretty quickly.

Of all the real estate investment options, wholesaling helps you turn a profit the fastest overall — usually in three to six weeks for residential properties, although some transactions can happen even faster!

Of course, things could take a little longer in the beginning, but as you solidify your processes for finding and evaluating deals, marketing, and understanding the ins and outs of these types of transactions, the process will speed up.

You can get into wholesaling even if you have bad credit.

Since you don't need to obtain bank financing, your credit score doesn't matter as much. That said, your score does still matter to a degree, in that you won't have as many exit-strategy options to close on the property, if necessary. But when you're selling contracts, credit scores don't really matter.

You get to be your own boss.

You make your decisions, set your schedule, and decide with whom you'd like to work. Of course, you'll answer to your investors if you have any, but you're the person in charge.

It's less risky than other kinds of real estate investments.

When you've got a good buyer lined up, you've already helped lessen the risks. Other steps you can take to reduce risks include putting contingency clauses into the contract and ensuring your deposit isn't too large.

However, risks can't be totally avoided in any kind of investment, including wholesaling. So, let's take a look at what the risks entail.

RISKS

You don't get a steady income, plus benefits.

If you're someone who prefers counting on an expected income every couple of weeks, you need to decide how important that is. Due to the nature of the process, you can't predict when you're going to find a great property, line up that buyer, and have all the paperwork go through.

You'll also be in charge of funding your own retirement account and making sure you have health and other necessary insurance.

However, there are some ways to lessen the stress that can come with an unsteady income, such as ensuring you put some of your profits into a savings account that can help cover you if you hit some leaner times. It's also helpful to take a good look at your financial habits to make sure your money is going to the right places and you're not overspending.

Also, keep in mind that "unsteady income" doesn't mean "less income." Yes, you might sometimes have to wait a little longer for payday, but a great investment deal can make it well worth the wait.

You don't have control over whether the deals go through.

The truth is that sometimes deals *don't* go through, and it might not even have anything to do with you. For example, sometime buyers simply back out. (Yes, they can legally do this.)

This can be even more stressful than the irregular income, especially for investors new to wholesaling. According to *The Real Estate Wholesaling Bible* by Than Merrill, new wholesalers have about a 50% chance of deals successfully going through.

This stat might seem off-putting. However, when you know there's a possibility of failure, you can have a backup plan in place, which can help lessen both the risk and the stress.

It's not easy pulling everything together.

There are many steps in the wholesaling process, and it's not always easy to pull things together. Sometimes you just can't find the right deal. You need to be able to get the property for lower than it's worth, or else you're not going to make any money, and these properties aren't always out there.

As we've already discussed, you also need to have the right buyer. Even if you've got a great list of potential buyers, it's possible that you don't have anyone who wants the particular property you've found.

You're subject to market volatility.

Everyone involved in any aspect of real estate has to deal with this one — it's just the nature of the business.

MITIGATING THE RISKS

I've already mentioned a few ways to lessen your risks, but let's go over them in more detail.

Create a great potential buyers list.

I know I've mentioned this a few times already, but this truly is the key to a successful wholesaling business. Again, you need

names, contact info, and what kind of properties they're looking for. And don't forget to keep in touch with them and keep their preferences updated.

Have an exit plan.

Sometimes you just can't find the right buyer, no matter how thorough your list or how far and wide you search. One way to protect yourself is by including an escape clause into the contract, e.g., "subject to agreement by my partner." That said, backing out should always be your last resort.

One option to avoid using an escape clause is by changing the deal with the buyer. Consider lowering your wholesale fee and/or your end selling point, which might land you a buyer after all. You might make less money — or even none at all — but at least you'll have honored your deal to buy from the seller.

Learn how to connect with sellers.

Many sellers don't know about wholesaling, they probably don't like the sound of selling for below market value, and they might have other options than selling to you. This is why it's important to present your offer in a respectful, compelling way, and you need to be able to clearly explain the process and how it would help them. For example, maybe they've been hit with high medical bills and they need the money from the house to pay for them. Or maybe they lost their job, or the sole breadwinner passed away and the mortgage is too expensive for them now. Your offer could help them out of their tough situation, and quickly.

Try imagining yourself in their position; think about what you would be feeling, how you would want to be treated, and what questions you would have. Anticipating these things and making sure you can explain everything in an easy-to-understand manner can go a long way toward getting you the deals you're after.

Don't lie.

Your reputation is everything, and anything you misstate will likely be discovered somewhere along the way. When that happens, sellers won't want to sell to you, and investors certainly won't want to give you money or buy contracts or properties from you.

Being upfront about why you're doing what you're doing, the process, and what risks exist will give you credibility. People on both sides of the transaction need to feel comfortable and know they can trust you. Further, keep in mind that sometimes, sellers go with emotion when choosing to whom they'd like to sell — if they like you, they might pick you, even if your offer is lower than someone else's.

Honesty, authenticity, and clear communication are everything when it comes to building and maintaining relationships and growing your business.

CHAPTER 7

A Guide to Flipping Houses

Thanks to HGTV, DIY, and other similar TV stations, house flipping has become a widely known real estate investment option. But there's *so much more* that goes into it than they have time to show you on television. And you need to be aware of everything else if you're thinking of stepping into this arena.

THE TRUTH ABOUT FLIPPING

Close your eyes and picture one of these house-flipping TV shows. Imagine you're a buyer walking through the finished product. Everything's perfect, right? It might seem daunting when you apply this vision to your own situation.

Well, the good news is that *yours* doesn't even have to look like that. So much of that is just reality TV "eye candy," but the non-TV reality is that you really just need to make sure the house is structurally sound and all the key elements — electrical, plumbing, floors, walls, etc. — are taken care of. Of course, it should look nice, but being "Instagram-ready" isn't necessary. Plus, if you try too hard to decorate it in a certain style, it might actually turn buyers away and hurt your bottom line.

Another false impression that TV gives is how long renovations take. Not only can unexpected problems come up (and they almost always do), but you also must factor in permit approval, inspections, your contractor's and laborer's schedules, the time it takes to get customized features made and shipped, and more. This is why it's important to hire a good contractor — they can tell you what a realistic schedule should look like for your particular property.

Just remember that contractors aren't psychics. There are often issues that don't show up, even with the most diligent pre-purchase inspections. You can't tell what's hiding in the walls. There could be a leak you won't know about until it rains. There can also be problems with shoddy or unreliable subcontractors or annoyed neighbors who, at best, complain directly to you and, at worst, file complaints with the city.

Related to the length of time a renovation takes is the amount of money it costs to hold the property. The longer the time, the more money it costs. This includes interest on any loans, insurance, and, if you have the property for over a year, long-term capital gains taxes. The latter can be up to 20%, which would obviously eat a huge chunk of any potential profits (or might even mean you losing money).

House flipping is not for the faint of heart, but for those willing to do the hard work and deal with the stress, it can pay off substantially.

FINDING PROPERTIES

The first step in making profit is knowing how to find the right properties. In *The Flipping Blueprint: The Complete Plan for Flipping Houses and Creating Your Real Estate-Investing Business*, Luke Weber shares what he calls "The Dirty Dozen." These are the keywords he uses to search for fixer-upper properties.

When you work with a realtor like me, giving this list can help immensely. I can set up an auto-search, and any time a listing comes up with any of these keywords, phrases, or acronyms comes up, I'll be able to send it to you right away. Here's Weber's list, in alphabetical order:

- BOM (back on market or bottom of market)
- Damaged
- Distressed
- Do not enter
- Fixer
- Fixer-upper
- Handyman
- Must sell
- Reduced
- Repairs
- Short sale approved
- Tool belt

Further, as I'm sure you understand after reading the last chapter, working with wholesalers can be an excellent source of properties. Once a good wholesaler knows what you're looking for, they'll call you when they think they've got a property that's right for you.

You can find wholesalers online, on social media, and in real estate investment groups. In addition, you can place your own ads online and in the paper, stating that you're a flipper looking for properties and are interested in connecting with wholesalers.

WHAT YOU NEED TO MAKE AN OFFER

As with any typical property purchase, chances are your offer will be an official one using a realtor-approved *RPA (Residential Purchase Agreement)*. The following is the general information needed for an RPA:

- Address
- Price
- Your name

- An earnest money deposit
- Timeframes for both due diligence and closing
- Contingencies, which could include items such as inspections, appraisals, and financing
- How you'll be paying (loan or cash)
- Proof you have the money

Some RPAs require different information, so if you're going to be flipping properties in multiple areas, it's a good idea to get RPAs from all those areas, so you know exactly what will be needed in each location, which will save you time in the future.

FIXING UP YOUR FIXER UPPER

After finding the right fixer-upper *property*, the second-most important component is finding the right person to help you fix it up. We've all heard contractor horror stories; unfortunately, this honestly is one of the trickiest parts of the process.

Even if you're a seasoned Do-It-Yourself (DIY)-er or a construction professional, I recommend having a solid, reliable contractor on your team. They'll be there for expert advice, they'll come with a team of skilled workers, and they'll help the process move more quickly ("time is money" is a saying for a reason). Plus, they can help you out if you have a lot going on in one — or multiple — properties.

Further, in your role as a flipper, it's your job to find deals, make contacts, set up financing, and keep an eye on your ROI and bottom line. If you're busy with construction, these things get pushed aside, and your business can't grow as quickly.

TIME TO SELL: HOW TO NEGOTIATE

The best way to sell your home is to list it with a great real estate

agent. (Unless, of course, you are a great real estate agent, in which case, it's all up to you!)

Whether you're listing yourself or you're handing over this part of the process, it's important that you know all the best marketing tips tricks. I have proven ways to get your home sold quickly and for the highest price, and I'll go over this in the next section.

Negotiating skills are also key when it comes to making the biggest profit you can, and this process can intimidate a lot of people. Both you and your buyer are working to get the best deal possible, and only one can "win." Negotiating well is among the most important professional services that working with a real estate agent offers.

However, by learning how real estate negotiations work and how to apply appropriate techniques, you can get the price you want from buyers.

Know More Than Your Buyers

The two major elements of negotiation are *motivation* and *skill*. A motivated buyer wants the best deal, and you, the seller, want the best price. A skilled negotiator is an expert at working under the pressures of competition, time, information, and communication.

What Motivates a Flipper to Sell?

- Time on the market
- Pressures of maintenance and upkeep
- Emotional and mental stress

Selling your flip is a multifaceted process. The key to a strong negotiation is keeping your emotions in check. You don't want to end up settling for a lower price because you let your emotions get the best of you. Worry is a powerful motivator, and if you're in a constant state of anxiety about the mounting holding costs, you'll feel the pressure, and it can wear you down.

Also, finding the right buyer can be mentally and emotionally exhausting. Knowledgeable buyers can — and often do — push you to the limit to get the price they want, especially if they sense that you're desperate.

When the Competitive Pressure Is On

When facing an informed buyer, remember that the one with the most options will win the negotiation. The buyer might have researched your property's history on the market. If the property's been on the market a while, the buyer could assume you're desperate to sell and willing to take an offer. If the buyer has found out that you've got something personal going on, they might try to leverage that fact by playing to your emotions to get the deal they want.

On the flipside, if the buyer thought you had three other buyers waving higher offers, they would have to raise the offer, or walk away. Always remember that it takes two to make a deal, and always trust your gut. Sharpen your senses to know when a buyer doesn't have other property options. Perception plays a big role in negotiations!

If an interested buyer thinks you have rejected offers higher than his, you have the upper hand, and he might feel pressured to offer more.

It's also possible that the buyer will let you know that yours is not the only home in which they're interested to pressure you to accept their asking price. The key to being a power negotiator is to stay calm and focused during the process to avoid costly

mistakes.

Knowing your buyer's motivation — without exposing your own — will give you the edge to win.

Let Time Be on Your Side

Time pressure is inescapable in sales. Depending on which side of the sale you're on, it can be your best friend or your worst enemy. It's present during antique auctions, construction job bids, car sales, and even when a child begs a parent for candy at the checkout lane.

Time is a powerful tool in negotiations. Buyers may come to you and ask questions to find out if any time-sensitive situations apply. Your eagerness to please them might be construed as desperation.

Buyers also play the waiting game. In real estate, acceptance time can be a powerful tool in price negotiations. From their perspective, the longer the house has been on the market, the more flexible the seller will be. The same applies to negotiations. The more they stretch out the negotiations, the more likely they'll get the price they want. Why? Buyers want to become friendly, they want to create trust, and they ultimately want your willingness to agree to their terms.

Your advantage is that the relationship is a two-way street and they might not want to walk away emptyhanded after gaining your trust. By exercising patience, you can hold your position on terms and price.

Knowledge Is Power

Information is crucial to real estate negotiations. The more information the buyer can glean from you, the more pressure they can exert, and this, of course, goes both ways. Whichever side is more knowledgeable will overpower the less-informed at the bargaining table.

Don't be afraid to answer tough questions. When the buyer asks, they will be looking for direct answers and your reactions to these questions. Any reluctance on your part will show the buyer a lack of confidence.

The best way to handle a tough question without giving out too much information is to answer with another question. If they ask you if your home has been on the market for too long, simply answer imprecisely — e.g., "not long" — then ask them how long they have been looking. Their answers empower you just as much as your vagueness weakens them.

When asked why you're relocating, answer with vague reasons, such as downsizing or eliminating stairs. Again, turn the tables by asking them a question: "Why are you looking?"

To learn if you have any time constraints, a buyer could ask how soon you want to move. Tell them you're flexible (even if the truth is that you would really like to move immediately). Next, it's your turn to ask them questions. Directing the question back to the buyer maintains your control of information.

Keep in mind that the price you paid for your house doesn't have *any* bearing on the current market value, so if the question comes up, simply smile and tell them you won it on a bet! Facing questions on the pricing of your home shouldn't be difficult if you've put serious effort into your asking price. If you based it on professional market value estimates, then tell buyers that. Don't forget to point out recent sales of comparable homes and the improvements you've made.

You might also be asked about competitive offers from other

interested buyers — something that's a constant concern for a home shopper. You can always tell them there is definitely interest, but nothing on paper.

Buyers might ask why your home hasn't sold yet, and you can tell them that you're waiting for the perfect buyer — them! Almost invariably, they will ask to know the lowest price you'll accept, or if the price is negotiable. Don't fall for that. Instead, let them know you haven't had much time to think about that, and then turn it around by asking what price they had in mind, adding "as long as the offer is negotiable."

Always answer questions thoughtfully without revealing too much about your situation. At the same time, always attempt to get the other party to reveal their thoughts, but don't be pushy or make them feel uncomfortable. They trick is to get them relaxed and talking.

Finally, presuming that you're using an agent to sell your home, keep in mind that some real estate agents will want information from the listing agent. If a buyer agent contacts your agent, he might be looking to exchange sensitive information to get the sale. You and your agent should have many discussions on the subject of trust and power negotiating. The importance of trust between a seller and his agent simply can't be overstated!

CHAPTER 8

Making Money on Flipped Houses

Determining whether a property will make a good flip depends largely on figuring out the *After Repair Value (ARV)*. There's a simple formula for this:

property's current value + value of renovations = ARV

For the current value, you should use the purchase price. The renovation value is a little trickier to manage, although the more properties you flip, the better handle you will have on these numbers. Particularly when you're new, a real estate agent, appraiser, or contractor can help you get more accurate numbers.

A good ARV involves looking at comparable properties (or comps) near the property you're considering flipping. While you can do this on your own, an agent, such as myself, can also help with this. I can put together a **Comparative** (or *Competitive*) *Market Analysis (CMA)* that will show you the value of all the comps in their completely fixed-up state.

Renovations can vary from minor cosmetic fixes to major rehab. Your costs to renovate needs to include materials and labor, and should always take into account your end buyer. For example, if you're flipping a commercial or rental property, your materials need to be within the span of what's acceptable for that type of space in that type of market. However, if you're flipping a residential property, you'll want to make sure you do some upgrading to make sure you include the features buyers in that area are looking for.

To keep costs low, make sure you shop around. Big box stores often have great deals, but you can also find many things you'll need at rehab stores and liquidators. Your contractor may be able to help you find great deals as well.

Speaking of your contractor, you'll want to keep in touch with them and supervise, as needed. You'll lose time and money if the work has to be redone, regardless of whether it's due to a mistake or if it's simply not up to your standards.

DETERMINING YOUR RETURN ON INVESTMENT

There are two main methods when it comes to ROIs: the *cost method* and the *out-of-pocket method.*

Let's look at a couple examples, keeping in mind that the ROI for both involves dividing the equity position (the amount sold minus the amount invested) by the total amount invested:

(equity position) ÷ total investment = ROI

The Cost Method

- purchase price: $100,000
- renovation cost: $50,000
- total investment: $150,000
- sell price: $200,000
- equity position: $200,000 – $150,000 = $50,000
- ROI: $50,000 ÷ $150,000 = .33 (33% ROI)

The Out-of-Pocket Method

- loan amount: $100,000
- down payment amount: $20,000
- renovation cost: $50,000

- total investment out-of-pocket: $70,000
- sell price: $200,000
- equity position: $200,000 – $70,000 = $130,000
- ROI: $130,000 ÷ 200,000 = .65 (65% ROI)

As you can see, using a loan in the out-of-pocket method can bring in a higher ROI because the amount of their own money the flippers spent on the project was lower.

COSTS TO CONSIDER

I briefly mentioned holding costs earlier, but it's important you know exactly what they can entail. The following should be considered when you're working out your financial plan for the property:

- interest (if you have loans)
- real estate taxes
- insurance premiums
- utilities (water, electricity, HVAC, sewer)
- landscaping (if you hire someone for lawn care, snow removal, etc.)
- security

On security, it's important to remember that empty houses being renovated can attract criminals. This means that your home must be locked when no one's there. If you have to fire someone who has a key, you need to change the locks, just in case. You should also consider getting a security system.

Also, even if you skipped the loans and paid cash, that money's still tied up until you get the property sold. So, while you're not technically losing money on this property, you're theoretically missing out on another great property until that cash is free again.

Obviously, the longer you have your property, the more all these costs add up. One way to speed up the process is to ensure your contractor can start work immediately after closing. This way, you don't waste time waiting for permits to go through and construction to start.

CHAPTER 9

Home Renovation ROI

When it comes to successful flipping, it's critical to know where to spend your money. Smart renovating will increase your profit, whereas spending unwisely will cut the amount you can make or, worse, put you in the red.

This chapter includes the right and wrong uses of your renovation time and budget. First, we're going to take a quick look at several of the best places to spend your money for the greatest return, especially the kitchen and bathroom. We'll also dive into details of where and how much you can expect to recoup when you decide to place your flipped property on the market.

WHERE TO SPEND

Basic Working Order

First, don't overlook the basic systems. When people are looking at a home, they don't expect to find leaky pipes, a non-working furnace, or electrical outlets that pop a breaker as soon as something is plugged into an outlet.

These and other issues, like mold, a leaky roof, problem gutters, or stained and damaged carpets, will generally turn off a buyer, regardless of how amazing the kitchen and bathrooms might be. Some of these, especially the less-visible issues like an aging furnace or water heater, are of critical importance.

A buyer might not notice such issues on an initial walkthrough. But even if an offer is made and accepted, that's not necessarily the end of the story. Appraisers and inspectors will almost certainly be coming through the home as part of the process and either of these can derail a sale. An appraiser will notice aging equipment and other factors like old carpet and flooring, and adjust the home's value based on the current market.

Home inspectors are less concerned with market value, but they will point out that even if it's running flawlessly now, a 25-year-old furnace can give out at any time. This can often lead a buyer to want the value of a new furnace, subtracted from the sale price of the home. These systems do provide a good ROI, at least in terms of salability.

The furnace and air conditioning units can be a selling point if they are the new, energy-efficient models. An additional bonus here is that there might be tax credits associated with such models, lessening your initial investment. Don't forget that even if some of these repairs don't add additional value in the eyes of a buyer, they don't subtract value, either, and will help your home sell faster than it would without them.

Moving beyond the basics, it's important to know that full-scale remodeling projects don't generally offer the best ROI. Rather, the best approach to getting full value for your expense and effort is to refresh or replace existing items like windows and doors, usually with a mid-range upgrade.

Replacements

The top four improvement projects in terms of ROI, according to *Remodeling* magazine, are listed below. These projects are relatively simple and low-cost, which is great for your bottom line:

- **Garage door replacement:** 98.3%
- **Manufactured stone veneer:** 97.1%

- **Deck addition (wood):** 82.8%
- **Minor kitchen remodel:** 81.1%

As you can see, these are not sweeping, spectacular changes. So why are they so valuable? You should first consider *where* all these changes are done. Every one of these changes is on the visible exterior of the home, creating a positive first impression for potential buyers — an impression that helps set the value of the home in their minds.

Other replacement projects with a good return include installing a new roof and replacing old windows with new vinyl or wood window frames and trim, with returns of 62% and 71%, respectively.

However, when thinking about the roof replacement ROI, it's important to keep context in mind, since some people assert that a new roof does nothing to add market value to a home. How do you square these seemingly contradictory statements?

A roof is a bit like a bass player in a rock band; you often only really notice it when it isn't doing its job. That is, a roof is not something you think about unless it is leaking or has a colony of moss growing on it.

Therefore, while a bad roof can certainly detract from a home's value, a solid, trouble-free roof is simply expected. Its chief value as a seller is how it might favorably compare with other, similar homes with older roofs that are showing clear signs of wear and tear. Don't replace your roof with an eye toward selling unless your home clearly needs it. That said, a new roof or siding will have a better ROI than things you can't see, such as updating the plumbing.

One caveat to include is that roofing items, like energy-efficient architectural shingles with a transferable warranty, might be highly attractive to the right buyer.

With respect to ROI in general, it's worth noting that the numbers will vary, depending on what market you are in. The Pacific Northwest (including Alaska and Hawaii) tends to show the best return on home remodeling and home improvement projects, with Alabama, Kentucky, Mississippi, and Tennessee also showing strong returns, according to the 2015 Cost vs. Value report from *Remodeling* magazine.

Remodeling

It's important to carry that good impression from the exterior through to the interior with further improvements. As with all other aspects of home improvement, there are better and worse ways to spend your money. As the adage goes, kitchens sell houses. Citing *Remodeling* magazine, kitchen remodels average a return of 79.3% nationwide, making it the best investment for a total remodeling project.

Other good remodel projects to consider include:

- **Attic bedroom:** 53%
- **Bathroom:** 62%
- **Basement:** 63%

I'll warn you now that these projects can prove costly, with the national average cost for jobs on this scale running in the tens of thousands of dollars. Be sure to carefully consider just how much you're willing to spend, and what's in demand in your market to maximize the return on such a large investment.

Important Points to Keep in Mind

When you're fixing up your fixer-upper, it's important to take into

consideration that buyers might not have the same taste or style as you — and even if they do, they only see the finished product and will have little understanding of, or interest in, what went into creating it. That brings out the need for a slightly deeper understanding of the way these statistics play out in real life

Also remember that more money spent does not necessarily mean a bigger return. For example, a relatively minor remodel of $20,000 yields a much higher ROI than a $55,000 remodel.

While buyers certainly love a large kitchen complete with island and shiny stainless-steel appliances, they won't be as quick to assign significant value to whether it has the best hinges, custom-stained cupboards, and imported Wolf appliances that money can buy. At some point, very high-end appliances can even be a turnoff, either because the buyer is not familiar with them, or is too familiar and knows just how hard it is to get parts when they fail.

IMPROVEMENTS THAT COST MORE THAN THEIR ROI

The general public has been conditioned to view almost any home improvement or repair as something that automatically increases the value of the home and guarantee a great ROI upon selling it. But this is not always true.

When deciding whether to add a new addition, fix up the basement, purchase new appliances, etc., it's important to ask yourself: "Do I know that this project will add monetary value to my home? Is this repair a necessity, or a nicety?" There are certain repairs, renovations, and upgrades that simply will not help you make a sale.

Let's walk through your home and look at things more closely.

New carpeting?

While this could appeal to some people, home buyers are often turned off by it because they will feel like they need to have carpets professionally cleaned before moving in. They also might be conscious of health hazards due to allergens that gather in carpets. These thoughts and more will cross the minds of home buyers making their decisions.

If you have good flooring, show it off. You're much better off with hardwood flooring that can be topped with area rugs or carpeted over later if the home buyer chooses to do so.

It's a bedroom, not a zoo.

Be careful to avoid making structural changes like adding built-in cages or aquariums. This is an example of "improvements" detracting from the value of your home because unless you find another Dr. Doolittle to purchase the home, you are going to have to convert it back to normal before anyone else will buy it.

The same goes for other highly personalized conversions such as a cold pantry or wine cellar. Potential buyers may view these personal extravagances as expensive projects to undo or instead make it part of the deal that you undo them yourself.

Where's the garage?

If it looks like a garage, potential home buyers are expecting it to be a garage. If they walk in and find that it's been completely changed into something else that can no longer have a car stored in it, they won't be too excited.

Home buyers enjoy not having hail damage their vehicles, not cleaning off ice or snow on winter mornings, not leaving their car at the mercy of night-time pranksters — or worse. Instead of a

"man cave," you will find greater success with a real garage.

That does not mean that you cannot create that family room, theater, or gym in your garage. You can — if you set it up in such a way that the garage can become a garage again with minimal cost. For example, don't carpet it.

If you want to cover the garage floor, do so with large area rugs, or if you want to use carpet, roll it out onto the surface without attaching it with glue or permanently installing it in any other way. If you have built-in storage cabinets, leave them as such instead of dismantling them to hang up the big screen.

The famous kitchen.

On paper, kitchen renovations are usually only worth about half of what homeowners spend on them — even less if you go too gourmet.

New granite countertops, new tile flooring, a new brushed stainless-steel sink, and a sophisticated cabinet system with a hideaway refrigerator — these things and more might be your dreams come true, but that doesn't make them the appraiser's, nor potential buyers'.

If remodeling is a must, treat with caution and avoid overspending. In general, the kitchen is the heart of the home, so it will impress potential buyers to have a nice one. However, you will not realize a 100% ROI on a kitchen remodel. No one is telling you to hang on to the plaster or old ceramic sink, but it would be smart to tread with caution.

Take a dip elsewhere.

Before installing an in-ground pool prior to sale in the hope of adding value to your home, think this through. Pools are for homeowners who want to enjoy them — and maintain and service them. They are not a particularly strong draw to home buyers, and don't have a particularly good ROI.

There are some possible exceptions, of course. Do you live in Southern California or Florida? In that case, a pool might very well be an important element for more than a few potential buyers. If you live in a state that experiences real winters, though, an in-ground pool holds less value than in the states where the sun hardly sleeps.

Also, many potential buyers view pools as a hazard, especially if they have children or grandchildren who will be in the home with them. They will also be aware of the extra costs attached to the pool for maintenance and water bills.

Adding on.

Room additions are not generally cost-effective for flips, as it takes at least a few years for them to earn a decent ROI. Some of the most expensive projects (a sunroom addition averaged over $72,000 nationwide) provide the lowest returns.

If your house is the smallest in your neighborhood, and everyone else has a second story, you have a better chance of recouping your costs than if it were the other way around.

Home buyers want to be comfortable in the home and with their surroundings. If you are adding onto your house in good taste so that it does not stand out like a sore thumb, the appraisal will likely be more in your favor. However, covering 100% of the cost of any addition is very unlikely, so don't get your hopes up.

Of course, there is wide variance in building costs. According to *Remodeling* magazine, a 200-square-foot sunroom addition with footings and slabs-on-grade foundation can cost up to $70,000,

while a survey conducted on HomeAdvisor.com found the average cost on sunroom additions ran around $16,315.

Don't go chasing waterfalls.

It is lovely to see yards that are beautifully landscaped with colorful plants, mini hills, and the little trickle of water flowing down amid the flowers. It's just the kind of picturesque setting that both pleases the eye and relaxes the mind.

However, while good landscaping is important for the general enjoyment of any home by its residents, there is no need for you to invest in extravagant creations in an attempt to bring up the home's resale value.

Instead, a sprinkler system is a practical investment of several thousand dollars. There is greater perceived and real value in this addition than in a miniature babbling brook that will attract birds and butterflies. If you are thinking of ways to upgrade your yard, the sprinkler system would be the wiser choice.

The lower level.

The question of the basement raises much conversation among flippers. There are cases in which finishing a basement has proved to be a great financial loss to the homeowner at the time of sale, and cases in which the appraisal value showed an increase, with buyers happily willing to pay the increased price.

Finishing your basement as local code allows can be done in different ways, and if you can manage without completely altering the structure — such as adding walls or creating extra rooms — it is possible to come out the winner.

Keep in mind that a nice big recreation room is certainly a draw, but often will not be counted as living space in an appraisal, nor in the square footage when the home is listed. People also tend to have their own ideas of exactly what a rec room should be. If your property doesn't already have a finished basement, chances are you won't get a good ROI by finishing it. You can either leave it alone or do a minor fix by putting up walls, installing cheap but decently attractive carpet and inexpensive drop-down ceilings, and allowing the buyers to customize to their own tastes.

What about the bathroom?

A necessary component of any household is the toilet, and a home without one wouldn't be much better than a particularly fancy tent. Renovating a bathroom could cost you only a little or a fortune, depending on your plans. Like upgrading kitchens, while a modern, efficient bathroom is expected, do not expect to increase the appraisal or sale value of the home substantially with a large investment.

Replacing the floor covering or the wall color will not cost as much as a full-blown renovation that replaces and rearranges the toilet, the sink, the shower or bathtub, or that expands the room size.

Installing a spacious shower, a hot tub, or an extra-large vanity topped by an oversized mirror in addition to new walls, flooring, and lighting will put your price tag on the opposite end of the spectrum.

Do you need a new toilet? Get one. Is your vanity too small? Replace it. Is the tile cracked or linoleum peeling back? It's time for a floor makeover. Be practical. You don't want potential buyers cringing at the sight of an old toilet or rusted shower head, yet you want to recoup as much money as you can at the sale.

If you overspend on luxuries, you could still make the sale, but not at the full amount needed for you to at least break even for

your efforts.

The point of much of this walkthrough is that making permanent alterations that are unique to you can cost you at the sale. Prospective home buyers won't necessarily view the expensive solar system painted on the ceiling in the dining room as a benefit, and some might even want to have it removed at your expense for them to even consider buying.

It's not easy to strike a balance between what makes you happy and what will make the buyer happy, because ultimately, it's very subjective. What you like and what the potential buyers like will differ, but you can do your best to avoid over-personalizing to help make the sale. After all, every buyer needs a place to call home, because we all know, there's no place like it.

DON'T OVERDO IT: KEEPING YOUR MARKET AREA IN MIND

How much should you plan on upgrading during your fixer-upper? That depends on what you're trying to accomplish. You can, after all, spend anywhere from a few hundred dollars to tens of thousands on the very same room.

It seems intuitive that you would upgrade as much as your budget allows and make your home into the jewel of the neighborhood. However, caution is in order here. While you will no doubt enjoy knowing that you have transformed your humble ranch into an HGTV-ready show home, such a move could backfire in a big way when you put your flip on the market.

Look down your street. Observe the condition of the homes and yards in your neighborhood. Are they well maintained or a little run-down? What about the inside of the homes that you've been in? Are the interiors tastefully decorated and contemporary, or do they reflect the fashions of generations past, sporting an array of burnt orange countertops, olive green appliances, and paisley wallpaper? Whatever the case, that should be your measuring stick.

The reason is simple — no one who can afford a $200,000 home is going to look in an area surrounded by $100,000 homes. Conversely, anyone looking in a neighborhood of $100,000 homes can't afford the $200,000 you would like to charge, or they're looking for a deal.

Therefore, if you go all-in and design and build the ultimate spa getaway in your master bathroom or put in that home theater you've always wanted in the basement, you're not going to get that money back if you're the only home in the area with those kinds of features. Your home will sit on the market for months until you come down to a much lower price than you would have wanted.

To avoid these kinds of mistakes, I recommend making use of a real estate agent, like myself, to help determine the types of renovations you can pursue that will return a substantial amount of the investment cost. Your agent will already be familiar with the general standards of the surrounding area and what price ranges people are looking for. The agent will also be familiar with which improvements bring the best ROI and which styles are currently trending, and will have suggestions on how to accomplish them quickly, including recommendations for reputable, qualified contractors.

While you might have been thinking about going full bore and putting in granite countertops and all-new kitchen cabinets — a renovation that would cost thousands — your real estate agent might talk you down to fresh laminate for the countertop and a new coat of paint for the cabinets to brighten up the room. Your remodel cost just went down from several thousand dollars and a week or two of to a little more than one thousand dollars and a

day or two of time and paying laborers.

An agent will also go beyond your neighborhood, looking at how your home compares with similar homes in the larger area. This is important, as your real competition extends beyond what you can see out your front window.

Unless your neighborhood has a unique setting, or is exceptionally close to parks, beaches, or a vibrant downtown area, there will generally be no reason for a person to buy a house on your street over one in another neighborhood on the other side of town. Your real estate agent will be able to do side-by-side comparisons of your home with others that are similar, ensuring you are able to compete effectively across a wide area.

Take the general condition of the outside of the home into account as well. Where the surrounding yards are patchy and overgrown, it isn't worth putting a ton of money into flower beds and trellises. People driving by might mistake it for a bed and breakfast stopover or a fine place for their wedding reception.

However, prospective buyers will also seek out new homes by driving around areas they like and looking at neighborhoods they think might be in their price range. Stone walks, hanging vines, and attractive flora will catch a buyer's eye. You should, at a bare minimum, present an image of a well-cared-for house that's in solid condition. Standing out a little bit is not a bad thing, but don't overdo it.

Some agents say that the longer you are in the house after the renovation, the more likely you are to recoup the costs, as home prices tend to go up over time and natural appreciation will absorb whatever costs you incurred. Obviously, this doesn't help if you're trying to do a quick flip.

On the other hand, other real estate professionals say that the more recent the renovation, the more likely a buyer will see that it is new and assign more value to it. If your privacy fence or bathroom are a few years old, they will have begun to show normal signs of age and blend into the rest of the property.

In any renovation, whether it's landscaping, doorways, or kitchens, don't try to meet the highest demands of fashion. Make it contemporary, but don't go for the bleeding edge of home design. If you do this, you're going to spend too much money and price your home out of the market.

In short, keep it simple, and remember that less is often more. Minor projects, like replacing exterior doors, putting fresh stain on the deck and a fresh coat of paint, are more likely to aid your home sale and result in a good ROI than larger projects such as wholesale reconstructions and outbuilding additions.

Make sure that the basics are set, taking care of leaking pipes and buggy appliances, and ensure all the doors and windows open and close, as expected.

If you do decide to go with a larger project, pick one that leads to a good ROI, like a relatively modest kitchen remodel, while always being careful not to spend so much that you price yourself out of the market and make it harder to sell.

CHAPTER 10

Protect Yourself from Flops

You've likely heard of HGTV's show, *"Flip or Flop."* Obviously, the goal is to successfully flip properties (make a good profit). But the reality is that sometimes flips do turn out to be flops (no money made, or maybe even money lost).

The good news is that there are things you can do to lessen the likelihood of a flop.

Pay attention to the market.

Be aware of the average number of days properties sit on the market in the location you're flipping. You should also look for trends over longer periods of time (year-over-year). I suggest checking once a month, if not more frequently. Be thorough by getting your research from both local and national resources. Of course, the market can and does change, and isn't entirely predictable, but by paying close attention, you'll be better able to act and react accordingly.

Know your neighborhood.

What are the overall trends in your area? Is the population steady, increasing, or decreasing? Check out census.gov to find out. This is important, because you'll be able to charge more if the area's growing, but you might have problems if it's declining.

Read the bank's fine print.

Interest rates change all the time. If they go up, some buyers might not be able to afford loans; if they go down, your buyer pool may increase.

Work with the seasons.

While unexpected hits could cause your construction schedules to change, do your best to shoot for putting your home on the market during peak times. Mid-summer tends to be the best time to sell, and mid-winter tends to be the worst. That doesn't mean you can't sell your house in February; it just means that it might take longer, and you might have to list it for a lower price.

**Make sure your ARV (After Repair Value)
and renovation budgets are as accurate as possible.**

If you don't have a good estimate for the ARV before purchasing the house, you can get yourself in trouble when it comes to your profit. Ask a realtor, broker, or appraiser for help, and consider getting multiple estimates if you really want to cover your bases.

Of course, you can't have fair ARV if you're not sure how much the renovation will cost. This is why thorough inspections with a professional are imperative whenever possible. Remember, it doesn't have to be a magazine-ready house to sell, although one "wow-factor" item can often help your property stand out and sell more quickly. Overall, though, you just need to fix what's broken and update what's outdated.

You also need to remember that almost every renovation undertaking will have something unexpected come up. A 10% contingency is key. This gives you a good cushion when you're determining budgeting and your ARV.

Know your abilities and ask for help.

When you're first starting out, or are flipping a new type of property, it's important to have help and support. Find a friend

or mentor who has the experience you need, and see if they're willing to answer any questions you have or to work together on a project so that you can learn the ropes.

Find a good contractor and establish a clear contract.

Your flips will flop without a reliable and capable contractor, so it's imperative to find someone who can do the job well and within the timeframe. Once you've found someone you trust, write up a contract that includes all the details of the job, including what will happen if something goes wrong.

You also need to supervise to make sure all's going well. A good contractor will work with you when unexpected problems come up. However, if the contractor doesn't fix things, don't hesitate to cut them loose and find someone else. You should also change the lockboxes, just to be safe.

CHAPTER 11

A Guide to Investing in Rentals

Rentals are another great way to earn a profit. Let's take a look at the benefits and risks associated with this type of real estate investment:

FINDING THE RIGHT PROPERTIES

There are plenty of different kinds of rental properties to invest in. The first decision is whether you're interested in commercial or residential properties. If it's the latter, do you want single-family homes, multiple-unit homes, or apartments?

We'll get into the details of these different types of properties in a little bit. But regardless of whether you're planning to rent out a condo or a strip mall, it's important not to look for the cheapest properties. When it comes to rentals, this isn't necessarily the right strategy. You should be more concerned about how much money you can make with the rental.

Figuring out the potential profit involves looking at the homes in the area and conducting a comparative analysis of the amount you can expect to get in rent. Once you've got that, look at the property you're considering, and calculate all your potential expenses, including mortgage payments, insurance, property taxes, utilities not paid by renters, maintenance, and repairs. Is the amount your renters will pay greater than all these expenses?

One method people use to answer this question is the "One Percent Rule." This means that the amount you'll get in rent before expenses is at least 1% of the purchase price. In other words, if the home is $100,000, you can rent it out for at least

$1,000 per month. This means you'd bring in 12% of the purchase price by the end of the year and equals about a 6-8% net profit after expenses. Keep in mind that the nicer the neighborhood is, the lower the profits tend to be.

Another important aspect of investing is remaining aware of the market (while remembering it can be unpredictable). Do your research to see learn about property values, including why they've gone up or down. If there's been a positive change in the area, this could be a good place to buy. However, you also need to look at the market as a whole. If it's going up, it can also go down. Keeping up with both local and national trends can help you make better investments.

When you're working the figures, there are some different approaches for commercial properties. The *cost approach* includes the current value of the land plus the cost of the building. The *sales comparison approach* looks at neighboring properties' values. The *income capitalization approach* looks at how much revenue the property could bring in once the purchase price and operating expenses are considered.

GROSS RENT MULTIPLIER AND CAP RATE

Gross Rent Multiplier (GRM) and *capitalization rate value* (also known as *cap rate*) are the two main ways to value properties.

The GRM uses a property's gross income and involves ratioing that with the property's price. Ultimately, this method helps you determine how long it will take for a property to pay for itself.

To figure out the GRM, you simply divide either the fair market value or asking price by the likely annual gross income from rent. The number you get from this formula is how many years it will take for the rent to pay off the property; obviously, the lower the number, the better. The ideal length of time is between four and

seven years.

GRM:
fair market value OR asking price / gross annual income = time to pay off property with rental income

Of course, it's not actually this simple. This formula neglects all the other costs that could come up, including general maintenance as well as both expected and unexpected repairs.

So why use GRM? Ultimately, it's most helpful when you're trying to decide on which property to buy. You can look at the GRM across all the properties you're looking at (as well as others in the market).

The cap rate differs from the GRM because it looks at *Net Operating Income (NOI)* in relation to the current market value. It looks at general operational expenses and vacancy rates, meaning it's a more accurate way to see if a rental property's viable.

To figure out the cap rate, you divide the NOI by the current market value. You then multiply that by 100 to get a percentage.

Cap Rate:
(net operating income / market value) x 100

Of course, you'll need to do your research to determine market value and operating income. Investors often analyze cap rates of similar properties to figure out what rate they need.

Sometimes, investors have the cap rate already. In that case, they can use it to figure out the market value of the property:

Market Value (Using Cap Rate)
net operating income / cap rate = market value

As I mentioned, cap rate is the most accurate — and therefore preferable — way to figure out whether to purchase a rental property. That's why it's the method that's used most frequently by anyone in the real estate business, including appraisers and banks. However, it can be tricky to determine the cap rate for a property that's already sold because you don't know what the operating costs are.

Unlike with GRM, there's no ideal range for cap rates. They vary from market to market to the extent that in city A, anything below 6% should be passed on, whereas in city B, a 4% cap rate is something to jump on.

Pro Tip: One trick of the trade for getting the best deals on residential rental properties is to purchase them during the offseason. Fewer people buy in the winter, so you'll have less competition, and sellers might be more willing to negotiate.

COMMERCIAL VERSUS RESIDENTIAL PROPERTIES

A general rule of thumb (which can vary by state) is that a building with four units is residential, while a building with five or more units is considered commercial. Each type of property will be subject to different laws and taxes.

Regardless of which type of property you use, you'll still need to consider all the factors above. That said, there are differences to consider when choosing between commercial and residential properties.

- Residential properties are usually rented for a year (no more than three), whereas commercial properties tend to have longer leases (up to nine years), meaning less turnover and therefore less risk of vacancy. While profits

can be higher in single-family homes, it's an eggs-in-one-basket situation, and vacancies can be especially detrimental. If a renter vacates, the place must be cleaned up and fixed, as necessary, then the owner needs to find new renters. This process can sometimes take two or three months, which might be equal to the amount of profit the owner could've made in two years, had the property been continually rented.
- Commercial properties often come with higher expectations. Owners need to be extremely knowledgeable about what's required for these types of properties and how to handle things if, for example, a large multi-unit apartment building becomes infested with bed bugs (which, by the way, is a class-action suit waiting to happen).
- When it comes to gross rental yields, residential properties tend to get 3-5% with the net profit being around 2-3% per year. *Escalations* (rent increases) tend to be between 5 and 7% each year. Commercial realty's gross rental yields are significantly higher at 6-10% per year with escalations between 3 and 5%. If you take a long-term look, residential properties yield about 8 or 9% per year over the course of 10 years, whereas commercial properties yield around 13-15% per year during the same timeframe.
- While any income received from either type of property will be taxed, only residential properties with a loan may qualify for a tax break, depending on current tax law.
- If your goal is to take on multiple rental properties, it's easier to do so with commercial properties due to *Real Estate Investment Trust (REIT)* regulations.

- Residential properties cost less to purchase, and you have a lower holding period for returns. However, they tend to bring in lower rent. Conversely, commercial properties get a higher yield and returns. Also, their property values are more stable. However, they may require hiring a property manager, having more (or more complicated) leasing strategies, and require a more detail-oriented approach.
- Residential properties need to be move-in and live-in ready and their size isn't too critical. In contrast, commercial properties can be a warm or bare shell and they might need to be a certain size to make the property practical for potential leasers.

CONSIDERING AN LLC

Many people who own rental properties opt to set up their business as an LLC. This means that all properties are owned, bought, and sold through a business rather than through a person. Also, the property itself is considered a business, so when you sell the property, you sell the *business.*

The main reason that many people choose to set up an LLC is that it provides protection from being sued on a personal level. However, this doesn't stop the company from being sued. This means that any money you have in your personal bank accounts and any other personal assets would be safe, but any business bank accounts wouldn't be.

Keep in mind that insurance can also protect you — to a point. Rental property owners should always have a *dwelling policy* (also known as *landlord insurance*). The policies vary, but if something happens, you could get either replacement cost or cash value. Some also include loss of rental income. However,

insurance might not cover all costs, and it doesn't keep lawsuits away, so even with good coverage, your personal assets might be in danger.

Setting up an LLC can cost anywhere from $50-$150 if you register through your state, up to several hundred dollars using a company like LegalZoom, or up to $2,000 if you use an attorney. There might also be annual fees and taxes, depending on your state.

Also, keep in mind the LLC doesn't pay taxes — the owner does. However, if there are multiple owners, the LLC has to file its own taxes, which might cost more money, depending on if you pay someone to do your taxes.

LLCs can also be set up as an S-Corporation or a C-Corporation. This might reduce self-employment taxes, but you should talk with a professional to see which setup is best for you.

A few things to keep in mind regarding LLCs and real estate: If you set up an LLC after you already own a rental property that has a mortgage, it's possible that property can't be part of the LLC. Lenders might think it's a sale, which would mean you'd have to pay whatever's left on your mortgage. Other possibilities are losing a low interest rate or maybe even losing your mortgage altogether. This doesn't mean any of these things *will* happen, but it shows why it's so important to know the requirements ahead of time!

Second, you should *never* use your LLC money to pay for something personal or your personal money to pay for something business-related. If you ever get sued, this would be discovered, and the opposing lawyer would point out that your LLC isn't a separate entity (and win), meaning you'd lose all the protection that a valid LLC provides.

CHAPTER 12

Property Management 101

In order to have a successful rental property, you need to know about all the different aspects of property management. This includes finding, keeping, and dealing with tenants, lots of legal information, and taking care of the property itself.

WEED OUT "BAD APPLES"

Without a doubt, the most important step for an investor to take during the entire rental process is screening all potential candidates in order to weed out the "bad apples" and find a good-quality tenant. In most cases, good tenants lead to rental bliss. However, a bad tenant will almost *always* result in a bad tenancy experience, leading to an overall bad rental property experience.

There's no way around it — you must screen every single tenant! You must ensure you're comfortable renting to them *before* you have them move into your property. This protects yourself and your company, reduces your risks, and can help you avoid a potential disaster.

Set Up Minimum Qualification Standards

The first step in the screening process involves setting up *minimum qualification standards* to protect yourself. You might be wondering what these are. Basically, these are the very minimum standards that you decide each and every single prospect must meet in order to qualify as a potential tenant.

If an interested candidate doesn't meet all your standards, then they aren't able to rent your home. Plain and simple! This way, you can quickly move on to the next candidate. These standards also ensure you check through every item before approving a tenant so you don't miss anything and accidentally let in a "bad apple." Further, because you apply these minimum standards to all tenants, you can also avoid any accusations of discrimination, such as with the *Fair Housing Act (FHA)* or *Americans with Disabilities Act of 1990 (ADA)*, or favoritism.

Minimum qualification standards also keep you on track so that problem tenants don't slip through the cracks. Having standards in place and checking each and every item with each and every potential tenant will drastically reduce the odds that you'll forget something important.

Think about how easy it is to forget something. It's human nature! In most cases, people get lucky and nothing significant happens. However, you can't rely on sheer luck when you're renting out your property. If you don't have a checklist, it's easy to forget even just one small thing, but that "small thing" can lead to a host of problems that could have easily been avoided. A bad tenant could cost you hassles and headaches plus thousands of dollars in lost rent and damages, and even lawsuits.

Minimum qualification standards also help reduce the risk of an FHA complaint and will make things easier for you in defending yourself in case a complaint does arise. Let's say someone does file a complaint against you, claiming that you discriminated against them by not renting your house to them because of reason X. With minimum qualification standards in place, you can confidently reply:

"Actually, I didn't rent to you because you didn't meet my minimum qualification standards. Your allegations of discrimination have nothing to do with reason X. I didn't rent it to you because of reason Y, and you did not qualify to rent my house. My minimum qualification standards are legal and in

compliance with all FHA and ADA laws."

I recommend that you think about, determine, and put in place your exact minimum qualification standards before you ever place your property on the market.

Suggestions for Minimum Qualification Standards

Everyone will have their own basic and more specific ideas for their minimum qualification standards when they're thinking about how they will screen tenant candidates, but here's a list of some different standards to consider. Keep in mind that these are suggestions only. Please check with your attorney to ensure they are legal for your particular property and that you're in compliance with any and all laws and regulations, which often vary by location.

- **The minimum deposit you'll require.** Most people charge a security deposit equal to one month's rent. Some add a non-refundable pet deposit, and some charge larger amounts in credit-related situations (for example, if the person has had credit issues or if their credit does not meet the minimum standards).
- **The minimum credit rating you'll require.** What kind of credit rating are you going to require for a tenant? You want to do the check yourself, but remember that you must have their permission to check their credit.
- **Will you allow pets?** If so, what type? What's the maximum number? What's the maximum size? If you choose to allow pets, make detailed rules, but consider increasing the security deposit or adding a non-refundable pet deposit, or even adding a monthly fee on top of the rent. Find out the standard — as well as what's

legal — in your area.

- **Will you allow smokers?** Smokers can cause of lot of issues for landlords and homeowners; as a result, most prefer non-smokers. This allows for fewer issues with the home (smell, stains, etc.) and higher chances for a continued influx of good tenants. Smokers are not a protected legal class under federal laws, so you are legally allowed to refuse tenancy to smokers federally, but you might want to check with your attorney to ensure smokers aren't a protected legal class under state or local laws. If you do decide to open up your home to smokers, think about the specific requirements, such as smoking outdoors only or a certain distance from the home.
- **What are the income requirements?** Income is another major area to cover. After all, you need tenants who can pay their rent — in full and on time! In most cases, this means checking the tenant's paystubs to make sure they earn a minimum of X.

Some jurisdictions require you to accept all sources of income, whether a paycheck or child or government support; your attorney can advise you on local requirements. You'll also need to think about types of income, such as regular employment, self-employment, seasonal employment, unemployed or underemployed but receiving benefits, child support, Social Security, etc. What are your minimum standards in these situations, and what are you actually comfortable with?

Remember, you want to reduce risk and also keep your peace of mind every month, knowing that your rent money is coming!

Then you'll need to go through steps for verification and proof, such as pay stubs, earnings statements, W-2 forms, tax forms,

letters from employers, proof of other income, etc. At the same time, you must ensure you aren't violating any laws about the types of income requirements you're allowed to have for someone who wants to rent out your property.

- **Will you rent your home to extra adults?** A common example is college students or people in a roommate-type situation. You'll need to consider your rules and requirements for these tenant candidates and determine if you're in compliance with the law. Maybe you'd rather not rent out to college students for fear of frequent parties and ensuing property damage, but your preference needs to be within the law. Check with your attorney on any legal uncertainties.
- **How many people will you allow to rent your house at once?** For example, will you rent your two-bedroom house to a family of two adults and eight children? They might not seem like ideal tenants, but please be warned: You must make sure that whatever policies you put in place don't violate any Fair Housing Act (FHA) laws. It's a good idea to research FHA laws, rules, and other guidelines when considering renting to families with children.
- **Will you rent your house to people who have filed for bankruptcy?** If so, how recent a bankruptcy filing will you accept? In addition, what are the bankruptcy requirements? For example, will you have different requirements for somebody who filed a Chapter 7 bankruptcy vs. someone who filed a Chapter 13 bankruptcy?
- **Will you rent your house to someone who has been through a foreclosure, short sale, or car repossession?** If

so, how recently? Many landlords don't wish to attract these types of tenants, as they're often viewed as "higher risk" and "lower quality."

- **Will you accept Section 8 tenants?** The Section 8 program allows homeowners to rent their property at fair market rates to qualified low-income tenants with a Home Forward rental subsidy. Some jurisdictions require that you accept Section 8 tenants, regardless of your personal feelings. Check with your attorney to see what the requirements are. In the meantime, determine whether you're willing to deal with Section 8 tenants, because this program tends to involve a lot more paperwork, rules, guidelines, etc., and it's a much different type of rental vs. somebody who's paying you rent out of their pocket every month.
- **Will you accept someone who shows up late to a showing?** A late-showing tenant is a red flag. Let's imagine that you're someone who's on time everywhere you go, and you think punctuality is an important indicator of whether someone is a responsible person. You agree to meet with a tenant at 2:00 p.m., but they show up at 2:15; will you rent your house to a tenant who was 15 minutes late? If you decide not to rent to the tenant because of that issue, make sure you are within the guidelines of the FHA.
- **Will you accept someone who's breaking a current lease or has been evicted?** This is an area that some would-be landlords fail to consider in their minimum qualification standards. Consider whether a potential tenant is breaking a lease with their current landlord — what's going to protect you if they decide to do the same thing

to you at some point?

For most landlords, an eviction is a major red flag, and they'll absolutely refuse to rent their house to somebody who's had one because it's an indicator of a much bigger problem, such as rent payment issues or property damage. However, other landlords are willing to overlook an eviction from farther back in the past. What will *your* rules be?

- **Will you accept people with a criminal background?** It's perfectly acceptable and common for landlords to deny tenancy requests for individuals with criminal backgrounds. It's a potentially messy situation they'd prefer to avoid. However, it's still something you need to think about it. If you're open to accepting those with a criminal record, whom would you accept, and whom would you deny? Will you rent your house to people who've had a misdemeanor? What about a felony? What about sex offenders or those who have been convicted of other violent crimes, such as domestic violence, assault, and murder? Where will you draw the line? You need to figure out what's acceptable and comfortable to you.
- **How will you handle references?** It's pretty standard for owners renting out their property to ask for and check on references for potential candidates. Still, it's a decision you need to make, and there are still considerations.

Probably the best reference — and the most telling — will be the candidate's former landlord(s). You should ask a former landlord the tenant's reason(s) for leaving, whether they paid rent on time, and how they treated the property. Don't forget to ask whether they gave the landlord proper notice before moving, whether the tenant received their entire deposit back, and whether this landlord would rent out to their former tenant again. Essentially, you want the former landlord to paint a solid picture of what kind of tenant that person was, because it's indicative of how they will be for you.

- **The tenant's personal appearance.** First impressions matter! What are your own standards and policies for a potential tenant's outward appearance and hygiene?
- **Will you require every person over 18 in the house to apply?** I recommend you have every adult who will be living in your home apply. What if the main applicant is "clean" and meets all your requirements, but the others have low credit, no job, a criminal record, or poor tenancy history? Even if your potential tenants are two parents with young adult children, have these children apply, too. You need to know who will be living in your home! You don't want to be held legally liable for adult children who engage in criminal behavior because you didn't bother to have them apply.

You'll want to avoid this situation, too: Many groups of people will try to rent a house together and have whoever looks "good on paper" fill out the rental application, while the others, who don't look so "good," move in later.

Do the same with any co-signer on the lease. Put some policies in place as part of your minimum qualification standards. For example, a co-signer should have good — if not great — credit.

Maybe you're thinking this is overkill, that these questions are too in-depth, too "over the top," too unnecessary, too nosy, too, well, stupid. But don't forget: You're letting other people — strangers — into your property to live there. While you might be tempted to give people the benefit of the doubt and skip out on the

minimum qualification standards, this is very risky and potentially disastrous.

As I've said before, you have the right to know who is going to be living in your home, and you need to be comfortable with your decision. You're essentially risking your property and your livelihood. Someone could stiff you out of rental payments or cause $20,000 in damages.

Set Up a Screening Process

Once you've determined your minimum qualification standards, you need to set up a screening process that checks all of these items for you. For example, if you want to avoid tenants with a criminal record, you can set up a process that looks into criminal backgrounds. There are many types of tenant-screening systems and software that will do most of the work for you.

However, while these systems and software will check most of the major issues for you, and help you weed out the "bad apples," they won't find everything. Pets are a good example; they don't normally show up on screening systems. You'll just have to ask the candidate, flat out, as well as fill out your rental application form. Your rental application form should be thorough and cover areas often missed by screening systems, and all potential applicants should fill out the form. Not sure what to ask? Using minimum qualification standards is a good starting place, but consider putting the following questions on your rental application form:

- Have you ever been convicted of a crime?
- Do you have any pets?
- Will any adults over the age of 18 be living with you?
- Have you ever been evicted before?
- Do any of the people that will be living in this house

smoke?

- What is your monthly income?
- Have you ever filed for bankruptcy?
- Have you ever had a foreclosure or short sale?
- Have you ever had a vehicle repossessed?
- Why are you leaving your current residence?

As you can see, there's plenty to consider when coming up with your comprehensive checklist of minimum qualification standards, and it can be a time-consuming process to put this all into place. However, it's worth your while to do it, because, I'll say it again, screening tenants is the most important component of renting out your property, and creating minimum qualification standards is necessary for the screening process!

GET IT IN WRITING

The lease is one of the most important steps in ensuring the overall success of your rental property management business. It can also be the most time-consuming, but trust me when I say you'll want to spend the time to make sure every possible area is addressed.

It's not enough to have any old lease; you need a rock-solid, iron-clad lease that protects you and your property from any potential issues with tenants. Even if you've done your due diligence in every other matter, and even if you think you trust your tenant, a rock-solid lease is essential.

Location, Location, Location

You've likely heard this phrase in real estate before, but I mean it differently here. When drawing up a lease, you must consider your location — where you live. Every area, county, municipality, and state might have different rules and regulations regarding

leases, so do your research.

Many newbies to the rental property business mistakenly assume they can just look up a lease template or a lease example online and use that as the basis for their own lease. Or worse, they'll just plain-out copy it and use it as the lease! Big mistake.

First, the lease will either be too generic and not cover all the areas you need it to cover, or it will be too specific to a certain time and place that won't necessarily apply to the year and where you live. Second, typing "free lease for rental property" or something similar on Google and then using it could get you into heaps of trouble legally because it's not tailored to your location. Third, if you copy a contract, it could open you up to copyright infringement charges. Fourth, there's no guarantee it's a good lease — whoever wrote it might've done a bad job to the point that it could even be thrown out if a court case occurred.

Your lease needs to be both location-specific and up-to-date because laws are always changing. You can't do this alone, unless you're an attorney yourself or have experience in drawing up leases.

My recommendation is to hire the best attorney in your area — an attorney who's intimately familiar with the area, an expert in rental property management, and has experience in tenant complaints and rental-related lawsuits. Consult with your attorney for clarification and confirmation on all location-specific laws about everything that you can and can't (and should and shouldn't) include in your lease. Your attorney should come highly recommended and have the experience, success stories, testimonials, and references to back them up.

Expect to spend at least $500 to upward of $1,000 for a good, rock-solid lease that protects you and your home from any potential problems. However, if there's just no way to work that into your budget, there are other options, such as purchasing state-specific legal forms online, like ezLandlordForms.com or USLegalForms.com. Exercise caution in ensuring they are state-specific and up-to-date.

One last (and potentially most economical) option is if you use or have access to property management software. Some have lease agreements built into the software program. Again, ensure the lease is state-specific, up-to-date, and not a copycat.

25 ITEMS EVERY LEASE SHOULD HAVE

No matter where you get your lease, it's absolutely imperative that it has the following items below. As always, be sure to talk with an attorney for guidance.

1. Monthly Rent Due

The first detail to include in the lease is the monthly rent that's due. You'll need to take some time to figure out a fair amount for both yourself and for your tenants, using your mortgage payment plus a percentage on top as a baseline.

2. Instructions for How the Tenant Should Pay

Next, have exact instructions on how the tenant should pay you their rent. If they're going to be mailing you a check, give them the exact address. Don't allow them to make up excuses for why the rent is late because they don't have the right address (or claim that they don't) to send the payment to you. You might also want to include online options to make it as easy as possible for tenants to pay you.

3. Rent Due Date

Include a clause on the exact due date for the rent. The date

should be the same date every month to avoid confusion — even if the date falls on the weekend some months.

4. Late Fees and Penalties

If you don't have any late fees or any penalties for unpaid rent or rent paid late, then it's going to be hard to enforce payment on time. You need to ensure your late fees and penalties are *clearly stated* in the lease.

5. Security Deposit

Explain the amount of security deposit required upfront — *before* the tenant moves in — and all the rules that go along with it. This includes your right to "go after" the security deposit if there are any issues with the tenant or your property, and especially if there's damage to your property to the extent that repair is required on your end to fix damage done by the tenant.

6. Non-Payment of Rent

Just as you need to detail late fees and penalties, you also need to spell out what happens if they don't pay you the rent at all. Include your right to file for eviction within a certain timeframe, etc., but also include any grace periods, if applicable. Above all, you need to protect yourself. Your tenants must pay you *in full, on time, every month,* and if they don't, there will be consequences, such as eviction.

7. Alterations

Stipulate whether a tenant can make any type of alteration(s) to your home and property. For example, can they repaint a room? Replace the floor? Remodel a certain area? Think of every possible scenario; find out what is legal, find out your rights, and spell it out in the lease.

For example, you might allow certain types of minor remodeling but would still require your permission. Be sure your tenants know *they must ask for your permission first*. This should be outlined in the lease. Of course, most rental property owners don't and wouldn't allow most types of remodeling, but you'd be surprised at what happens behind closed doors in between inspections!

8. Appliances

Don't forget to stipulate which appliances are included in the property for use by your tenant. Note each model, make, colors, etc. Why get into specifics? Quite simply: It reduces disputes.

Let's imagine that a tenant moves in and you supply a washer without a dryer, so the tenant brings in their own dryer. But when they move out, they bring their dryer and your washer with them! Without this specific information included in your lease, you could go to court to dispute the matter, trying to get back your dryer or collecting on the security deposit — but it becomes a matter of your word against the tenant's.

Avoid this situation (and other similar ones) by listing and detailing each appliance you own, and which ones your tenants are allowed to use. You might even want to take pictures to protect yourself.

9. Smoking

A big issue between rental property owners and tenants is smoking. You need to get very specific about your rules about smoking, or your tenants could easily find loopholes and you could be left with smoking stains, lingering smoke scent, and other damage to deal with before your next tenant can move in. Be as clear as possible.

For example, consider:

- Will you allow smoking at all?
- Will you allow smoking outside, but not inside?
- Will you allow smoking in the backyard, the garage, the porch, etc.?
- How many feet away from your home will you allow smoking (if at all)?

10. Pets

Along with smoking, pets can be a major area of contention. This is another area where you need to be careful and specific about your rules. If you don't allow any pets under any circumstances, then be sure that's clearly spelled out in your lease. Some rental property owners find this is the way to go, just to simplify things.

However, there are plenty of pet owners looking for a place to rent, and some owners prefer to open up their "base" of tenant applicants by allowing certain types of pets under certain types of rules. If you do decide to allow pets, include a pet deposit, and determine how much this will be and whether it's refundable. You'll also need to include penalties in the lease penalties for either a) property damage done by a tenant's pet(s); or b) tenants sneaking in pets if you have a strict no-pet policy.

Ask your attorney about your rights to seek reimbursement if a tenant's pet causes damage to your property.

11. Use of Premises

Carefully spell out the use of your premises. Some examples are outlined below.

- **Residential.** Is the property for residential purposes only? This might seem like a no-brainer, but times have changed, and more and more people are working from home, whether operating their own businesses, telecommuting, freelancing, etc. You will have to determine precisely what you will and won't allow, such as running businesses, allowing customers/clients into your home, and guaranteeing quality of phone and Internet. For example, a tenant can't file a formal complaint about poor Internet access for their business if you've stipulated in your lease that you will not guarantee it.
- **Fixing cars in the driveway.** Determine whether you will allow tenants to fix/work on vehicles (cars, trucks, RVs, etc.) on the driveway, in the garage, front yard, backyard, or not at all, whether they're permitted to allow acquaintances to do the same, or if they can charge strangers a fee for parking. Yes, you need to be that specific. You'd be surprised at what some tenants try to do — and ultimately get away with, if it's not properly outlined in the lease.
- **Subletting.** Figure out whether you'll allow subletting, such as Airbnb situations, on a short- and/or long-term basis. I don't recommend allowing sublets, since you don't know the new temporary "tenant," and you could put yourself, your home, and your property in jeopardy. Further, Airbnb might not be legal in your area. Please do your due diligence to limit risk and avoid unnecessary trouble.

12. Rules for the Property

You'll need general and specific rules for your property. If you establish rules in writing upfront, and then explain them to the tenant verbally, they will have less of a leg to stand on if they break a rule or challenge you in court over a dispute.

Here are some issues to consider, but I urge you to brainstorm other possibilities as well:

- cleanliness/maintenance of the home
- number of vehicles and where they can be kept
- smoking marijuana (is it legal in your state? If so, is that something you want to deal with?)
- installing satellite dishes
- changing the locks
- taking down and installing window coverings
- loud late-night parties
- fireworks, firearms, and other hazardous materials

13. Renter's Insurance

I suggest the lease require the tenants to have renter's insurance. That way, they can't legally sue you if, say, the house burns down, along with all their contents, and they cry that you didn't "protect their possessions." Please consult your attorney to ensure you're legally allowed to require that they have renter's insurance.

14. Utilities

Your lease needs to contain a clause about utilities; specifically, what utilities are required to be paid, by whom, and when? Spell out every single utility that the tenant is required to pay.

Why is this important? Here's an all-too-common scenario that occurs when a tenant moves out (and a situation you want to avoid and protect yourself from): A tenant leaves without paying their last two utility bills, and then the utility company won't turn on service for the next tenant until the unpaid amount has been collected. Your new tenant is left frustrated, without utility service, harming your reputation as a rental property owner, while you're trying to collect payment from the previous tenant or footing the bill yourself.

15. Above-Ground Pools and Trampolines

You might not have thought of this, but what are your rules for above-ground pools, trampolines, or other hazardous items that could be placed on your property? These are essential legal liabilities waiting to happen! What if someone injures themselves on a trampoline or drowns in the pool? You'll be held responsible.

16. Parking and Vehicles

Parking and vehicles can create a whole host of issues, so you'll need to spend some time with your attorney developing rules. Here are some potential issues to consider:

- **Too many vehicles.** If your tenant has too many vehicles (more than your parking space allows), this can cause tension, conflicts, and complaints with the neighbors. Your tenants could take up a lot of street parking or even park in your neighbors' spots. Your neighbors could call you or file a complaint with the homeowners' association (HOA) or your city's code enforcement, which will cost you both time and money to resolve. However, if the rules are spelled out in your lease (and are legal), fixing these issues — or avoiding them altogether — will be much smoother.

- **Non-working vehicles/vehicles on blocks.** If your tenant has several non-working vehicles parked in front of the property, vehicles on blocks, or vehicles they're working on/fixing up, this can also cause conflicts with the neighbors. Again, you can end up with a flood of phone calls, neighborhood complaints, and official complaints to the homeowners' association (HOA) and/or city. You need to ensure you're protected and that you have the right to either force the tenant to fix the situation or fix the situation yourself, so you're not exposed to a big fine or an unhappy neighbor.
- **Parking spaces.** Your lease needs to include how many parking spaces your tenant will be allowed to use, and what you'll do if they need additional parking.

In all these parking-/vehicle-related situations, you need to consider whether they'll create issues with your neighborhood as well as what you're comfortable with. You want to lessen any risks, reduce potential stressors, and ensure your protection.

17. Other Adults Living on the Property

Some tenants will allow friends or family members to "crash" at their place (your place) for an undetermined amount of time. If you don't want extra people — people you don't know, haven't met, and haven't screened— then you need to protect yourself in your lease. You could put yourself and your property at risk if you don't include a clause about other adults living on the property with your tenant.

For example, the lease could state that the tenant must request permission for any other adult to move in, and that that person must go through the screening process.

18. Property Maintenance Standards

Determine your standards for property maintenance and have that clearly detailed in the lease. One obvious piece is that the tenant can't cause actual damage to your property or else they'll face penalties/consequences, which should be written out.

But what about general property maintenance and cleanliness? What about lawn-mowing and basic landscaping? If you allow pets, what about cleaning up after them? To what extent will you require these items, and what happens if the tenant doesn't follow through?

If you don't stipulate the specifics in your lease, your tenant can essentially get away with not doing what you want them to do. If it's not spelled out in the lease, it's open to interpretation by a judge.

Some specific areas of property maintenance (besides property damage, cleanliness, and landscaping) to stipulate in your lease include:

- **Pools and sprinkler systems.** If you have a pool on your property, think about who's going to clean and maintain it and ensure its safety. You'll need to protect yourself from the horrific possibility that a neighborhood kid could wander on to your property, go for a swim, and drown. You don't want this to happen for several reasons, but one is your own liability. Suddenly you could have a huge lawsuit on your hands because you didn't include this in your lease. Further, if you have a sprinkler system, you need to consider who will hold the responsibility for taking care of it, and then stipulate accordingly in your lease.

- **Light bulbs.** This might seem insignificant, but tenants should hold responsibility for maintaining and updating lightbulbs, as necessary. But it needs to be in the lease.
- **Phone/Internet.** Avoid potential disputes regarding phone and Internet expectations by clearly stating the terms in your lease. If you don't have a landline hookup, then say so, and be sure the tenant agrees. If you won't provide Internet access or guarantee high-speed Internet, then say so.
- **Drain stoppage.** If a tenant plugs up the toilet, are they responsible for addressing and fixing the issue, or are you responsible? Include this in the lease.
- **AC filter.** Who's responsible for maintaining the air-conditioning filter and changing it regularly? Put it in the lease!
- **Lock-out charge.** If you don't include this component in your lease, then you'll be getting keys for tenants whenever they accidentally lock themselves out as well as allowing yourself to be disrupted at any hour to let the tenant back inside. Most landlords charge a lock-out fee of between $50 to $100.

19. Homeowners' Association (HOA) Complaints

You absolutely need to have clauses in place that protect you in the event of an HOA complaint.

Imagine you don't have in place a rock-solid lease that properly addresses this, and your tenant, whom you've vetted, isn't who you thought and starts breaking rules, damaging your property, and disrupting your neighbors. The HOA comes down on you, demanding that you fix the issue because it's your property, and nothing in your lease protects you against HOA complaints.

This means it's your problem, not the tenant's, even though the tenant is causing the problem. Legally, your hands are tied because you can't force the tenant, and maybe you can't even address or fix the issue yourself. You could be in over your head with thousands of dollars in fines, all because your lease didn't protect you.

20. Code Enforcement Complaints

Just as with HOA complaints, the same applies to code enforcement complaints that come from the city.

21. Pest Control

You'll also need a clause for pest control. Why? If you don't, you could end up in a situation in which the tenant can call you at any time and demand a pest control service. You might end up having the house sprayed with toxic chemicals over and over again while you have to foot the bill!

22. Smoke Detectors

Next, you need to include a clause for smoke detectors. This can be a huge liability if you don't discuss it. Ensure the tenant checks the smoke detectors and is satisfied before they move into your home. If there are any issues, you'll have the opportunity to rectify it before it becomes a bigger problem.

For example, if the house burns down and the smoke detectors weren't inspected by the tenant and working properly, you could be faced with a huge lawsuit for damage. The situation becomes worse if someone is hurt or even dies from a fire due to outdated or broken smoke detectors. Without this area included in your lease, you could be liable for thousands upon thousands in damages, legal fees, and lawsuit payouts.

23. Right to Access Property

A landlord has the right to access their property on a reasonable basis for inspections and/or repairs, and your lease should reflect this. Include a clause that gives you regular access to your property, at least every six months or so, to check up on the property and your tenants. This way, you'll be on top of any issues or damages and see how well your tenant is taking care of your home.

Don't simply assume your rights here; you must include them in the lease. If you don't, what happens if there's a small plumbing leak that's causing major damage to your house, but you don't have the right to reasonable access to your property? The tenant might not let you in, and they would have the legal right to do so. As a result, your investment would be destroyed by water damage, and you wouldn't be able to get in and fix the problem.

In addition to what you put in the lease, be sure to check local laws about landlord access. Some places require landlords to provide tenants with advance notice (such as 24 hours) before they access the property, although emergency situations like taking care of a leak might be considered an exception.

24. Property Disclosures

Don't forget to include clauses for property disclosures that protect you, particularly for lead-based paint (if your property was built before 1978), radon gas, mold/mildew, and any major property hazards, such as pools and high balconies.

25. Your Rights in Case of Abandonment

Finally, your lease should include rules about your rights if the tenant suddenly breaks the lease without notice and abandons your property. If the tenant just disappears in the middle of the night, you have the right to go in, reclaim the property, and potentially put a claim on their security deposit. Then, you have the right to dispose of their belongings in accordance with the law and re-rent the property to someone else — all without losing thousands of dollars.

You will almost certainly need to include more than just these above-mentioned items in your lease, depending on your specific property, where it's located, the local laws, and your specific preferences, but these "essential 25" are a starting point. Again, please consult your attorney for further guidance and for drafting the lease itself.

Remember: *Your lease is your protection!*

LAYING DOWN THE LAW — ENFORCING THE LEASE

"Laying Down the Law" might seem a bit extreme, but trust me when I say it is neither extreme nor sarcastic. This is serious business, and you have to take it seriously in order to protect yourself and your investment.

Laying down the law essentially means enforcing the lease. There's a reason you spent all that time, energy, and effort in ensuring you had a rock-solid lease in place for potential tenants, and this is it!

Before we continue, keep in mind that if you've done your due diligence — a thorough screening process and minimum qualification standards — you're much more likely to get good, responsible tenants and won't have to worry about this too much.

You still need to enforce the terms and conditions of your lease,

no matter who is renting out your home, but the "laying down the law" piece won't be so necessary with good tenants.

But sometimes those "bad apples" sneak through, and that's when you're going to have to actively enforce the lease. Be sure to remain firm, authoritative, and calm whenever you deal with them.

Make Sure They Pay

The first and the most important part of enforcing the lease is ensuring your tenant is paying their rent. And not just paying, but paying the *full amount, on time, every single month.*

Some tenants do this automatically, but others, assuming they're not red-flagged "bad apples," need reminders. You also want to check up on things to make sure they're doing what they're supposed to be doing — paying you to live in your home!

Communication is key. You'll need each other's contact details, including phone numbers and email addresses. Let them know exactly when rent is due (the final date), and how early you will accept the payment ahead of time.

Pro Tip: Make it easy for tenants to pay you! If paying you is a hassle, then it will be a hassle for you, as well. Give them options for payment — let them pay you online, mail you a check, or use other mutually agreeable options with which you're both comfortable. Some landlords prefer checks, some direct deposit, some PayPal.

Don't forget to remind your tenants what will happen if they don't pay their monthly rent in full and on time according to the terms of your lease and your minimum qualification standards.

For example, do you allow a "grace period" for rent payments?

I know many landlords who give their tenants three-, four-, or even five-day grace periods, but in return, the tenants will receive reminders and notices on their front doors, as well as late fees (for example, a $50 late fee). This is not unreasonable.

Just as you should make it easy for tenants to pay you on time, you should also make it difficult and challenging for tenants who pay late. Don't "reward" them for not paying you on time. If you're going to charge a late fee (which you should), don't charge too much, but charge enough to the point where they feel it's a pain. This should incentivize them to pay you on time next time, and then every time.

If they still haven't paid beyond your grace period, let them know that the penalty will become steeper, including possible eviction. And let them know that if you file for eviction, it's going to become much more challenging for them to do business with you. Remind them that eviction involves legal fees and more, for which they are going to be responsible, and that eviction goes on their record and will make future tenancy difficult for them.

Consider this possible (but unpleasant) situation: If someone doesn't pay you for an entire month, and now they're 30 days late, not only do they owe you rent for *last* month, but they also owe you rent for *this* month. If someone couldn't pay you last month, how are they going to be able to come up with two months' worth of rent? What if you start the eviction process? Then they'll owe you for three months, *plus* late fees, *plus* attorney fees, *plus* all the other expenses you're going to charge.

In the end, they'll end up saying they can't afford all that, break the lease, and move out, and you're left with all those unpaid fees. Not exactly a situation you want to find yourself in.

It never pays for you to let them pay their rent late, so just don't let it happen. The bottom line is that *you* are the owner, *you* are

in charge, *you* make the rules, *you* are the authority. This is your business, and they need to respect you and your policies. You're not here to give your tenants a "get-out-of-jail-free" card.

Make Sure They're Taking Care of the Property

You also want to ensure your tenant is taking care of your house and property, as per your lease agreement. This is an essential component of enforcing the lease. So how do you make sure they're following through on their end of the bargain? Again, communication is key with property issues, just as it is with payment issues.

Communicate with your tenant regularly. Ask for updates on any maintenance issues with your property and whether things are running smoothly and being taken care of properly.

If you live in the area or know someone who does, you'll want to periodically drive by the property to check out things for yourself. This will give you a general overview of the situation.

Ideally, you should do a full-on walkthrough inspection of the entire home, including every room, about every six months. This will give you a clearer picture of the condition of your home as well as help you assess any issues or property damage.

Deal with Issues Immediately

If you have any issues with your current tenant or rental situation, the key is to deal with it immediately. Whether it's non-payment of rent, maintenance issues, or property damage, the sooner you deal with it, the better.

For example, if a tenant doesn't pay rent or their utilities bills, call them right away and hash it out. Don't wait, hoping that the issue will somehow resolve or "fix itself."

You'll have to be confrontational to deal with these types of problems quickly, but that's okay. Dealing with issues now — and fast — is always better for everyone involved. As you become a more experienced landlord, you'll see more and more why this is so important. Address the issue head on, and you'll see that the more quickly and aggressively you deal with any potential issue, the more likely the situation is going to be resolved in your favor. This will help make renting out your property a more pleasant and beneficial experience for everyone.

Evicting Tenants

The National Association of Independent Landlords tells the true story of a landlord leasing his apartment to a tenant who stopped paying rent soon after taking up residence. The landlord performed a check-up and inspection and suspected the non-paying tenant was also stealing appliances in addition to not paying rent. Of course, he called the police, but when they questioned the tenant, she accused the landlord of trespassing and even claimed she'd never seen him before. Unfortunately, the police sided with the tenant, and the landlord literally watched as the tenant left with his washing machine.

This story isn't meant to make you averse to becoming a rental property owner, but rather to impress upon you the importance of laying down the law and enforcing your lease.

Unfortunately, despite your best efforts, you might have to end up evicting tenants. This is just one of the risks you take when you rent out property. It's also one of the most difficult aspects of the job of a landlord, and the eviction process can escalate quickly to the point of non-compliance, with tenants trashing your place in anger and even outright refusing to move out.

Many property owners — especially newbies — have a difficult

time with the idea of eviction, either because they don't know how or because they just don't want to (or both). Maybe you're not naturally a confrontational or authoritative person. Maybe you like giving people second or third chances. The issue, though, is that "problem tenants" — tenants who don't pay or who destroy your property — are not only costing you, but also stealing from you!

You have to think of it this way if you're going to succeed in this business: They're stealing money from your family, from your retirement fund, from your bank account. Wherever that money's going to come from, they're technically stealing money from you.

Still believe in second chances? Let's say your monthly rent is $2,000 and your tenant isn't paying you, whether on time, in full, or at all. Would you allow that tenant access to your bank account? To log in every single month, and just take $2,000? I'll bet you the answer is a strong "No way!"

You need to think similarly if your tenant isn't paying their rent. This could ultimately lead to eviction. It's a difficult, challenging decision and task, but you need to face it head on.

Some of the most common reasons to evict a tenant:

- They don't pay on time and ask for extensions beyond the grace period.
- They don't pay in full and ask for an extension until they've "got the rest."
- They don't take care of your property and cause damage or outright trash the place.
- They cause issues, tension, and disruptions with your neighbors or the homeowners' association.
- They don't follow your rules and policies.

- They don't uphold their end of the lease agreement. (This could be *any* aspect.)

Keep in mind that I'm referring to tenants who are multiple offenders. If someone pays their rent late once or makes a mistake or forgets to report a minor maintenance issue, that's one thing. But if these issues are coming up repeatedly, then it's time to seriously consider eviction. At a certain point (and you'll need to determine what that point is), it's just over.

While making the decision to evict and then following through may seem like the hardest part, keep in mind that the actual eviction process can be challenging, too. You might need to hire an attorney. You'll need to file the eviction with the courts, and every single court system is different regarding evictions. Then you need to go through the process of actually evicting the tenant.

Sometimes, this means physically removing the tenant from the premises, as some tenants — even once they know they're being evicted — will refuse to move out. Here is where things can get dicey, and you might need law enforcement on your side to help you through this process. Literally, you might need cops to come out and work with you to actually physically remove all of the tenant's belongings from your house and put them out on the curb.

Evictions are no picnic, but if you're going to be a landlord, evictions are something that you're going to have to get used to dealing with.

In addition, you might need to deal with any potential legal issues. You need to ensure you protect yourself and your rights under the lease and document everything. Keep records. This way, if anything goes awry, the tenants can't blame problems on you, and they can't take you to court if something goes wrong

during their lease.

Fair Housing Act

The U.S. Fair Housing Act (FHA) was put in place in 1968 in order to protect citizens from housing discrimination, unfair renting practices, and poor housing conditions. People with low incomes, people of color, and immigrants were especially at risk of discrimination.

Fair Housing Act laws are still in effect to protect against housing-related discrimination based on race, color, ethnicity, religion, sex/gender, disability, and familial status. This act has helped millions of people find homes, and protects people against discrimination, but it can leave rental property owners vulnerable and liable and open to complaints, and even lawsuits.

Even if you're not ultimately found at fault in an FHA complaint, you can still spend thousands and thousands of dollars protecting and defending yourself from the complaint in the first place. Even worse, an FHA complaint can put your reputation on the line and hurt your business, regardless of the outcome.

"Bad apple" and red-flagged tenants can use FHA complaints in order to get an unfair advantage over you. If you don't know the ins and outs of the Fair Housing Act, you could leave yourself vulnerable and open to a potential liability you never saw coming. Don't let yourself get exposed to that; protect yourself by understanding and following all FHA laws.

Consider talking to someone who knows all about Fair Housing practices and rules before you move forward with opening up your property to renters. Hire a property management lawyer to get all the facts and to understand both your renters' rights as well as your own.

You'll need to consider national, state, and local housing laws when renting out your home. Regularly check in with your attorney to ensure that a) you're aware of all applicable Fair Housing laws to your area; and b) you're in compliance.

You'll also need to check that you're following the requirements of the law for Section 8, Social Security payments, etc. For example, some cities and counties require that any landlord accept any and all Section 8 applicants.

In addition to all Fair Housing laws, you'll need to familiarize yourself with the ADA, which protects people living with disabilities from discrimination in many different areas — housing included. There may be other laws particular to your area, so, again, do your research/homework and consult your attorney so you are covered!

Again, your minimum qualification standards can protect you when it comes to Fair Housing complaints, but only if you've consistently used these standards for *everyone.*

ONGOING PROPERTY MANAGEMENT

Once you've successfully landed your first tenant, it's not over. In fact, it's really just the beginning! Here are a few areas that you'll need to cover:

Respond to tenant and neighbor complaints quickly.

If your tenant complains, address those complaints. If the complaints are legitimate, then deal with them and resolve them as quickly as possible. Maybe the tenant has a complaint about something on your property that needs to be fixed, maybe they can't figure out how something works, or maybe they have a complaint with a neighbor. Whatever it is, hear them out and address them, as necessary.

If a neighbor complains to you about the property, you need to see if it's a legitimate issue and try to resolve it with the neighbor, and quickly — *before* they contact the HOA or code enforcement.

If a neighbor does file an HOA or code enforcement complaint, you need to deal with this immediately. These associations can fine you thousands of dollars for a tenant who is causing issues and lead to neighborhood complaints. Maybe the complaint isn't legit, or maybe it is, but according to the terms of your lease, your tenant is the one responsible. Regardless, get this taken care of as soon as possible. Contact your attorney and look into local bylaws to ensure compliance.

Keep up with maintenance, and handle all repairs right away.

Make sure the property is well-maintained and that any and all repairs are handled. The important thing to remember here is to address and fix property damage issues as quickly as possible as well as to keep the whole property in good, working order.

If you have any emergency issues, deal with and fix them as quickly as possible. If the tenant is responsible for causing the damage, collect the money from them to pay the cost to repair that damage.

Most landlords collect right away. If the tenant causes some damage to the property, and it costs $200 to fix, but they can't pay it immediately, then add that $200 to their next month's rent payment. If the tenant doesn't pay the amount due, then enforce your fees and penalties and, if necessary, file for eviction in a worst-case scenario. (Keep in mind that involving lawyers might not be worth it for a $200 charge because of lawyers' and court-related fees that will cost much more than this.)

Whenever you need to do repairs, shop around, if necessary. Get plenty of quotes from different contractors and companies to find a reasonable rate. You'll also want to screen them to ensure their credibility, reputation, and skills. Make sure they're certified and licensed, and ask for references.

Once you find contractors and tradespeople whom you know you can trust, and who are reliable and affordable, be sure to cultivate strong relationships with them. The goal is to create a list of local contractors, tradespeople, and businesses involved in all aspects of home maintenance, such as construction workers, electricians, plumbers, renovators and remodelers, painters, roofers, bricklayers, and other contractors and tradespeople.

Their expertise can be invaluable, and having them on speed dial will make dealing with issues much less stressful.

Conduct regular inspections.

Make sure the property is being well-maintained, check for any damage, and check up on your tenant.

If you discover your tenant has snuck in a pet (which happens more often than you might think), confront the tenant immediately and remind them of the policy and penalties. Depending on the situation and your specific agreement and policy, you can evict the tenant, get a pet deposit, or get the pet moved out of the property.

CHAPTER 13

How to Sell or Rent Your Investments for the Most Money

Whether you're flipping or renting, the goal is obviously to get as much money as you can. In order to do this, you need to attract the right buyers or renters, so this chapter is all about how to make that happen.

First-class marketing will bring in not only a plethora of tenants, but also the right ones. Of course, you'll likely attract some "bad apples," too, but your screening process will help you weed them out.

Marketing can make or break your sale. You can go "old school" by placing ads in newspapers and magazines, or you can use updated methods by posting your property on social media pages and neighborhood Listservs.

THE RIGHT PHOTOGRAPHS AND WORDS

Marketing is all about drawing people in and captivating them. In this instance, it's about helping them to picture themselves in your property, whether they're going to live there or use it for their business (or both).

The Value of Great Photographs

No matter what your advertising platform, you'll need professional-quality photos and a listing description that makes buyers want to book a showing. Anyone with a smartphone can take pictures of his house. But homes photographed by a professional, which costs $95 to $300, will sell faster and for more money, according to a Redfin study.

The study showed that professionally photographed homes priced between $200,000 and $1 million sold for an average of $3,400 to $11,200 more than their listing price, and homes in the $400,000 range sold 21 days faster than homes photographed by an amateur.

That's a pretty good return on investment. Of course, even if you're looking for renters, professional pictures will also draw in plenty of people, which means you're more likely to get the right tenants — and quickly.

If your budget is tight, and you have no choice but to photograph your property yourself, remember these tips:

- If you use a smartphone, hold it horizontally, not vertically.
- Take pictures during the day. Light the room by opening curtains and blinds and turning on overhead lights. Natural lighting will result in higher-quality, more appealing pictures.
- Don't shoot into the bright light of windows and doors, which will overexpose the rooms you want to see.
- Clear rooms of clutter, pets, and kids before shooting.
- Avoid outdoor pictures that include cars and boats.
- Only photograph places that look great and will provide a marketing boost.
- Take front, exterior shots at an angle, which will provide depth and interest.
- Use editing software to brighten and crop photos.
- In the case of a tenant whose lease is up, you need to market your property before they leave to minimize the time the space is vacant. Get some good-quality photos of the outside of your property, as well as your property in general; if you can, get permission from your current tenant to take a few pictures of the inside.

WRITE AN ENTICING DESCRIPTION

The objective of most writing is to educate or entertain. The goal of a real estate listing to get bodies through the door. To do this, your listing description should be concise and filled with powerful, picture-painting words that bring your home's most salable qualities to life.

In the past, that meant including a bulleted list highlighting features like open floor plan, water view, or hardwood floors. Today, however, listings are morphing into mini narratives that create scenarios.

For example, instead of "Colonial w/ 6 BR/6.5 BA & 2 story foyer w/ marble & limestone staircase, living rm, 2 story fam rm w/ FP," you might want to write: "Imagine making your grand entrance down a marble and limestone staircase, entertaining guests in a two-story family room, having great conversations around a cozy fire."

The goal is to write a great advertisement that highlights the best features of your property in a captivating and attention-grabbing way. Tell renters why they'll love living in your home. Describe its best features and benefits, and maybe include some of the home's history. Here are some other ideas:

- a nice view
- special features (large yard, fenced-in yard, a patio or deck, fully furnished basement, a home office, a nice

garage, a pool, recent renovations, etc.)
- special amenities in the neighborhood (great shopping options, restaurants, services, police, parks, riverfront walkways, community centers, nightlife, etc.)
- is your home close to local quality schools and/or public transportation?
- is the overall "feel" (ambiance, atmosphere) of your neighborhood something worth advertising? Is there a community feel? Does it feel safe? Could potential tenants picture themselves living there?

In addition to capturing your property well, you also need to make sure to take Fair Housing Act (FHA) laws and your minimum qualification standards into account.

If you're looking to rent commercial space, the same holds true, although the focus of your copy should be to help them see why your property is the best for their business. Your words should help them picture their business there — *thriving!*

In addition, if writing and marketing are not skills that come naturally to you, consider hiring professionals. It could make all the difference in helping you narrow down the candidates for your property.

VENUES THAT GIVE YOU THE BIGGEST BANG FOR YOUR BUCK

Now that you've selected your words and pictures, it's time to decide where to put them. I like using the list from the National Association of REALTORS® (NAR) that includes popular methods to market a property, whether for sale or for rent.

- Post yard signs (if your neighborhood allows this)

- Let your relatives, friends, and neighbors know, and ask them to help you spread the word.
- Hold an open house. To be fair, open houses are controversial. Yes, they can be the first time a real buyer gets a chance to see your home, but they're also magnets for real estate gawkers and curious or even nosy neighbors.
- Get your property on the MLS (Multiple Listing Service). This is a for-agents-only list of homes for sale and the first place a real estate professional looks for homes for their clients. You can pay a discount agent a fee ($500 to $1,000) to place your home in the MLS.
- To give your rental property the most exposure possible, you'll want to post ads on any and every single realty website, including the most popular ones, like Realtor.com, Zillow, and Trulia. These sites have millions of viewers and will advertise your listing for free.
- Use your social media followers to help sell your home. Place your ad and photos on these sites, and ask followers to spread the word.
- Put an ad in your local newspaper. (Yes, some people still read newspaper classifieds.) Most publications will give you a combo rate for print and online ads.
- Tap your inner Spielberg and make a video of your home that you can post on YouTube. You can string together photographs or narrate a walkthrough.

Is Craigslist Your Friend?

Listings on free online sites like Craigslist can help spread the word, but they rarely produce a buyer willing to pay top dollar. When people are looking on a free site, they're looking to save money. You won't get the best price for your home from someone who is actively trying *not* to spend money.

That said, Craigslist can be one more tool to help spread the word about your sale. First, Craigslist is free. You can write a description as long as you'd like, and add plenty of pictures. You can put up an ad for a few days, see if it gets results, and then change it as many times as you like.

When using Craigslist, in order to stay at the top of the "homes for sale" list, you'll have to relist the ad every day. Also, keep the fonts and design simple and easy to read.

How I Can Help

Marketing is something in which qualified real estate agents are experts. As a real estate agent, I can help you place your property on the MLS and on the websites that get the most results. I also know how to target marketing to buyers and renters who will be most interested in your property and can use my knowledge of the market — which features are hot, and which are not — to advertise your home's most marketable features.

CHAPTER 14

Why Staging Makes All the Difference

When you're trying to impress someone, you might put on your best suit or dress, wash your hair, swish around some mouthwash, and spray on some cologne or perfume — anything that makes you look and smell your best.

That's the purpose of home staging — it brings out the best in your property.

While much of this chapter focuses on staging to sell a flipped home, the ideas still work well when searching for residential renters. Having your property looking its best will attract more potential renters and enable them to see themselves there more easily. Also, there's always the option of renting out a furnished property, and following these staging tips and tricks can help you figure out exactly what you should do so you spend your time and money wisely.

Minimal staging entails decluttering, cleaning, and shining what you've got. Deluxe staging means transforming your lived-in house into a model home — at least for as long as it's on the market. Top-notch staging can entail painting, re-carpeting, and replacing shabby, dated furnishings with new, fashion-forward items.

A Cinderella transformation can cost from a few hundred dollars to $4,500 per month. But professionals say staging your home is essential to getting the best price in the least amount of time.

The "2017 Profile of Home Staging" by the NAR provides some impressive statistics:

- 29% of sellers' agents representing staged homes reported an increase of 1% to 5% of the dollar value offered by buyers when compared to similar unstaged homes.
- 39% of sellers' agents said that staging a home "greatly decreases" the time required to sell a home.
- 49% of buyers' agents said that staged homes had an effect on the way most buyers viewed a home.
- 38% of sellers' agents said they stage all homes prior to listing them for sale.
- The rooms most commonly staged include the living room (83%), kitchen (76%), master bedroom (69%), and dining room (66%). Buyers' agents cited the guest bedroom as the least important room to stage.
- Making repairs, both small and large, go a long way toward attracting a buyer. Real estate professionals know that getting your home into shipshape condition achieves these goals.
- A well-maintained house receives more and higher offers.
- A house in good shape will fly through inspections.
- Showing a house in good shape allows you to point out your home's great features.
- Most buyers will grab on to any flaw as a bargaining chip to reduce the price. If all repairs are made prior to showings, a buyer won't have imperfections to use as bargaining tools.

In another survey, Realtors® believe that there are several ways that staging a home affects the views of buyers; 81% of Realtors® said that buyers are more likely to see the property as a future

home; 46% said potential buyers are willing to walk through a house that is showcased online; 45% said decorating a home to the tastes of its potential buyers positively boosts the home's property value.

STAGING CASE STUDY

I wanted to give you the most convincing proof possible. Many people find it hard to believe the simple act of staging helps one home sell for more than another similar home.

In my research, I looked for examples of similar houses being sold for differing amounts of money in which only one of the two houses was staged.

The clearest example I could find was in these two listings below. They're part of a development with 200 equivalent townhomes. Every single townhome in the neighborhood has three bedrooms and three bathrooms. Every single unit has the exact same floor plan.

I looked for two sales there and found these:

Townhome A sold on August 26
Townhome B (5 doors down): sold on July 26, for $40,000 less

You could not find a better example of two identical properties that sold for different prices. The details show these homes are identical in every major way:

- The lots the units sit on are identical as far as the desirableness of the location.
- Both units had the same kitchen plan with the same cabinets and a tile floor.
- Both units had nice hardwood floors in the living room,

and carpeted bedrooms.

Each important detail of these two townhomes was identical, so I studied every aspect of these sales to find what made the difference.

This is why one home sold for $40,000 more than the other:

- Townhome A was professionally staged, giving it a more appealing appearance.
- The agent selling Townhome A took higher-quality, more attractive photos of the home.

Those two seemingly small actions made the $40,000 difference! The buyers of Townhome A made a higher offer because the agent presented the home in a more appealing and attractive way.

CONSIDER UPGRADES

Upgrades is one of the trickiest parts of preparing your house for flipping. Remodeling and upgrading your home might bring you a better price and reduce the number of days your home sits on the market.

Or not.

Sometimes, people spend a lot of money remodeling a kitchen or adding a bath and still have trouble selling their house, only now they've poured more money into their home and need to get a higher price to recoup remodeling costs.

Some remodels add more value to a home than others. Remodeling magazine conducts an annual Cost vs Value survey that lists common upgrades and the percentage of money a seller

is likely to recoup at sale. The 2018 Cost vs Value survey of midrange upgrades and additions showed:

- Bathroom remodel recouped 70.1%.
- Deck addition recouped 63.6%.
- Kitchen remodel recouped 59%.
- Master suite addition recouped 56.6%.
- Entry-door replacement (steel) recouped 91.3%.

As I've stated before, if there's major work to be done, do yourself a favor and hire a professional to do the work quickly and correctly. Professionals will cost money, but they'll do the job right the first time and reduce the stress that comes with remodeling and selling.

Also, before undergoing a kitchen and bath remodel, do enough research to learn which looks are popular now, then find a way to match those new looks if you're working with an older home. This is where an interior designer is a godsend. A designer knows how to make upgrades look like a natural addition to your home rather than an afterthought.

DON'T FORGET SYSTEMS

Replacing your water heater isn't as sexy as adding a master bathroom, but you'd be amazed how important new systems are to buyers. No buyer wants to buy a house and have the central air conditioning or septic system malfunction. If your HVAC, plumbing, electrical, or waste systems are nearing the end of their expected lives, replace them, then tout your brand-new furnace or instant hot plumbing.

EASY AND INEXPENSIVE WAYS TO STAGE A HOME

If money were no object, you could hire a staging company that would transform the look of your property into a palace. But as a flipper, you're obviously trying to do everything you can to maximize your profits.

The good news is that you don't have to spend a fortune to make your property look ready for opening night. You will, however, need to be able to look at your property and objectively to spot the eyesores and problems a buyer will quickly notice.

Here are some common staging improvements that agents recommend:

Deep clean: The goal is to make your property shine. Be meticulous. Tidy each room from top to bottom. For a good deep cleaning, you should do the following:

- Get rid of cobwebs first. This keeps you from getting dust bunnies all over freshly cleaned floors and furniture.
- Dust ceiling fans and lighting fixtures while you clean the cobwebs.
- Replace any burned out bulbs.
- Dust your blinds.
- Wash walls unless you've recently painted them.
- Clean all glass surfaces: mirrors, television screens, patio doors, and windows.
- Polish all wooden surfaces, including wooden floors.
- Dust baseboards and window trim.
- Polish door hardware and make sure you remove any paint drips.
- Wipe down any leather furniture.
- Attack all appliances with cleaning fervor. Make them shine!
- Sinks, toilets, tubs, showers, faucets, and countertops

need to be impeccable. Every room is important, but the kitchen and bathrooms will take you over the top. They need to be eat-off-the-floor clean.
- Vacuum rugs and furniture, shampoo carpets, and mop as if your life depends on it. A professional steam cleaning is a good idea for anything not new.

Avoid Clutter: Clutter makes you want to flee your own home, so imagine its impact on a buyer. The problem is, everybody has his own clutter threshold. You might think a refrigerator covered whit kids' art adds a homey touch, while a buyer might think it makes your kitchen look messy.

The trick is to look at your property through the eyes of a stranger. Don't over-decorate, use excessive oversized furniture, or add photographs of people. The goal is to set it up so potential buyers can envision themselves living there.

Repair and Repaint: You might not have the time or money to repaint every room, but you should devote a few hours to removing scuff marks from walls and baseboards and touching up wall cracks and dings. Disguise hardwood floor scratches with fill pens. (A Sharpie will do in a pinch.) Adjust kitchen cabinets so they don't sag. Scrub dingy tile grout.

Fresh paint provides a clean canvas. If the property hasn't been painted in the last year, consider doing the entire inside of the home right now. When planning to repaint, include everything. Paint the ceilings, the trim and window casings, and the doors, and don't forget the closets.

Make sure you paint the right way. An artist creates a new painting on a plain, primed canvas. Through your efforts with painting, you're giving your potential buyers a clean, primed canvas where they can imagine their family in your home.

Keeping all of this in mind, use neutral colors. That doesn't mean everything has to be lifeless or stark white. That can have a negative effect as well. Rather, you want colors to be unobtrusive. Stick with gray, beige, off-white, and white.

Appliances: Replacing your appliances can be a good idea or a money pit. Fortunately, you can follow a few guidelines to make the big decisions.

Should you buy new appliances? It depends on your situation. No doubt, new appliances make an impact with buyers. The National Association of REALTORS® (NAR) conducted a survey of buyers in the market over the past several years and found:

- Buyers were somewhat or very interested in buying a home that featured new appliances.
- Roughly 17% of the respondents preferred stainless steel.
- The most important factor: appliances were available.
- Buyers who were unable to get their sought-after appliances said they would have been willing to pay, on average, nearly $2,000 more for them.

Potential buyers want appliances included and will pay more for them, especially if they are new or at least in excellent condition. If you can afford it, new appliances might be the feature that sets your house apart from the home for sale across the street. If new appliances are out of your reach, offer buyers your immaculately clean, fully functioning existing ones.

Updating Hardware: Take a nice, long look at your bathroom and kitchen hardware. You will likely notice it looks well-used. Put yourself in a buyer's shoes. They're looking at your old house as their potential new home. Old, worn-out fixtures aren't going to speak to them the way nice, shiny, new hardware will.

That doesn't mean you should run out to buy all new fixtures. Unless your knobs, pulls, handles, and hinges are broken, there's no real reason to replace them. Get that new look simply by thoroughly washing and repainting them. There is spray paint made specifically for this reason. The project is incredibly cheap.

Here are some items of household hardware you can make look almost new with a paint overhaul:

- towel bars
- toilet paper holders
- door handles
- old light fixtures

The goal is to patch up your property nicely with as little cash as possible, and this is a great way to do it. If, unfortunately, you do have broken or completely worn-out hardware, you'll need to replace the whole set unless you can find matching pieces.

Other options are to paint the old and new to match. You could also combine the good parts in one bathroom and replace all the hardware in the other.

Warning: If you end up replacing your knobs, make sure you get matching exposed hinges for cabinet doors. Consistency is a good thing when selling a home.

The Most Important Rooms to Stage:

- Living room
- Kitchen
- Master bedroom
- Bathroom
- Dining room

- Children's bedroom
- Guest bedroom

Kitchen and Bath: Focus on these high-impact areas. Potential buyers might forgive a less-than-stellar child's room, but a questionable kitchen or bathroom could cost you a sale. Buyers are most turned off by dirty, grungy kitchens and bathrooms. Nobody wants to eat or shower in a place they feel is nasty or disgusting.

Now, that doesn't mean you can create stunning bathrooms and kitchens while leaving the rest of the home a mess and still expect to sell your house for top dollar. Just make sure you address your bathroom and kitchen first.

Some Cheap Kitchen and Bathroom Upgrades

- Buy a new toilet seat.
- Refurbish worn-looking cabinets by painting them.
- Replace an old, ugly bathroom sink with a new vanity or a pedestal sink.
- Repair grout in tile backsplashes, floors, and tub surrounds.

Getting Furniture

Some flippers have a warehouse of furniture they use for staging, but filling that warehouse can take a lot of time, money, and energy. One alternative is renting furniture, which is something even staging experts sometimes do.

So, from where do you rent?

- **Furniture rental companies.** We don't often hear about these types of companies unless we're looking for them. These companies normally provide the furniture, the trucks, and the manpower to get it to its destination. The only downside is that they also normally require a three-month minimum rental period. Of course, if you happen to sell your home sooner, you're not out any extra money for returning the furniture early.
- **Thrift shops or antique shops.** If you have any of these in your area, you might consider asking to rent larger pieces of furniture. While you won't always be successful at this, if you find something that would fit your needs, it doesn't hurt to ask.

If you don't want to rent furniture, some experts suggest using cardboard furniture for a comparatively lower cost. You can dress it up as standard furniture without anyone necessarily seeing the difference. In fact, a lot of this furniture is durable enough to be sat upon, so it makes for a surprisingly good stand-in.

Whichever furniture option you choose, make sure that it is indeed the best for your particular situation, and that it will bring you the greatest return on investment by either helping sell the house more quickly than expected and/or for a higher price.

Pro Tip: The Power of Fresh Air

There are people who love to open the windows every morning to let the breeze rush through, and then there are those people who couldn't be paid to open the windows. If you never allow fresh air to blow through your home, then it's most likely developed an unappealing odor, which you might not detect yourself. Open up and air out!

HIRING A PRO VS. DOING IT YOURSELF

Time is perhaps the most common concern and most common limiting factor among flippers. To conserve as much time for yourself as possible, you will want to delegate as many tasks as you can so that you will be free to focus on other important aspects of your business.

A professional home stager can be a real lifesaver. Staging experts have often acquired valuable experience that they can pass on to your home to increase its salability. A staging professional or firm will create a theme in each room to complement the layout, bring in the furniture and home décor needed to complete those themes throughout the house, and give you tips to use when showing the house, such as what kind of fresh flowers to buy or which scented candles to burn.

You might also want to consider that a staging expert or firm will make sure to provide the manpower needed to do the heavy lifting and moving of furniture throughout the house, and if any damage happens in the process, the stager covers the cost of repairs.

On the other hand, staging the home yourself could not only save you money, but it could also allow you to put more of your own personality into the theme. (Just remember: not too much of your personality, because you don't want to turn off buyers!)

Your goal is to gain the highest return on investment when your property sells. If you believe you can achieve this by staging on your own, then go for it; otherwise, spend a little extra on a professional upfront to reap the benefits at the sale.

WHAT TO EXPECT WITH A PRO

True staging professionals can be expected to run a very smooth operation. Of course, anyone can make mistakes. Here are a few

things to keep in mind:

- Ask around instead of finding a random name online and hiring the stager sight unseen.
- Ask your agent, other agents, and friends about their experiences, and ask for a referral.
- Interview several professionals and choose the one you believe could provide the best value to you.

You get what you pay for. If the price tag is low, it's probable that the quality of service offered will match that price. If your stager is a well-known expert in the field, your price tag will definitely be considerably higher than someone running a summer gig. Can your potential stager provide references and photos of successful past projects? If so, take a good look and be sure you actually like how they set things up. Also, see if you can get any information about how well those houses sold!

Stagers will ask you many questions. Just like a doctor, a staging pro wants as much information as possible from you about your needs. For your part, you also need to ask any questions you can think of during the initial consultation to ensure this is the stager for you. Ask questions about how they work out their rates, how long they will take, what you can do on your end to keep the costs down, how many homes they've staged, and whether they'll expect anything from you during the process.

Remember, they are staging professionals. Not agents. Not bankers. However, they do need to know enough about real estate to understand that their job is to increase a home's salability. Their job is to make your home as appealing as possible to potential buyers, so they won't (and shouldn't) talk to you about negotiating pricing with those buyers.

Once the staging's done, make sure to get in and dust regularly.

Real staging pros should make you feel confident about the quality of their work. If you have any negative internal reaction during your initial consultation, run in the other direction and find someone you can trust.

DIY TIPS

If you choose to stage yourself, the Internet as a whole — and Pinterest in particular — has become a great online resource for creative projects. If you find out that you have enough furniture but just need to embellish a bit more, here are some ideas:

- **Brighten it up.** Do you have a "sad" paint color in any or all of rooms? Is the house monochromatic? Consider repainting rooms according to their purpose, such as using soft neutrals, like mild yellows or creams that set off a glow when the sun shines in the dining room. Add an accent wall in the living room by choosing a complementary color such as a calming sage green or a deep red against taupe walls. Whatever you do, make the home welcoming through appropriate color.
- **Re-dress windows and sofas.** Updating the window coverings to complement the paint color and re-covering or purchasing new accent pillows that pop can create a quick upgrade to your flip. Also, be sure to update your bathroom collection with clean, bright towels and bathmats.
- **Bring it to life.** Consider strategically adding a fresh plant or vase of flowers to the different rooms throughout the home. The keyword to keep in mind is strategically. This does not mean adding a floor plant in every corner and putting a vase of flowers on every surface. Also, be careful to avoid flowers with heavy pollen, such as lilies, to

discourage any allergic reactions among potential buyers.
- **Up the atmosphere.** Adding lightly scented candles here and there and lighting them while showing the home will create a calmer atmosphere. Again, be careful to avoid heavy scents that encourage sneezing or instant headaches. Recommended scents include cinnamon, vanilla, pine, and citrus.
- **Play music.** Have you ever taken the time to notice the differences in music choices among the stores you visit? A very low background hum of classical music will add a level of sophistication to your home, releasing extra endorphins within the bodies of your potential buyers, and providing them with a sense of wealth as they stroll through the beautifully arranged home.

CHAPTER 15

Why Curb Appeal Matters

Imagine driving up to a house for the first time: The paint is peeling, dead shrubs litter the yard, and flowers are literally dying on the vine. What would you think?

Now, imagine driving up to the same house. The trim is freshly painted, shrubs are neatly pruned, and perennial plants provide a blast of color. What would you think?

The point is, when it comes to impressing a potential buyer, your flip's outside is, arguably, more important than its inside. The outside creates the first impression, which colors everything the buyer sees thereafter.

If the house has curb appeal, buyers walk in, impressed, looking to be further impressed by your home's interior. If the yard is a mess, buyers already have a bad impression of your property that the inside must overcome.

You don't have to spend $25,000 on brand-new landscaping to give your home added curb appeal. Here are ways to spend much less and get a big bang for your curb appeal buck:

CLEAN UP!

This might seem obvious, but you'd be surprised how often I view a home with a messy, littered yard.

- Pick up all trash, paying special attention to papers that might have been blowing into your foundation plants.

- Deadhead all spent blooms on perennial plants and shrubs.
- Pull and throw away last year's annuals, any plants that didn't survive the winter, and victims of blights.

PRUNE

Trees add value to your property. But scraggly, overgrown trees become an eyesore. Plus, thick foliage can prevent sun from reaching grass in the yard, creating ugly bald and brown spots.

Before you put your property on the market, hire a professional to thin, top, and generally pretty up your trees and shrubs. Take down trees that are clearly dead, a safety precaution as well as a curb appeal strategy.

MAX OUT YOUR MAILBOX

A mailbox may seem like a little thing, but it goes a long way to creating a good first impression. At the very least, make sure your mailbox is newly painted, in good working condition, and sits up straight. For less than $100, you can substitute a plain black box with a more decorative model.

SPOTLIGHT YOUR HOUSE NUMBERS

Make sure your house numbers are polished and clearly visible. The last thing you want is a buyer rolling past your house because the numbers are faded or blocked by tree branches! You can buy decorative house number plates that add a little pizzazz to the outside of your home.

MAKE THE EXTERIOR LOOK LIKE NEW

There's nothing more unsightly than dirty, peeling paint on

shutters and siding. It screams, "This property's not taken care of." Part of your sprucing-up budget should include a fresh coat of paint on your home's exterior. If you have a stone or vinyl exterior, power-wash it. You'll be amazed by how much better your home will look.

MAINTAIN HARDSCAPES

Time to scrub-a-dub-dub your pathways, driveways, retaining walls, stoops, and statuary. Power-washing is a fast and easy way to remove years of moss and mold. Flagstone cleans up nicely with a little scrubbing. (Consider sealing it after washing to give it extra shine.) Also make sure birdbaths and fountains are clean and bubbling.

GREEN UP THE LAWN

If you can choose when you put your home on the market, wait until late spring when your lawn will have awakened and greened up. You may have to aerate and reseed the autumn before or in early spring to help your lawn become its most lush.

PLAN AHEAD

This one depends on your timeframe, but, if possible, a little advance planning will go a long way toward enhancing curb appeal. If you plan to put your house on the market in spring, plant flowering bulbs like daffodils and tulips during the fall before.

If you try to sell in summer, in spring, plant perennials like black-eyed Susans, which will bloom throughout the warm months.

Some ornamental grasses, which you can plant in spring, will maintain foliage and colorful stems in winter, adding a color pop during bleak months.

So now you know how to make your flip or rental pop, both inside and out. Following these basic methods will attract the right people quickly and help you make the biggest profit, which is why you're in this game, right?

Speaking of profit, while on the surface it seems counterintuitive, I've found that the best way to bring in the most money is to have a team of professionals on whom you can count on take care of all the nitty gritty. They'll focus on the details within their realms of expertise, freeing you up for all the other things you need to do in order to make and keep your business thriving.

The next section is all about the team you should put together, and why it's so important.

CHAPTER 16

Why You Can't Afford to Invest Alone

In addition to real estate agents like myself, there are a variety of professionals I strongly urge you to bring aboard your team. Having competent, reliable experts on your side can make your business more efficient, less stressful, and more profitable.

Of course, there are some aspects of these jobs you might be able to do yourself, but it's important to look at the big picture — if you're doing these tasks, do you have the time and energy to do everything else as well? If you're not an expert yourself, it will take you longer, and any mistakes you make may be costly and possibly open you up to legal issues.

If you're not personally familiar with these professionals, ask for referrals from other investors, real estate agents, or title companies.

YOUR ALL-STAR ROSTER

I've talked about some of these specialists before, but all of it bears repeating here:

Hard money lenders are especially critical when you find a property for which banks won't offer financing. Just keep in mind these lenders tend to charge more in interest and points, and the loans need to be paid off more quickly than loans administered through banks.

One nice thing about having good relationship with lenders is the referral process. You might find yourself sending your end buyer to them in a wholesale situation, and lenders may send you buyers over the years, as well.

Even if you end up getting most of your financing through hard money lenders, having a knowledgeable ***mortgage broker*** to turn to can be helpful, as well. Again, for wholesalers looking for a smooth sale, buyers can be referred to mortgage brokers. Just make sure you're working with someone who's an expert in the types of deals you do and is familiar with many different kinds of loans.

Contractors are key if you're fixing up properties, whether you're looking to flip or to rent. However, if you're a wholesaler, you can also benefit from knowing good contractors — your potential buyer might need one, and if you connect them, your buyer might feel better about the work that needs to get done and thus make an offer more quickly.

A great ***insurance agent*** is an absolute must. The key is to find someone who understands your investment business, because your policies aren't the same as what homeowners get. It's quite possible that the properties you buy could have significant issues, and you want to make sure you're covered as best as you can be.

You'll also need a ***title agent*** or ***real estate (closing) attorney***, which will depend on which state you live in, so be sure to do your research. Either way, the professional with whom you work needs to understand your business. If you're a wholesaler, they must be knowledgeable about the different types of closings and financing and fully understand how each of your transactions is structured. This way, they'll be able to guide and support you throughout the entire process.

They'll keep your best interests in mind, make sure the title's clear (including from liens and judgments), and help with any issues

that come up during closing.

Even if your state doesn't require you to use an attorney, I highly recommend adding one to your team anyway. They can review brokerage agreements, discuss tax consequences of a sale, explore and explain issues not contained in a standard contract (such as if your property contains hazardous waste), and explain closing costs and help determine if all are fair.

Just as important is having an ***accountant*** who has the experience working with real estate investors. They will be up-to-date on all the latest tax laws and make sure you're able to take advantage of as many as you can. There's even a possibility that the money your accountant saves you will cover what pay them — and maybe even more! They'll also help you stay on top of things, which means less work and stress for you, which is certainly worth it, as well.

A ***property manager*** can be helpful if you've got a number of investment properties or even one large one, such as an apartment complex or large strip mall. They can handle all day-to-day issues that come up, collect rent, and bring in and screen potential tenants. For more information, please refer to Chapter 11.

Last, but certainly not least, having a ***real estate agent,*** like me, who knows the ins and outs of whatever might come up can be extremely helpful. Not only that, I can assist you in putting together your ideal team of all the professionals I've listed above. Read on to find out what other benefits I can provide.

CHAPTER 17

How Agents Help Investors

As a licensed agent, I can access the Multiple Listing Service (MLS), which is the best place to look when searching for properties. Not only does it include listings for rental and for-sale properties, but it also has the history of the properties. Because the MLS includes sensitive data, only licensed agents or appraisers can access it, and we all sign a code of conduct and pay dues to protect that data.

Do keep in mind that agents can only access the regional MLS, so if you're looking to buy property in a specific area — or even out of town — it's necessary to use a local agent.

HOW TO SET THE RIGHT PRICE

When you buy a home, the three most important factors are *location, location, location.* When you sell a home, the three most important factors are *price, price, price.*

It's important to keep in mind that setting a price too high, also known as "testing the market," discourages buyers and offers. As you chip away at the price, your listing languishes on the market, becoming stale and even less attractive.

How can you concoct the absolutely right price for your home? First, forget the idea of "perfect price." Pricing a home is part research, part experience, and part alchemy. Ultimately, you can only know you've set the right price on your house in hindsight. If it sold quickly and (fingers crossed!) for more than asking, then you priced it right.

That said, I do have some tips that will help you arrive at that magic number:

1. Grab Comparables

The best way to predict what price your property will fetch is to see what similar properties (comparables) sold for. But that's easier said than done. Every house is unique, so even though two houses can have the same square footage, number of bedrooms, and acreage, they just aren't the same. House A might have older trees and more shade than the very similar House B. House B might have drop-dead gorgeous granite counters in the kitchen, while House A has laminate.

Your challenge is to find sales of properties that, as nearly as possible, compare to yours. Here are variables to consider:

- **Location:** Ideally, you want to find sales within a half-mile radius of your property, but don't go by distance alone. Also consider if your house is closer/farther away from a highway or has a better/worse view than a nearby comp. This will definitely affect value.
- **Age:** Compare homes of the same vintage. If your 3,200-square-foot home is five years old, don't compare it to a 3,200-square-foot home that is fifty years old. If you own a two-bedroom condo, don't compare it to a two-bedroom single-family house.
- **Recent sales:** The more recent the sale, the more valuable the comparable will be in setting the price of your home. Sales in the last six months are okay; sales in the last three months are better.
- **Soft features:** This is where you must trust your gut in pricing your home. Some variables, like curb appeal, nearby shopping, community spirit, and noise are hard to quantify, but will affect your home's value.

When selecting comparable properties, avoid considering distressed properties —foreclosures, short sales, and ugly homes. These bargain properties often sell at a 5% to 10% discount and aren't good indicators of your home's worth.

2. Think About Market Trends

When you look at comparable prices, you should also glance at how many days a property stayed on the market before a sale. You want your home to sell quickly, not eventually. And "days on market" can indicate whether your local market is hot (or not).

If nearby homes are disappearing overnight, then you're in a seller's market that could justify an optimistic price. If houses are taking months to sell, then you're likely in a buyer's market and setting a price slightly below your competition could give you a big advantage.

3. Consider Online Listing Services

Online sites, like Zillow and Realtor.com, create algorithms that essentially gather data from past, comparable sales and derive a "guesstimate" for your house. This is a ballpark number that merely crunches numbers. Zillow doesn't know how your house will show or that your bathroom tile is to die for — details that will affect the value of your home. This is why online estimates should be one more factor to consider, not the last word on price.

4. Hire an Appraiser

If you're stumped on what your home is worth, throw some money at the problem and hire an appraiser. For less than $500, an appraiser will view your property, pull comparables, take pictures, and offer an opinion of what your home is worth. An appraiser can often see things in your home that can add or subtract value.

Ultimately, an appraiser will weigh in on the value of your home. When a buyer emerges, his lender will send an appraiser to make sure the property is worth at least its mortgage.

MORE REASONS YOU SHOULD BRING ME ON AS PART OF YOUR TEAM

As you've learned from reading through this book, selling a house or renting your property for the best price in a timely fashion — especially for more money — is more complicated than most people think. Consider the following reasons to consider hiring a quality Realtor®, such as myself:

Reason #1: I can sell homes for more money.

In fact, most sellers net more money in their pocket, even after they pay the agent's commission. The average home sold by an agent sells for $230,000, while the average FSBO (For Sale By Owner) home sells for $184,000. That doesn't mean every agent can sell your home for more, but many sellers actually make more money hiring a real estate agent to sell their home.

Here are a couple of real-life examples:

Brandon had his flip on the market for $220,000 and wasn't getting much activity. The buyers who did look at it were not serious and made lowball offers. Then he listed his home with an agent for $240,000. Three weeks later, he received an offer from a buyer willing to pay full price. He ended up with more money in his pocket, even after paying the agent's commission.

Jimmy and Kaye had their property on the market for $380,000.

It wasn't selling. After a few months, they hired a real estate agent and increased the price to $420,000. A few months later, the home sold for $408,000. As in the first example, they made more money, even after paying the agent's commission.

In most cases, the agent worth their salt can sell the home for more money than the seller could sell it for on their own. I personally do this by conducting a market analysis so your property's priced realistically, make sure your property's presented in the right light, and post the listing in all the right places, including the MLS.

Reason #2: The whole process is easier when you hire a real estate agent.

One of the reasons that the process is easier is because I'm an expert at marketing. I'll make sure enticing photos and copy are used to pique buyers' or renters' curiosity and interest, and I'll use a variety of marketing techniques that are unique to your property to ensure we reach the right people.

Of course, the marketing's just the first step in what quickly becomes a complicated, detail-filled transaction process once you've got an interested party. Recently, I talked to a title company manager who handles both FSBO closings and real estate agent closings. He told me that when an FSBO sells their home, it takes about 30 to 45 days for the two parties to sign off on the contract. Sometimes, they don't sign it until they sit down for the closing. When a property is sold by a real estate agent, however, the sales contract is usually signed in 45 *hours* — not days!

Why does this matter to you? Have you ever heard of buyer's remorse? It's what happens when a buyer decides to buy your home, then immediately begins questioning their decision — even if it was a good decision. I've seen buyers get buyer's remorse when they were getting a steal on a home. Sometimes they "freak out" and change their mind. Of course, this can be true for renting or wholesaling, as well.

If you have a signed contract, you can hold them to it. If not, they might walk away, and you'll have to sell your home all over again.

This isn't to say that you can't sell your home yourself. But unless you've sold a lot of homes yourself, you probably aren't set up as well as a professional real estate agent is. I'll take care of all the paperwork for you, and you can rest easy knowing it'll be done both quickly and correctly.

Reason #3: A good real estate agent can save 80 to 100 hours of your time and get more money in your pocket.

We handle all the work for you. We're experts at financing, loan conditions, home inspections, surveys, title work, termite inspections, appraisals, negotiating, marketing, finding the right buyers or renters, and connecting you with all the professionals you'll need along the way.

Some people have estimated that an agent does 189 to 213 different things to sell a home, depending on the property. Selling a property takes a lot of time, and there are plenty of other aspects of your real estate business where your time could be better spent. Do you really want to be chasing down surveys, handling inspections, or sitting in open houses? Remember, your time is often as valuable as your money.

And if rental properties are part of or all of your business, I can help with those, too. Whether you're looking at commercial or residential properties, or both, I know what factors to look for to make sure you're making a good investment.

Often, I know about great properties before they hit the market,

which can help you avoid bidding wars and get a great deal. Of course, whenever I come across a property I think would be good for you, I'll let you know, including all the details about the property itself, the potential After Repair Value (ARV), where applicable, and the profit I think it'll bring you.

And if you find a property you want me to look into, I'll do that, too. If I think it's good, I'll let you know, but I'll also be completely honest if I think it's not right. I'm here to help you gain as much real estate investment success as possible.

Reason #4: I know the area.

When it comes to investment properties, it's important to be able to think outside the box, which is why having someone who's an expert on what's going on in your location can be extremely helpful. I know what specific areas are good, I'm aware of what the market's doing, I keep up with land development and businesses moving to or from the area. Things change all the time, and I'm able to remain aware of all the different aspects so that you don't have to, and I can fill you in whenever you like.

Also, not only will I run the current comps, but I'll also run an analysis for what's likely to be happening when you're ready to sell or rent. This means you'll have a clearer picture of what your profit will likely be.

Reason #5: I solve problems.

Before I get into more details on this, I want to share an old story with you:

A huge steamship boiler system wasn't working properly. The steamship captain hired a top boiler expert to fix it. The expert asked a few questions and inspected the boiler room. He looked at the pipes that twisted and turned every which way and listened to the boiler and all the machinery. Then he reached into his tools and grabbed a small hammer. He gently tapped one valve and — voilà! — the problem was fixed. He sent a bill for $1,000 to the steamship's owner.

When the owner saw the $1,000 invoice, he was as mad as a hornet! He called the expert and confronted him about the bill. "You were only there for 15 minutes! How dare you charge me $1,000!" he exclaimed. The expert agreed to send a new bill, which arrived the next day.

The bill was itemized as follows:

Tapping the valve: *$.50*
Knowing where to tap: *$999.50*
Total: *$1,000.00*

Specialized knowledge is one of the most valuable resources in the world. Fortunately for you, I have specialized knowledge. I know how to sell properties more quickly and for more money, and I also know how to help you with rental properties and wholesaling transactions. I know precisely where to "tap the valve" and solve any problems that could arise.

This is the most important thing a real estate agent can do for you. After all, just because a buyer is interested in your house doesn't necessarily mean they'll be able to complete the purchase.

For example, a flipper put her home on the market, and the perfect buyer came along and made a full-price offer. The flipper and the buyer signed a contract, but it ultimately had to be canceled when the buyer ran into a problem with financing.

The flipper told the story to an agent. It turns out the financing problem would have been easily solved, but the flipper didn't known how to solve it, so the sale had fallen flat.

Unfortunately, the flipper had to put the home back on the market, and it took another five months to sell. The flipper had to pay an additional five months' worth of mortgage payments, property taxes, and homeowner's insurance premiums. In addition, she had to maintain the lawn, pay the electric bill, and take care of the property while it sat on the market. That's a lot of money going into holding costs instead of into her pocket!

You've probably spent many hours becoming skilled and developing specialized knowledge in your own profession. An outsider might look at what you do for a living and think it's easy. But you *know* it's not. The same goes for working as a real estate agent.

Reason #6: I'll help you build your team.

This includes all the professionals I listed in the previous chapter, plus other specialists, such as electricians, HVAC companies, and more. Sometimes, because of my strong relationships, I can even pass on some special discounts to my clients.

When you're ready to have me do all the work required to sell or rent your property, please contact me. I'll help you take the first crucial step: determining your property's true value. With that number in hand, we'll be ready to talk about listing and selling or renting your home, and you'll be able to make well-informed decisions.

If you're already in the investment business, you're probably fairly savvy about real estate in general. But regardless of whether you're new to the game or have been in for a while, I can be part of your team, an expert advisor who can ultimately save you money, time, and hassle so you can focus on everything else.

So, run the numbers and consider the valuable insight I've shared with you. And when you're ready to hire a highly skilled, professional real estate agent, give me a call. The next page has all my contact information. I look forward to helping you grow your business!

Here's How You Can Get Free Professional-Quality Pictures to Market Your Home

Most buyers "view" your home for the first time when they see it online. The pictures they see form their "first impression" of your home. As you know, first impressions matter!

This is why professional-quality pictures are so important to your sale. If the buyers like your home — based on the pictures they see online — they are more likely to schedule a showing.

But, if they don't like them, they are less likely to schedule a showing — and, that's a potential buyer you miss out on.

Because pictures are so important, I'm offering to take free professional-quality photos of your home. You can use these pictures to market your home for sale by owner. This is 100% free with no obligation — provided you only use them to market your home by owner.

Now, I'm sure you're thinking, "Why would a Realtor offer me this for free? It doesn't make any sense."

Here's why. It's like when you go to the grocery store and someone offers you free samples. They give you the food samples, whether or not you buy more food from them. That's why I'm giving away the pictures. They are a free sample of what I can do to sell your home.

So, if you'd like free professional-quality photos of your home, give me a call.

We'll schedule a time that works for both of us for me to come and take pictures of your home. I look forward to helping you!

Best Regards,

Dave Bedient
Walzel Properties LLC
dave.bedient@gmail.com
832-867-0500

Testimonials & Reviews

Here's a list of people whom I have helped buy or sell a home, and what they said about working with me:

Thomas A
"David Bedient was the best choice I could have made. He made finding and purchasing a home for me and my family trouble free. David was extremely knowledgeable about the area I was interested in willing to go the extra mile for me always in phone contact emailing me and answering any questions that I may have had and keeping me up-to-date on the process. David is very professional and knowledgeable. He would be a great choice for anyone looking for a home."

Feliphe G
David was everything I was looking for in a realtor when buying my first house. He made the process seem much less intimidating and confusing. The Mortgage specialist that is on his team helped to increase my credit score and put me into a first time home buyer program.

Connie W
David has exceptional customer service! I am a landlord of a rent house and he has picked out some very good tenants for me more than once. I would highly recommend him to anyone that is looking to rent or buy a house!

Rene O.
I found David from one of his car signs; he has branded himself "The Specialist, not just a realtor. He sure lived up to that title, from the presale, to the inspection, to the Appraisal and to the closing table. He educated us of the process and answered all our crazy questions and sometimes our late timing. He never made

We'll schedule a time that works for both of us for me to come and take pictures of your home. I look forward to helping you!

Best Regards,

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us feel like we were bothering him. We are so happy with our new home and the help and education he gave us.

Richard W.
David has negotiated 2 residential moves for me in recent years with excellent results on both occasions. He's a great realtor who understands both his client's needs and the market trends. If you want the best deal at below market pricing, give David a call. You'll be glad you did.

Stephen B.
David did an incredible job of getting our property sold. There were several obstacles that had to be overcome in order to get the house approved for sale. I am thankful that David was our realtor and I'd recommend him to anyone.

Norma G.
Always available to answer questions & share information.

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