A few people have asked me to start a Q & A thread about REI. Well, here it is.

I've been investing in RE for about 15 years. My father, stepfather, and uncle were all RE investors. Over the years I've done a little of everything. I've owned retail, warehouses, large and small residential rental properties, and rooming houses. I've subdivided land, had properties rezoned, moved houses, developed land, bought and sold and brokered RE notes, and just about everything else.

I consider myself a buy and hold investor. Generally I don't flip and I don't really like to sell my properties unless I'm selling to move up to a larger investment.

My primary investment type is in low income housing. I work closely with my local housing authority and other community service organizations. I own 48 apartment units, 4 single family homes, 3 duplexes, and one rooming house. I also own two mobile home parks - about 80 lots total. I employ one full time manager, two part time managers, and I contract cleaning and lawn care services with local companies. I'm also developing a manufactured housing subdivision. Right now I work about 18 to 20 hours per week.

Well, I'm not sure if anyone will have any questions or not. Perhaps people have questions but don't know what to ask. Here are some general RE topics that I could respond to:

Where to find the money for investments, or how much do you need to start?
Estimating expenses
Due diligence
Buying property for 20% under fair market value
comparing like investments
hard money loans
buying, selling, and creating paper
Insurance issues
investment criteria, cap rates, cash on cash returns, how to manipulate ROI
Cash flow
Literature
Lease options
mobile home parks
credit issues
finding & screening tenants, including fair housing issues
Section 8
negotiating purchases
finding deals
dealing with tenants
land banking

Please don't ask me about taxes. Taxes are too difficult to cover in this forum. If you are interested to know more about taxes I highly recommend that you buy the book "Aggressive Tax Avoidance for RE investors" by John Reed.

I recommend that you buy a financial calculator. they cost about $15 at WalMart. Every investor should have a financial calculator.

something that a lot of people don't really understand about REI is that its not really about properties at all. Lots of people think that location is the most important part of REI. Its not. To paraphrase Donald Trump, buying the best locations and best properties won't make you successful in REI. Making the best deals makes you successful. Gorgeous properties in great locations are expensive, have negative cash flows, and will show small or 0% returns over time.

What I look for is properties that other investors won't touch - rooming houses, run down apt complexes, half empty mobile home parks, that kind of thing. These are the properties that 1) are inexpensive and show decent returns over time as is, and more importantly 2) the investor can add significant value to by increasing the bottom line.

What I want to do is buy a property that is underperforming due to bad management. I then transform the property by improving management, making improvements, increasing rents, filling the property, and lowering expenses. Remember that at a 10% cap rate, each additional dollar netted is equal to $10 in additional equity. So finding properties where we can add significant value is important to getting rich in REI.

I'm getting tired right now, so I'm going to stop typing. I hope that this thread can help people get a better understanding of REI. I don't know everything about REI. But I know a little about a lot of areas of RE investing.

General

what kind of houses should you look to flip (i know u said thats not ur think) but just wondering do u know anything about it, and is this the worst time to try flipping with thw way the market is now?

I'll start this answer by clarifying an absolutely FUNDAMENTAL issue in REI. RE investors do not make money over time. Well, they do, but that is not normally the primary focus. Successful RE investors make money when they BUY properties. You do that by buying for less than the fair market value of the property, OR by buying properties for fair market value and adding additional value to those properties.

For anyone that doesnt' know, 'flipping' a house is the process of buying a property for realy cheap, fixing it, and reselling it at a profit. This works because normally houses that can be bought really cheap need some significant amount of work in order to be resold at any reasonable price. What is a signifcant amount of work? Well, normally flippers need to have some fundamental issue - foundation problems, termites, structural problems including roof, water damage, mold issues, etc. Those fundamental problems make the property essentially unsaleable.

Theoretically the idea is to find properties that are in poor condition, but where market OVERVALUES the cost of the renovations. That way you can make renovations and there is still room for profit. Obviously flipping hinges on the ability of the flipper to resell the property later on.

The best time to be a house flipper is the time at which there are lots of motivated sellers trying to get rid of properties. That time is now. I know what you're thinking - the market is real slow, i'll never sell my property. Not true. Granted, you may have to hold the property longer than you expected. But you will sell it. Just be sure to factor that longer holding period into your purchase price.

Many successful RE investors make a business out of 'flipping' properties to themselves. They buy and fix, but rather than selling they refinance and rent. IMO, this is the best way to make money in RE. This is essentially what I do, just on larger properties like apartment complexes and mobile home parks

I understand that low income neighborhoods provide the best cash flow but do you ever draw a line on a neighborhood being too rough? Would you typically shade away from areas that wouldn’t be the safest places to walk around at night? When looking at said neighborhoods do you look at the potential growth of the area and future appreciation gains?

You're right - low income neighborhoods do provide the best cash flows. As to a neighborhood being too rough...I dunno. I've never rejected an investment because the neighborhood is too rough. Look, being a successful RE investor is very much about solving problems and being creative. If you find a killer deal in a very rough neighborhood, you gotta figure out how to solve that problem (which is likely why the seller is giving you such a great deal to begin with).

So what might you do to solve the rough neighborhood problem? Well, you could carry a nonconcealed fire arm. You could also hire a uniformed off duty police officer to escort you on rent collections [note that in low income housing many of your tenants won't have bank accounts and cars so rent collections will have to be done in person and in cash].

I do consider the growth potential of areas as an aside when I analyze properties. However, my primary objective in REI is to buy income producing real estate. Potential growth and projected appreciation and stuff like that is all too esoteric for me. I prefer to make my money each month in cash and force appreciation by increasing the bottom line.

That reminds me. Appreciation works differently for commerical property and residential property. Residential property (i.e., anything less than 4 units) is normally appraised based on comparable sales. Commerical property is appraised based on income, (i.e., cap rates, COCR, gross rent multipliers, etc). There are sometimes anolmalous situations where the commerical property market gets crazy and income/price ratios are insanely out of whack.

Also I know it is crucial in REI to buy properties at under 30% of FMV but it just seems so hard to do. Obviously one isn't going to stumble upon such places in the MLS system or loopnet. What motivates these sellers to sell their properties at such a discount and what would be the first step you take in finding them?

Yes, it is hard. Thats why most people who start in REI get so sick of the meager returns and hard work and give up. As to seller's motivations, I've given up trying to understand them. The most common things that I see in motivated sellers are: people moving out of area, people retiring, people SICK of their tenants, problems w/ the property, lack of capital for improvements, bankruptcy.

The best way that I'm aware of to buy property for less than FMV is to know other investors. Joining an REI club is so crucial to success in REI. At my club the first 10 minutes of each meeting are devoted solely to people annoucing deals that they have avaiable for sale. At last night's meeting I must have heard about 20 properties for sale well at 30% OR MORE below FMV. Sometimes the seller is a wholesaler and just wants to make a few bucks on flipping a contract. Sometimes its a seller that bought the house to flip and got caught up in other deals. Sometimes its a guy retiring that wants to get rid of his properties.

I've built up a reputation. People in my area know what I'll buy and the kind of returns I expect. They also know that I'm experienced enough and have the kind of relationships to make deals fast and painless.

After getting my first rental house and showing success in that, what is the next step? investing in a duplex or a similar low multi unit property? where along the line are you ready to jump into apt complexes and big multi unit properties. when should you consider getting a property manager?

Well, that is hard to say. I think that the only thing holding anyone back from commerical properties is money. If you are pretty comfortable with risk and you understand financial analysis of RE and you understand due diligence, and you have the money....why wait?

I guess I don't really see how owning a single family home rental and a duplex and a fourplex and an eightplex and a twentyplex and a 100plex are that much different. IMO, the only real difference is that in large properties you have to deal with stuff like laundry facilities and parking lots. Otherwise, basically the same in terms of operations, just more bodies.

Obviously large properties take more time to manage. But one of the really great things about large properties is that you can hire a full time manager to deal w/ all the tenants and problems.

However, I do think that one should spend a few years managing their own properties. I feel that regular contact with tenants in the early years can give you a good idea of what they're like and the kind of things that they want. You get to know your market. YOu also get used to the eviction process and landlord tenant laws. If nothing else it'll help later on when you want to hire someone else - you'll know what experience is important in a manager

Spex, how about a seriously open-ended and completely vague question?

Suppose you are 23, a few months out of school, living in the northeast. You have a reasonably well-paying job and would like your poker earnings to go into real estate. Say you have ~30K for a possible RE investment. What kind of property would you purchase?

Note: I know virtually nothing about RE and plan on reading up over the course of the year. I anticipate making a move in RE next winter.

If I had $30k and I was just starting out, I'd start by focusing on mobile homes. I've got a young guy in that works my mobile home parks. He buys the homes for wholesale - maybe $2500 or less. He does minimal repairs to them. He then sells them on a note for the retail price - maybe $6000 to $20,000 depending on the home. Usually he charges 13%+ interest on his notes. When I was starting out, nobody ever thought of financing mobile homes a way to quickly increase your cash for investment, otherwise I would have done that.

Ok, so creating mobile home notes is not exactly real estate investing. But its a good way to take $30k and turn it into 100k in just a few years. During that period you can learn more about REI and decide what you'd like to do with your bankroll. It will also give you a pretty good idea of what being a landlord is like even though technically if you sell a MH on a note you are not renting the home. I think that you're drawing from the same basic population though.

Hi Spex,

Are your investments all within driving distance of where you live? If so, where do you live? I'm in San Jose, CA where the average price of a single family home is around 600k. (The prices haven't dropped too much in silicon valley)

That makes it a bit hard to invest as a new RE investor needs a bit of capitol. I know there are ways around this and it's possible to use other peoples money, but it's still tough to get in.

I currently have a few rentals out of state, 3 SFH's and 2 duplexes. I plan to sell them in a few years and get into a small apartment complex. Something like 30 units or so, probably out of state as well.

Do you have any recommendations on out of state RE investing? Where to invest?

Yes, all of my investments are within driving distance of me. I don't invest out of state because I can find enough deals in my area. All my properties are within a few hours drive.

This is what I am trying to get started doing. I'm in SoCal where the prices are dropping steadily, but prices are still too high to yield a positive cash flow.

I really do not want to miss out on this buying period, but I can't see the sense of acquiring several properties with negative cash flow.

What would you recommend in this situation?

The idea is to buy properties for less than market value or to buy properties where you can add value.

What you're proposing is buying properties for market value just because the market value is lower than it was a year ago.

I assume that you're hoping that the value will increase rapidly in the near future. But how do you know that the values will increase? You don't. Apparently it hasn't occured to you that a year ago the prices might have been so inflated that they won't reach those heights again for many years. So here is my question for you: What is your plan if the property doesn't appreciate at all for 5 years? What will your ROI be? That scenario is very possible.

If you are serious about getting into REI, I'd recommend that you move to an area where you can get started with just a little money, or you get some money an start investing out of state

I am a college student and plan on living in the area for the next 2-3 years... How much cash would I need up front to purchase a 150k 3 bedroom condo and live in it/ rent it out to two other people, then once I move out I will continue to rent it out

I am 21, will it be impossible for me to get a loan, so basically the answer is 150k?
Not necessarily. If you've got 20% to put down and a reasonably credit score you might be able to get a no doc or low doc loan.

I was asking about this in another thread, and it was thremp who told me that my parents could not cosign since they weren't living in it, he seems to be more knowledgable about this stuff then me, but just wanted to make sure
Ask your banker. His opinion is the only one that matters. As far as I'm aware your parents can cosign a loan. But I don't really know for sure.

are there any other options for me to raise the necessary funds, I figure I could max out on student loans....
mmmm....I THINK that its illegal to invest student loan proceeds. Not that you have a huge chance of getting caught or anything. Maybe some of the other posters would have more info on this.

basically I am interested in doing this, and I am just trying to learn how possible/impossible this would be for me.... thanks
I, like Tien and StephenNUTs, think that condos are a poor investment as a rental. Condos don't normally cash flow. Also, you don't have any control over maintenance fees. My brother lives in DC and recently sold one of his three condos. Luckily for him a few weeks after closing the condo fee went up to $1,000 per month! That'll put a damper on your cash flow quickly. Normally condos are governed by a volunteer board that makes all financial and property management decisions for the facility. I've found that as a general rule volunteer boards of nonexperts tend to be incompetent, petty, arrogant, and short-sighted. Dealing with volunteer boards is part of REI. But I would never put so much of my investment into the hands of a volunteer board as you would have to in a condo.

Just my two cents

hese questions are primarily regarding commercial properties if you are taking those type of questions:

spex,
As far as condos go, I figured it might not have as big of a chance for profitablitly, but I don't have to worry about anything like needing a new roof, leaky pipe etc. Maintenence fees I view as kind of an insurance policy when with a condo... instead of probably paying 150 dollars a month or maybe paying 1k for a few months, I could just consistintly pay 250 a month... PLUS I don't have to deal with the headache of doing maintenence on a home.....

acceptable logic?

Can't you buy a duplex instead or do you live in an area where it must be a condo. A duplex would probably be better. In any case, in any investment I think that you have to look at your overall financial picture. I think that your plan will only be valueable if you take the money that you otherwise would've spent on rent and invest it elsewhere. That way you come out ahead even if you only break even on the condo over 5 years. But as a pure RE investment (i.e., considering only the income from rents), this would not be a deal IMO.

Do you think your RE investments would beat a buy-and-hold investment portfolio over your career if you instead made $25 an hour playing poker those hours you searched for deal and managed properties and just invested the money in passive investments?

Yes, I'm sure that my returns would kill that scenario. For instance, I bought a half full mobile home park for 12% cap rate and a 27% COCR at its current income. I then filled the other half of the park using other people's money. It took about a year to do working a few hours a week. AT $240 lot rent and 35% expenses, filling those spots increased my monthly cash flow by about $3,000 PLUS I get a peice of the notes on the homes PLUS another $300,000 in additional equity. I did that in one year (a good year, granted).

Then the next year I installed individual water meters at a cost of about $15,000. That increased my bottom line by about $800 per month (64% COCR) PLUS an additional 80k in equity.

Also, any management work I do is because I want to. I also do some of my own renovations and stuff as a hobby. I have managers that do the majority if day to day operations. A lot of my working hours are spent on bookkeeping and stuff, and looking at new deals takes up a lot of time.

What are the most serious and most common risks of RE investments and how do you minimize them?

Underestimating expenses by far. The best way to combat this is to get good realistic numbers from the seller. Also, you have to have an idea of what expenses you should be seeing on the paperwork. So education is important too.

Do you have other investments other than RE to balance market risks?

Yes. I have money in mutual funds. I also own a few position in local small businesses.

How do you see RE investment strategies going forward? Will taxes and gov. regulation continue to decrease profits or will RE be more attractive than a passive stock market strategy?

ick, very very tough question. I just don't really know. I can tell you this though: Government regulation and compliance is getting ridiculous. Taxes will always have an impact on REI. However, I feel that every investment type has these same risks.

If you want to comp REI w/ stock investing, I can't really help you. I don't understand stock investing at all. However, based on what I've read on this forum (and most of it I just don't understand), I can say that stock investing seems a lot harder than REI. REI is pretty easy if you're willing to learn and think creatively.

spex,

thanks alot for your help and time in responding to me.... just because of 250 dollars a month (and minus some money in other expenses) this would be a bad investment?

$250 negative cash flow less expenses is a bad investment. That is exactly what I'm saying.

The GP compensation I was referring to was if you raised money from limiteds to invest with your philosophy, what do you think would be fair percentages of cash flow and gain on sale for you to take? You may not want partners, but with your knowledge, track record and investment niche I bet their are lots of people who realize they can't do what you do but would probably love to do it with you.

I dunno, there are just too many variables. It depends a lot on the project in question, my track record aside. Part of the reason that I've never taken well to working with partners is that the stuff I buy most RE investors - particularly those that would be LP candidates (money w/o knowledge to make the deal themselves) - are not keen to invest in. They think that its too risky and expect returns that leave me with little to stick in my own pocket.

Another reason that I don't think I could be pinned down is that it really depends on how badly I need the LPs money. My philosophy has always been that I only need enough money to get the things that I want. I'm not like Donald Trump that likes to get richer just for the challenge. So taking doing stuff like taking LPs and whatever might make me richer, but it won't really improve my life too much. So it comes down to that I just don't really need the money. I've got enough to take advantage of opportunities as the arise and I'd hate to give up a piece of that to LPs.

Spex,

Now I'm heavily involved (about 75% of my net worth) in high yielding Trust Deed loans out west that pay 12-16% and are secured by the value of the property. Our LTV's are a very conservative 40-50%. I've figured out that being strictly an investor has been the better option for me in real estate.

With that in mind what do you think some other avenues for me are with REI that doesn't involve me owning any property. I'm looking for a MINIMUM 10%+ annual yield, as anything less I'm better off investing in the stuff I'm already in.

There are a few avenues that you could pursue. First, when you say you're Trust Deed loans, that emcompasses several things. I think that we've kinda talked about this in the past and you said that these loans were on new construction buying the paper from developers? Is that right?

Anyway, you could expand that into buying more and different types of RE paper - like specifically discounted notes. Now, I can say that it is difficult to find quality RE paper. But if you get plugged into some note brokers the offers will come to you. Check out www.noteworthyusa.com for more information. Honestly, I'm a relative noob when it comes to paper and I've only done a few deals.

Another thing that you could do is start loaning hard money to house flippers. The hard money lenders that I'm aware of make about 20% on their cash. As a lender I think you'll have to jump through some hoops to get started - like state and federal red tape. If you're not into the red tape thing, I'm POSITIVE that if you go to an REI club meeting, stand up and say, "I've got private money to lend as a limited partner or mortgage holder" you'll get plenty of action for a 10% yield. Obv you don't want to tell people that you only need a 10% yield though

The trust deeds we do are for high interest refi's, rehab, and land development. Most of the residential loans I do are for mostly people that have in some way fallen on hard times (spouse,mother, etc dying or something like that) and need to refi to get some cash and to pay off creditors while they get back on their feet. Most of the commercial loans we do are to RE developers who have tons of money but perhaps aren't liquid or simply don't want to use their own money for one reason or the other.

I'm not sure really how this differs from what you consider HML but it's by far the best passive investment I've come across. I'm just curious what else is out there. I also recently attended a tax lien certificate auction last week where the yield was 15% on holding the lien. Unfortunately there

was a pro bidder there that outbid me on all but a few properties, but I think there's some potential there.

As far as the MH idea, yeah I'm aware that it might be more hands on, but I think the profit margins are probably going to be the highest here on the flip vs a sf house. More importantly though I would be in it to hold the note at a ridiculous interest rate.

Well, other than trying to find reliable a reliable general partner to do flips with I'm out of ideas. I forgot about tax lien certificates b/c we don't have them in my state.

One idea I came accross recently on creonline.com is buying mechanic's liens:
http://www.creonline.com/articles/art-045.html

It looked interesting and I bought the guy's book to see what he has to say. Got it yesterday. I also talked to my lawyer and he said "gotta tell you buddy...thats the best idea i've heard for a while." Well, he's a lawyer so what does he know? He did sit on the legislature when the machanic's liens laws were revised a few years ago, so I'm taking his word for it. We'll see where it goes.

Oh yeah, it just occured to me that there is a group - maybe Mobile Home University or the Mobile HOme Park STore that works with money investors to hook them up with reliable hands on MH park operators to purchase parks. I don't know what the yields are on that type of thing exactly, but it might be worth looking into in your situation

Awesome thread, thank you for starting it.

Could you talk about your first real estate investment? (What was your age? How much money did you have? What kind of experience or knowledge did you have at that point? Etc.)

Did you have a "regular" job before you started REI? If so, how long did you continue the job while doing REI? How did you manage your time between job and REI?

Any advice on finding a local real estate investing club to join? Google didn't seem too useful, but I haven't dug too deep yet.

Thank you!

My first property was a real old historic house in a college town. the house had been divided into a triplex and then later converted into a duplex. But there were still 3 elect and gas meters and 3 water mains. It had a nice three car garage with 220 electric service - so it was more like a shop.

My wife and I moved into one the downstairs unit and started renovating the upstairs. I figured that all renovations would take about 2 months. they ended up taking a year all told. oops.

Anyway, we renovated the upstairs and them moved up. then we renovated the downstairs. I can't remember the total cost of renovations, but they weren't too high because I didn't consider the value of my time - only materials. Part of the reason that it took so long is that I didn't really know what I was doing so I had to do just about everything twice - the wrong way then the right way. Luckily my neighbor was a carpenter and was sympathetic, so he helped me a lot. Great guy, and we're still friends today.

When I finally got all renovations done, I started advertising the bottom for rent. Nobody called for weeks. I looked in the paper and saw that there were about 20 similar units for rent, all for my same price range. However, we hadn't yet renovated the outside of the house, so it looked really rough from the outside and I'm sure that that killed me.

the problem was that I couldn't lower the rent because I didn't have any room cash flow wise. I didn't know what to do. I hadn't lived in town very long and we didn't really know anyone that I could talk to about my situation. Then my wife, who was a social worker at the time said, 'hey, my agency has a hard time finding rooms for lots of our clients and those guys have to live in hotels...maybe we could try to rent by the room'. Thats what we did.

At the time, I could rent the downstairs for about $550/month and the upstairs for $325/month and the shop for maybe $100/month. We were pretty much breaking even on the house or maybe making a small cash flow becausee we paid too much for it. But with some creative thinking we turned it into a rooming house for the mentally ill. We charged 6 tenants $250 each and utilities were included and rented the shop for $100. Everyone paid a $100 deposit and three bedrooms shared a kitchen and a bathroom. Everyone was on a month to month lease to give us maximum control. We still own that property today more out of nostalgia and as a reminder to me that with some creative thinking you can turn a mistake into an opportunity. it also has a $800 per month positive cash flow today, which is nice, and because of the neighborhood has appreciated about 7% per year on average.

We bought our first property with no money down on a 100% bank loan. We had good credit and a high income given that we didn't have kids. We found a special program for first time home buyers that allowed us to get in with no money down. I worked my full time job, then came home and renovated the house. On the weekends, I worked. I worked all the time. I sucked at the time, but now I'm glad I did it.

Since this is an ask Spex thread about real estate investing, how did that deal with that owner go? The one with the motel / triplex / mobile home park?

Tien - Since I know that you're a fellow professional RE investor, your comments mean a lot.

As to that MHP/Motel/Apts, I decided to pass. The property had great potential cash flow wise. But I kept coming back to what you pointed out at the time - I just didn't have a good exit strategy. I imagined myself making lots of money in positive cash flow and building lots of equity only to find out 10 years later that no bank will finance the sale of this crazy property and I'd have to sell on less than favorable terms. I mean, really the problem that they current owner has had is that he just can't seem to sell the thing, which is what landed him in the bad spot that he was in. I didn't want that to happen to me so I decided to pass. Hopefully the property will get snapped up by some new investor that is creative enough to get around this problem.

For those who are trying to "flip" - does it ever make sense to bite the bullet and rent the place for a year to ride out a slow market, knowing you are taking a loss per month (again - rent not quite covering the mortgage) sorta like buying a put on a stock for lack of a better analogy.

This is not as easy as it sounds. Most flippers need to churn through a lot of properties to make the monthly nut. So to most flippers selling that property and getting the cash out to use in more deals is of primary importance. I don't think that that strategy is very smart, however.

The other problem is that a lot of the time flipping is done with hard money loans. HMLs are normally short term - 12 months or less. So in order to rent out a property the flipper would have to refinance into a more conventional loan. My feeling is that the best way to make money in REI is to buy distressed properties cheap, fix them, refinance, and rent them. So the short answer to your question is yes, often flippers must refi and rent properties. I see that as smart though rather than as a bad thing

What is your opinion of people who add square footage to a house as part of the flipping game (build for x a square foot - yet neighborhood is worth x+) ?
- Is that getting too much into development as opposed to cash flow collection -

I'm sure that there are situations where adding square footage could be benficial. However, flipping is a time game more than anything. When you're paying 12-15% interest on borrowed money, you want to get the house up and sold ASAP. The hard money will kill all of your profit in a deal so fast if you can't move the property. So there is almost no way that I can see anyone adding square footage to a property in a flip. Thats not to say it doesn't happen though, but my guess is that its pretty rare.

1) What city do you live in and what is the market there? Sinking market?

1a) Are you heavily involved in the foreclosure business? As in, you compile the list, market to the list? I am interested to know how many foreclosures your area has a month and how many people are in that area.

I live near a city of about 2 million and another city of about 250,000. My actual residence is in a city of about 80,000. I live in a college town, so the market has been largely unaffected by the current problems. I believe that we've seen a slight dip in comp sales and inventories are up a bit from last year. The highest end properties are taking it the worst here, but I don't pay much attention to that market segment anyway.

No, i'm not really involved in the foreclosure business at all. Most foreclosures are in small properties and I'm really trying my best not to buy anything less than 10 units. If someone brought me a killer deal I'd probably take it. Otherwise I'm not looking for foreclosures at all.

2) What kind of marketing do you do to find motivated sellers? Do you have a marketing system or is it only referrals?

I don't market. The properties that I find normally come from other investors.

3) How many deals do you do a year on average?

mmm...I"ve been doing one larger deal every three years or so. I am developing that subdivision though, and so I've usually got one of those being put together. I refuse to have a ton of empty inventory though, so I usually try to do only one of those at a time. I sell a good portion of them on lease/options too, and I'm not really keen on having a bunch of lease/option properties. So I try to make sure that I don't have more than 5 or so on lease/options at a time. I want my leasee/optionees to ultimately exercise the options and cash me out. II think that I've been doing maybe 4 or 5 of those manufactured homes like that per year.

4) Are you comfortable with where you are now or are you constantly moving up the ladder in terms of deal size / higher price commercial properties.

Yes, I actually think that I've reached a plateau. I don't think that I'll be able to move much further up without either committing myself to working for many more years and/or taking on partners, neither of which I'm inclined to do. I do deals that are less than $2 million. I don't have much desire to move much beyond that. I make a good living and I'm financially free now, so I don't have much incentive to keep pushing for more and more and more. I think I've said here that I'm already thinking in terms to selling off much of my stuff and moving into more passive investments like notes, etc.

5) Do you deal a lot with commercial properties, i.e. offices / warehouses / retirement homes (I would be very interested in talking more if you have done retirement homes).

I think that I've pretty much decided that residential is my niche. I really like mobile home parks too. I'm not pursueing any other commerical except storage. I've never actually done retirement homes, but I have noticed a few on the market in my area recently that seem like great buys at first glance. I'd consider branching into that area, but I don't really know much about it right now.

spex x,

Great thread. How do you write a note? Do you need to hire a lawyer?

Thanks,

Soh

I wouldn't write a note. I'd find someone that already buys notes and get a copy of his note. You do need a lawyer. Lawyers are a necessary evil in all business. If you use someone else's note you'll want your lawyer to look it over first for any potential problems and to change the note to meet your specific needs.

how can you find out how long a property has been on the market and how much the owner owes on it? is this public information?

For the length of time on the market, ask the realtor.

Can you explain how to go about investing out of state?

What research is necessary to determine which market you will enter?

It depends a little on what you want to do. I'm going to assume that you're investing for income - i.e., you need to get a decent monthly cash flow from the property.

As a general rule, I think that you want to stay off either coasts and the south west. Stick to the areas where property is cheap - the south east, south, midwest, and plains state. Obviously you can't buy yourself a turn around project living out of state.

The specific market that you chose to invest in, IMO, is irrelevant. Personally, I'd rather have blue collar families that stay a while than professionals that will move or buy a house within a year or two. so I'd look for smaller to midsized factory towns like St. Louis, Milwaukee, Cincinatti, maybe even smaller like Topeka or Cedar Rapids or Gary Indiana or Indianapolis. HOnestly if I were considering investing out of state I'd be paying very close attention to Louisiana and Mississippi. Texas is a likely market for income property as well. Ok, that doesn't narrow it down at all....sorry

How do you go about finding agents/contractors/property managers in markets you have no experience or contacts in?

Call around and ask several commercial RE brokers. When 3 or more of them say the same company, thats probably your pick.

I have some questions about how to structure the business.

What form do you use? i.e. S corp, LLC ect.

I own my smaller properties under my personal name. Larger properties are each in separate LLCs. I have an S corp that manages all my properties. I do it this way for tax reasons, which I'd rather not get into here. If you're just starting out I see no reason whatsoever that you need to worry about forming an LLC or anything.

Is it difficult to get financing under a LLC with no financial history?
Yes. The only way that is going to work is if you personally guarantee the loan, and even still, expect to do a little shopping. Like I keep saying, it helps a lot to go to small local lenders because they're a lot more flexible.

How diffcult is it to move a personnel asset to the LLC?

It depends on the asset and the lienholders. If you're talking about RE, you have to get the lienholder's permission to change the name on the deed and the mortgage docs.

How much litigation have you had to deal with in regard to your REI?

I've never been sued by a tenant. I've had several instances where I could've been sued and wasn't. I've been lucky.

how much more expensive is it to build a house than to buy a house (assume that your design is not overly complicated). would it be cheaper now that the housing market is struggling?

Building is almost always more expensive than buying. That is partly because any time building is cheaper than buying, the builders go crazy building as many homes as they can to get that money. I've seen this happen a number of times. The builders just build and build and build. Then half of them go out of business because they flooded the market. Then homes get bought up over time. Then the builder forms a new LLC and builds and builds and builds.

Builders are dumb.

EVerything associated with building a house is expensive. Contractors are expensive. Materials are expensive. Labor is expensive. Permits are expensive. Construction loans are expensive. Everything is expensive. Well, someone has to pay for all that expense. Guess who? You.

In my experience, housing markets put irrationally high values on new construction. I think that buyers believe that a house built with modern construction materials and methods is fundamentally better. I think that is wrong. I figure that if a house has been F 100 years, thats a pretty good indication that it'll stand 100 more years. Besides that, a house is only as good as the person who built it. I've seen friends buy new construction houses that turned out to be hastily and sloppily thrown together, and that will fail over time.

I'm going to give you my situation and would like some feedback. I'm 23 years old, graduating in April, and have intentions of being a property investor with a good friend of mine. We will have no other responsibilities come April, and our plan is to begin by flipping houses, dumping profits into bigger flips. Then once we have a greater working capital we'll have more options. We're just not totally interested in managing property just quite yet.

This sounds like a reasonable plan to me. Another thing that you could do is flip the houses and then refinance and rent. if you buy right and only refi the money you put in back out you'll get wealthy fast. I recommend that you cut you teeth in the landlord biz on some small properties before jumping into anything bigger.

I feel ready to attack a project, except for the area of finances. We are in a totally different situation than the people who these books are aimed towards. Neither of us will have any "taxable" cashflow with which to approach mortgage brokers with, as any money I've made the past 3 years has been from poker. I have ~$350k tied up in mutual funds, and ~$100k liquid cash in money markets put away for the first flip. I would think purchasing the first house to avoid mortgage payments altogether would be optimal, but I would really like to keep that other money put away and "start small" like anyone else would. The last thing I want to do is get ahead of my learning curve just because I have the finances. So in summary, I'm terrified to approach a mortgage broker. I really have no idea how to go about it other than setting up a meeting, dressing nicely, and having documents showing my assets.

Any tips on any other areas would be greatly appreciated.

First of all, why didn't you pay your taxes? If you want my advice, the first thing you should do is get an accountant to figure out your bill for the back taxes and pay up. Its not like the taxes go away - the IRS will just charge you interest. I think that the IRs can't audit taxes more than 7 years back, but still. Pay them.

if you want to flip houses a mortgage broker is not the person you need. You need a hard money lender. you'll need to borrow a portion of the after repaired value of the property. Banks only will want to loan you based on the current value of the property - meaning that you can't borrow the cash for fix up. A hard money lender will give you a portion of the after repaired value of the property, which is what you need.

Second, mortgage brokers are not scary. They make money by finding you loans. You could look like a complete bum and the mortgage broker would try to find you a loan. All he is going to do is send your information to banks to see what they have available for your situation. But don't waste your time because no mortgage broker will be able to close the deal on a flip. Either go to the bank directly or go to a hard money lender.

Having said all that, I'd recommend that with your significant cash assets you do not borrow any expensive money from banks and hard money lenders. Why pay them to give you what you already have? I don't know what your market is like, but $450k should be enough to do plenty of deals. And your returns will destroy the returns from mutual funds. What I would do is pay for one deal with the $100k (depending on the market you're working in - 100k might be enough to do several deals), refinance the 100k back out and rent the property. Then repeat over and over and over and over. Pretty soon you'll be rich.

You wouldn't believe the holding costs on a flip property if you've gotta borrow from a HML. Your expenses would be so low compared to your competitors that you'll have the pick of the litter on the choice properties.

This really surprises me, as it was not mentioned at all in either of the 2 flipping books I read. Both of them recommended finding a good mortgage broker for your "flipping team", as opposed to a bank.. and they never mentioned anything about a hard money lender. I was under the impression that I would be in talks with a mortgage broker for a pre-approval letter and to discuss mortgage options on my price range.. then as I found a potential flip I could make an offer, and upon succession I would put ~10-20% down, have a mortgage for the rest, and pay for the renovation and carrying costs with the rest of the cash I have. If this is not the case, I need to do some wikipedia'ing on hard money lenders..

Oh sure, I see what you're saying. Yeah, you could get a bank loan for whatever the purchase price is and then use your own funds for rehab. I had it in my mind that you wanted to borrow the fix up money as well. You probably wouldn't use a hard money lender unless you had to, which you don't. But you don't really need to use a bank either. I mean, the closing costs alone with all the bank fees, etc. will be a huge drain on your profit margins. If you've got the cash, which you do, you should probably just use all of your own money rather than borrowing. That is just my opinion.

Well I'm a pretty big real estate noob and it is something I want to read up on and educate myself, but I guess I'm a little curious about both. I mean, is the distinction between the two the difference between someone just starting out and if someone with a ton of experience were to start over? Or is there a ton of luck in finding deals in the right place and the right time involved in the "how fast it CAN be done" or does it simply have to do with how much risk you take on? I guess I'm mostly interested in how fast I'm likely to do it keeping in mind I could def throw $100k (or more) into starting out if that sped things up a lot.

Well, if you find the right deals you can make a lot of money very quickly. In my experience most of that money is made in equity. Like I've said in the OP, I'm a buy and hold investor. My strategy is to build equity over time. However, as I've pointed out already in this thread, at a 10% cap rate every $1 in additional income creates $10 in additional equity. So if you can buy the right properties at good prices and create additional income you can generate a lot of money very quickly.

I related the story of how I took a half full mobile home park and increased my monthly income by about $3k per month plus added about $300k in value to the park in one year. I know a guy who did the same thing but he made over $800k over two years on a MHP. Similar things can be done with apartment complexes except usually they aren't quite that profitable.

One strategy for you could be to take your $100k and flip a few houses to build capital. Or you could just buy a smallish apartment complex and reinvest the cash flow. If you only did 3 small deals per year you could probably make a decent middle class living within 3 to 5 years. But over time it gets easier to grow too. AFter 5 or 7 years you'll have significant income from your properties plus significant equity built up. So you can take that money and start looking at commercial properties. Over time it gets to a point where you can't reinvest the money fast enough and you've got to start socking it away in mutual funds and stuff. But it takes time.

RE is not a way to get rich quick. Just like any other investment, the reward is in proportion to the risk involved. Riskier properties pay more. I'm pretty comfortable with that.

I guess I'll bite here since no one else has. So you're suggesting buying the house outright with the 100k refinancing all of it out and then purchasing another place with that money then repeating, correct? Is it easier to refinance out equity rather than getting funding initially?

yeah, you get the idea. Buy *and fix* the property with $100k. I don't know if a refi would be easier than a loan, but I do know that it'll be a lot cheaper. However, my gut says that it should be a bit easier to get the money for a refi here because your refi amount should (if you bought the property right) give the bank a stronger LTV position after the refi compared to the purchase.

Also I know that you are a buy and hold seller but what is your stance on quick flips? If properties do not meet adequate cash flow requirements but can be bought at a discount and profit can be made by flipping the property for FMV are you for it?

I dunno, normally if the property can be bought at a sufficient discount to make a flip profitable, the property could just as profitably be rented at a positive cash flow. but it depends on the market. I'm vaguely aware of some markets where rents are so low and housing prices so high that any hope of positive cash flow is crazy.

I'm not against flipping. I think that flipping is great. Its fine. its not what I do though. First, its too much work for me. Second, there is too much competition. Third, flipping generates income but doesn't really create wealth unless the proceeds are reinvested into something else. As a strategy to build capital its great. But I know guys that have been flipping for many years and none of them are wealthy. Well, a few of them are wealthy, but thats because they flip and reinvest in rentals. I guess that i see flipping as a way to build capital, but not as a long-term way to build wealth.

Farmland may still be the best way to play the real estate market.......at least through this decade.

I'm not really sure what to say about this. Is this a question for me? I know a scattered few people that invest in farm land. I have no idea whatsoever what the appeal is. Of course, I know nothing about farming. If I did, I might feel differently.

I don't have a problem with investing in farm land as long as it is income producing. i guess that renting farm land isn't that much differnt, in theory, than renting apartments or mobile home lots.

The tenor of your post though seemed to indicate that farmland is a good investment because of expected appreciation around the ethanol buzz. On this I disagree. I do not think that its smart to invest in RE primarily for appreciation. mainly that is because I have no control over appreciation. I have control over cash flow. So I invest for cash flow. I recommend that you do too.

Just one short question(probably with a long answer) Why are you talking about buying if instead I could simply build a duplex triplex, condo etc, seems a lot more profitable or not?

Normally building is too expensive to make solid returns on your investment - at least with smaller units. I'm sure that if you can get 20 prime acres and build a 300 unit complex that might be different. I dunno, the prices for new construction in my market are really high. More and more now I'm seeing that builders are building spec duplexes but selling each side individually. Smart.

I've also noticed that there are some modular home companies that are building pre-fab duplexes. I think I even saw a pre-fab fourplex once. I have no idea what they cost though, but I gotta think that its less than stick-built construction.

Out of curiosity, why do you think that building seems more profitable?

Since most people I know prefer building over buying and building seems a lot cheaper of course the bigger the more profitable it comes.
Well, if its profitable its profitable. I mean, if the numbers work then I'd say go for it. I doubt that the numbers will work though.

Building is rarely cheaper than buying. When building becomes cheaper than buying then builders go development crazy and build as much as they can in order to grab the money while they can. Besides, why would any builder in his right mind charge you less money to build a brand new building than it'd cost you to buy an older building? He wouldn't, he'd just raise his prices.

My personal situation is that I want to invest in rentals in student towns. The main criteria that most students have when choosing a property is location (walking distance) to campus, which gives me a smallish radius to work with. I expect the purchase costs to be inflated to reflect that. I know that individual markets vary, but do you think it will be difficult to find a positive cash flow rental by looking at various listings/finding any house with a "for sale" sign and running numbers? How many properties would you expect me to look at under this scenario before finding one that has a positive cashflow?

Well, it depends on your investment criteria. Everyone seems to think that student housing is a cash cow. Its not. From the 'deals' that I see in the college town that I live in, student housing is basically break even or worse cash flow wise, and that does NOT include any professional management, and that DOES include the landlord doing basically all repairs himself. Bascially, student housing is an appreciation play. At least, thats my experience.

So if that description is something that you're interested in, I guess you could probably find lots of deals in student housing. You have to understand that the reason that student housing is so expensive is because there is high demand for it. So if you need to make positive cash flow from student housing, you better be goddam fast, because it'll get snapped up quick if it cash flows.

What is your opinion on renting to students vs single family homes? It seems as though renting separate units within a single home will allow for a higher ROI, though with more likely risk (higher maint costs, possibly higher vacancy or partial vacancy rates, etc).

IMO, renting to families is far better than renting to students. Tenant turnover will be a major expense. The problem with students is that they move every single year. Families will stay longer in one spot on average.

Families have a reputation of being really hard on properties. I don't know about that. All tenants are hard on properties. I bet students are pretty rough on properties too. It's probably a wash.

I'm not sure what you mean by 'renting separate units within a single home'. Renting by the room? If renting rooms is what you mean, then you could be right in certain situations. Rooming houses are a pain sometimes. The vacancy is higher on average, but the cash flow is higher depsite that. The trick with rooming houses is to make sure that you're adding significant cash flow by renting by the room.

Normally in rooming houses the landlord has to pay utilities. that'll jack your expenses. Also, if you're smart you'll have a cleaning person clean common areas every other week. If you don't do that, you're making a major mistake. It'll get nasty fast. Plus you'll have to advertise more often, so that cost will be higher. Overall, my rooming house runs about 60% expenses.

So taking the additional expenses into consideration, you've gotta end up a lot better off than just renting by the apartment.

Any opinions on the quality of CREOnline as a resource?

Excellent. Highly recommended.

Spex, you are providing a great service with this thread!

I was wondering if you could comment on my situation.

I'm a CA resident and poker player, where I rent an apartment. I spend a lot of my time travelling outside of CA, so I am going to purchase a home in Reno NV and establish NV residency to save on state taxes. I plan to purchase a 2 bedroom and rent out 1 room to a friend who will take care of the place when I'm away. I have about 300k in index funds and cash accounts, and the home I plan on purchasing in Reno will be in the 100k - 150k range. I'll be able to get a loan in the range of 5.1 - 5.5% with 10 - 20% down. This was my plan.
This was your response to a question that lefort posed:
This is really interesting, I never considered doing something like this. Is lefort's situation different from mine in that he wouldn't get the same kind of low borrowing rates as me (since I'm buying a primary residence)? Or should I also look into doing something similar?

WEll, I don't know. i took another look at leford's post, and it seemed to me like he was getting into flipping. I was responding to his notion of using borrowed money to do the flips. It wasn't necessary for his situation.

Whether you should go that route is hard for me to say. Do you want to be a landlord? I mean, if you just want someplace to park some money for a decent yield, you could be much more passive about it. You could lend money to flippers instead of flipping yourself. Or you could buy mortgages or something. But if you want to flip and rent, that is not exactly passive.

Another consideration, and something that concerns me about the potential RE investors from this board is that for most pro poker players chasing a $400 rent check is just not worth their time. I can understand that, esp if you make $100/hour or more playing cards. Think long and hard before becoming a landlord. You don't want to half-ass it and become a motivated seller yourself.

I guess that I'm getting the sense from your post that your plan was to buy a personal residence, but when you noticed that you can make a lto of cash in REI you thought maybe you'd give it a shot. Its not as easy as it sounds though. Most professional RE investors that I know work FULL TIME chasing deals, contractors, tenants, buyers, etc. I don't, but I've been lucky.

spex, awesome thread. I am a recent college grad and sometime later this year I'm going to purchase some sort of low income multiplex (probably a 4 unit). I know this is generic but can you come up with a couple examples of what kind of cash flow is attainable when you do some research and find a decent deal. I know this is vague, but I am a total noob.

I think that you're going about this the wrong way. The question isn't what kind of cash flow is attainable, the question is what kind of cash flow you need. You need to figure out what your goals are. Once you do that I can help you analyze what kind of deals you can make to get you what you need out of REI.

Why do I need a realtor? Will she be better at negotiating than me? I don't see the difficulty in

offering a lower price. Are there other factors? Is it a bad idea for me to proceed and put an offer down on a prop which I, a RE noob perceive to be good without a "professional" on my team ?

You don't need a realtor at all. Most realtors are no better at negotiating than anyone else in my experience. If this is your first home purchase, you could either use a realtor or not. You don't really lose anything by having an agent representing you in this deal. It really just comes down to comfort. If you're comfortable doing the transaction w/o a realtor then go ahead and do it. If not, then use a realtor.

In my experience realtors are good for getting all the scheduling associated with a property done - inspectors, closing, etc. But really they're no more than a glorified secretary. As a group realtors don't actually know that much about real estate. Thats because the range of transactions that most realtors have been involved in is very small. As a rule realtors are not encouraged to think creatively to put together deals. In your case, that shouldn't be much of a problem. But I don't think that you really lose anything by not using a realtor unless you don't know the market that well. If you aren't sure of the market, you might use one. Either way, I don't think you'll get hurt too bad.

How old are you, and how long would you say it took you to go from noob to expert?

Well, I grew up in a family of RE investors. My father, uncle, and stepfather were all RE investors and entrepreneurs. So I hit the ground running. None of them were particularly successful, and I learned a lot about what not to do from those three. How long....I dunno. There are a lot of people that know WAY more than me about REI. So believe it or not, I STILL don't feel like much of an expert. I've had more success than some people and less than a lot of other people. But I don't really consider myself any kind of expert.

What are the best and worst decisions you have made in REI?

The first property I ever bought was the worst property I've ever owned. It was an up/down duplex - and 1870s house converted. It took me a year to renovate. After renovation, it had a break even cash flow IF I could rent it, which I couldn't without lowering the rent. At the time it seemed like buying that property was the worst decision that I ever made.

Then my wife came up with a plan for renting by the room to the mentally ill. Doing it that way made us a significant cash flow each month and our rooms were never empty becaue we were the only people the would rent to that population.

That property ended up being my best decision because it taught me more about REI than anything. REI is very much about creative thinking - seeing value where others miss it. That property defined my career in REI and for each new potential purchase, I think long and hard about not only what a property is, but that it could be.

I've never had any huge loss on a property. I've had several break even. I've had a few minor losses. But overall I've been lucky.

What was your initial bankroll??

I think it was about $15,000. I bought my first property w/ no money down and used the $15k to fix the place up.

What are the most common things that suckers do wrong?

Underestimating expenses. By far.

I remember as a small boy asking my Dad how come Greek friend of mine always got walked to school by his Dad. He said it was because the father owned a bunch of properties & didn't have to work.

Thats cool. I always tell noobs that they need to think about what kind of life they want and then figure out whay kind of investments they need to make the have that life. I like that this RE mogul figured out that his ideal life involved walking his kid to school. It rings truer to me than focusing on getting a BMW, wearing designer clothes, and buying huge flat screen TVs. Not that there is anything wrong with those things. But honestly REI - at least the way that I do it - is a lot more of a blue collar job than a white collar job. IMO, its for simple people that will work hard and not judge their tenants. At least that's my experience from knowing other successful RE investors.

Japan's demographics are appalling which means there's not much hope of capital gains plus I face a high turnover of tenants. The fact that it's a buyers market means I also get gouged by the realtors.

Obviously not college town America, but any general tips on retaining tenants & circumscribing realtors?

Are you renting single family homes? If so, have you considered trying lease/options for getting them sold? That works the best for me for getting around realtors and having your property sold for a good price. Also, in the U.S. there are services that will list your house on the MLS for a flat fee ($350-$500) and you act as your own agent. You could try that to avoid nasty realtor's fees. I know a guy that uses RE agents to sell his lease options and he gives the agent whatever option money is collected - usually its about 1% to 2% of the purchase price. But the agent doesn't have to do much either - no paperwork, no closing, to worry about, no advertising, etc.

If you want to retain tenants you have to know what tenants want. My tenants want me to keep my property clean and working and they want me to work with whatever housing assistance program they use. So thats what I do. What do your tenants want? Sorry if that feels generic, but honestly, I know experienced landlords that STILL do not realize that they are offering a service and their tenants are customers. Landlording is just like any other business - if you fulfill the needs of your customers they will be loyal to you.

I teach my managers to stay connected with tenants. Every time a tenant calls the office the manager is to chat with them - find out how their apartment is, if they've had any problems, if they have any suggestions, how their neighbors are, etc. Once in a while if I've got a long term tenant and I want to paint the unit, I'll allow the tenant to pick the color. A lot of my tenants have NEVER been able to pick the color of their interior before. If a tenant has a complaint, my managers fix it immediately. Immediately - as in within one day. Whenever possible the manager personally goes to the unit with the handyman and tells the tenant how much we appreciate them telling us about the problem. I ask my tenants to fill out comment cards that I mail to them. Basically, if you treat your tenants how you'd like to be treated, they will stay loyal. If you are an absentee landlord that doesn't care about anything but the rent checks - as many are - then you'll have a high turn over.

Would home builders be considered "motivated" sellers in general now (maybe in certian areas)? I believe I remember hearing about a large inventory surplus in california

Its funny - I was chatting with a loan officer from Bank of America the other day, and he related this story to me. He has a friend that contracted a company to build him a $230k house. By the time that the house completed, it was only worth $130k. So the guy can't get financing for the $230, bails out on the builder - who is holding the construction loan on the property - and buys the house from he builder for $130k. I'm not sure that the legal ramifications are for this action, but I thought it was funny and kind of disturbing at the same time. Tough luck for the builder. I think that was in Michigan, but I can't remember now.

Do you think it's realistic to expect to make a profit in RE by taking a relatively passive approach? That is, buy properties that are move in ready, and use a management company to rent them out for you?

I think that you could make a profit, yes. In fact, in terms of ROI you can do very well investing like that. You should be aware of a few things first.

1) since you are not making a positive cash flow, any gains will be nonrealized gains. They'll be the result of your tenants paying down your mortgage over time. The property will likely appreciate as well.

2) Since you're investment is highly leveraged, even a normal appreciation rate will juice your ROI. However, there is no guarantee that the property will appreciate. There is also no guarantee that you can rent the property.

3) since you are not making a positive cash flow, you will have to access your nonrealized gains in order to buy more properties. This is relatively expensive compared to reinvesting only the positive cash flow.

A lot of RE investors have gone broke by investing in break even properties. A lot of others have done reasonably well. Any period of extended vacancy or a series of major repairs will not only bring your ROI down to nothing, but you'll also be in serious risk of financial ruin.

You'd be wise to reread the post by Belok in this thread. That poor guy is in a bad situation - and his partner is an experienced house flipper and RE investor. Those guys made more than one mistake. But you know what their biggest mistake was? Buying wrong. plain and simple.

I've seen it happen more times than I care to remember. A prospective RE investor thinks that the world of REI has been waiting for him to show us how REI should be done. Well, we aren't waiting to be shown. I don't know even one successful RE investor that would buy a negative or break even cash flow rental property. Not one. And I know a lot of successful RE investors. The fact is that buying positive cash flow properties is very low risk and offers very high returns.

Ok, now having said all of that stuff, I'll say this. You COULD buy a break even CF property under the following circumstances:

1) you have a bunch of other assets to tap if there is a problem
2) you limit you RE portfolio to only THREE break even properties
2) you limit your RE portfolio to ONE deal every three years
3) you put a MINIMUM of 20% down on each property
4) you KEEP a minimum of 20% equity on each property
5) you NEVER leverage your property to the point where there is a negative cash flow
6) you have a well thought out and developed goals for your RE portfolio
7) you spend a lot of time considering if other more passive investment types would get you to that goal in a similar time frame

If you can limit yourself to small time investing and you've got other sources of income to cover your payments if something goes wrong, I'd say that there is nothing wrong with buying break even property per se. Basically, you want to be able to weather a storm.

I know that it seems impossible that a RE market would collapse, or that you could possibly have 4 of your 8 units vacant for 4 months. But believe me, those things happen. Can you afford to carry the debt on the vacancy? If not, don't invest in a break even property.

This is probably all location specific, but what would you recommend for a first time RE investor just getting broken in? How would this opinion change if the investor has 10k to work with? How about 100k, 500k, or 1MM?

It goes without saying that your options become a lot more limited with a smaller bankroll. If you've only got $10k to work with, I'd say that you need to generate some capital. The best way that I'm aware of to generate lots of capital fast is to sell/finance mobile homes. Depending on where you live, you might be able to flip a house with $10k too. But flipping is a lot more work, a lot more stressful, more competitive, more expensive, and much more risky. So if you've got $10k, I'd just about always say start with mobile homes and spread that $10k out as far as possible into little deals. Then in a few years you'll have the MH income plus a larger bankroll to work with for other stuff.

If you had $50k, I'd still argue that you should start with mobile homes. But in that case, I'd recommend that you only put maybe $20k into the MHs and use the rest to try to find an appreciating asset. You can do a lot of little MH deals paying $200-$400 per month with $20k and that adds up fast. However with $50k you might be only able to do one or two RE deals. Spreading out half your roll on lots of small deals will help defray the risk of starting out.

If you've got $100k liquid or more it gets a lot more difficult. Partly that is because $100k is a lot of money to risk on anything that you're first starting out in. Also, the answer is going to depend quite a lot on where you live. If you're in Mahattan, $100k would barely make you a downpayment on a studio apartment. If you live in Oklahoma or Texas $100k could be the downpayment on a 20 unit multifamily. Finally, the answer depends a lot on what your goals are. If you plan to develop a portfolio of income producing RE the you're obv going to make different moves w/ $100k than if your goal is to develop a portfolio of farm land or other land assets.

REI, like any other investment type, requires a some amount of expertise. If I were starting out w/ $100k, I'd try to spread it around to 3 or 4 different classes of RE investing. With $100k, I probably wouldn't try to work with MH directly. Rather, what I'd do is find someone that is already flipping MHs and either buy notes from him or partner with him. That'll keep you more passive.

You could go several routes depending on how much work you want to do. With $100k you could pretty easily buy a multifamily that produces some cash flow each month. One thing that I'm doing is developing manufactured home with land packages. Its kinda like development for dummies. Basically all you have to do is get the utility lines run, grade, add cinder block foundation, plunk on the home, sell, repeat. I can develop packages like that for between 50%-70% of retail value. You could certainly do something like this w/ $100k. Personally, I'd try to spready my cash out into a few areas.

When we start to talk about more than $300k liquid for REI, we're really starting to get into a whole other realm. At a certain level you're starting to swim with the sharks, as it were. There is a certain threshold accross which you start dealing with people that are very competent and the deals get harder to put together on all fronts. If you're inexperienced, I wouldn't recommend that anyone try to buy a big commercial property. Your inexperience will be obvious to everyone involved and it could make things hard between lenders w/ no confidence and sellers and don't believe you can close the deal. Plus, you're at risk of losing a lot on one deal. Youu don't have to hit a home run every time - singles and doubles win the game. I dunno, I'd recommend that you try to start small.

Obv the definition of 'small' depends a bit on your bankroll. So maybe if you've got $300k you could invest in a small multifamily rather than a single family home. But try to keep your money spread around. It wouldn't hurt to invest in some MH notes and to find a HML that will invest your cash into flips. Spread it around.

This is a tough question with no clear answer. So feel free to clarify if I haven't been making sense or haven't answered your question.

"Also, if you want to find properties that cash flow you've GOT to stay out of middle class neighborhoods. You can't find deals there and you'll be spinning your wheels" what makes you say this?

I didn't say this but Ill put my two cents in anyway. Middle class neighborhoods won't cash flow because your rent will never equal your monthly expenses.

There is a ceiling to what you can get in rent. People just won't pay $2000+ month rent. If someone can afford $2000 month they usually have decent secure jobs and are better off buying a property. If you do the math you won't be able to cash flow something over 200k-250k usually.

Low income housing programs in Florida top off rent at about $1500/month for a 4 bedroom residence.

Its very difficult to find someone willing to pay 4k month in rent ...say to cover expenses on a house worth 450k. People I have dealt with who are willing to pay 4k month rent are looking shorter term. This would lead to a very expensive and higher vacancy rate.

Now I have seen some deals people have put together in mansion neighborhoods . One guy I know bought a huge mansion in a ritzy suburb and turned it into an upscale drug/alcohol impatient house. Renting a bed was very expensive but it included the whole treatment package as well. He then had a half way house that people then went to an rented for a year. HE always had a steady flow of tenets He made a killing but really this goes beyond RE as he ran a full business as well.

I mentioned something earlier to you in this thread about a condo and you told me it was a bad investment due to the condo fees. I'm young and not sure what i will be doing with my life in 3 years, I figured a condo would be a great first investment because it will be much less of a headache, even tho the lack of a headache will eat into my profits... I just don't want the added responsibility of renting out a home as opposed to a condo, especially for my first property

Is this just a bunch of loser talk by me? is renting out a condo a waste of time/money?

i would find this hard to believe, but then again, what do i know

My opinions are just that - opinions. I believe that there are circumstances where you can profitably rent out a condo. The problem with condos is that you just don't have the ability to control you expenses. The condo board gets to decide when and how much to spend, and who to hire to do the work. There are situations where a bad condo board can defer 20+ years of maintenance. When that stuff comes to a head, guess what is going to happen to your condo fees.

So long as you understand the downside to owning the condo, there is nothing stopping you from investing in condos. Personally, I think that its too risky. But if the right deal comes along, its certainly not impossible to make money renting condos.

One last thing. It doesn't sound to me like you have a very good plan. Buying RE when you're not sure where you'll be and what you're doing is probably not a good idea. Rentals are a longer term investment. I think that you should not buy property until you are somewhat settled. Don't worry, the deal of a lifetime comes around more often that you expect.

Spex. After your very first deal, which I can understand learned you a lot, how did you proceed? I've found everything you said so far in this thread to be of great inspiration, and I would really like to hear how long it took for you to manage your second deal etc., basicly how you continued once you got started!.

My first year as an investor I bought two properties. The second year I bought 3 properties. The problem was that after that first deal I was basically out of money. So I was forced to get more creative. I looked for properties where I could get in with little or no money down.

I'd go out find and old landlord that is selling off his stuff and doesn't really manage the properties anymore. I'd look for properties that were very distressed but structurally sound. I'd make seller financed offers on those properties putting like 10% or so down. I borrowed the 10% to put down from private investors and sometimes from credit cards. When I bought something I'd go in and clean and paint. I'd go buy carpet remnants and try to recarpet. Then I'd rent and repeat.

Each property I did would make me more cash flow each month to reinvest. Pretty soon I didn't need to go borrow private money any more. After several years I had some equity from paying down mortgages and increasing cash flow, so I pulled some of that and bought an 8plex that was pretty rough. I renovated that and rented. Then I started to sell of a lot of my smaller properties - duplexes and single family homes.

I also wonder if you only have done "cash flow deals". In case you sometime did something that wasn't a cash flow deal, please tell me in what way you convinced yourself to do a deal outside your main circle of competence.

Oh sure, I've done several deals that didn't cash flow. Once a banker asked me to buy a warehouse from his bank. I explained that I've never owned any warehouses and its not really my business. He told me that FVM is $140k and they just wanted the balance of the loan - $70k. I did a little DD and bought that thing even though it didn't cash flow. I didn't even know if there was a market for renting such a property. I tried to rent it but ended up selling it instead. I think that I got about $130 or something for it. But it took like 8 months to sell it and I had to float it until then. Plus I had to pay all the closing costs and everything.

I've bought a few small apartment buildings that were so filthy, run down, and infested that nobody would live there. And that is saying a lot considering that you can just about always find someone to live in a rental. But I had experience turning around poorly managed properties so I knew that I could fill the place and how long it would take. I also had capital to invest in the project.

Sometimes you find no-brainer type of deals - like that warehouse. Sometimes you have to use your experience to judge whether a project can be profitable. As you get more experience your judgement will get better and you'll know how feasible a project is and how much it will cost.

negative cash flow properties are inherently high risk. Its not that they can never be done. Its just that to do them safely you have to have some realistic expectation of how the project will go. That is why I don't recommend negative cash flow deals to beginners. Just stick to the positive cash flow deals and you'll be fine.

I am under the impression that you in addition to being a really successfull businessman, also is quite the man with a hammer. I know for a fact that I wouldn't be able to do the work myself, and would have to hire people. Since I have no experience, this seems like sort of a risky way to go, since I wouldn't have the experience to know what to expect from a new real estate investment on beforehand. Do you have any special tips for me in my type of situation? (I am a poker player beating mid limits with a v good winrate since quite long, and can easily grind out 200$/h)

Well, I know my way around basic renovations and stuff. And there is a part of me that enjoys that kind of work, although not a huge part. But I wasn't always that way. My dad and I renovated a house together when I was in high school. I learned a lot there. Mostly I learned through my first rental property. I did all the work - replaced all the plumbing, lots of cosmetic, framed some doors, etc. Most of the time I had to learn as I went - which translates into doing everything twice.

If you're worried, just hire an inspector to go through the house with you. He'll tell you everything that is wrong and how serious the problem is. It should cost maybe $300 to have the guy inspect. Just about every property will have some problems, so you have to expect that at least some work will be needed.

I'd also say that if you can make $200/hour grinding then there is no sense in you spending time trying to learn how to make renovations. When I started out I didn't include the cost of my time. It seems to me that it would cost you far too much to spend time making renovations. IMO, its way better for you to hire a professional for $50 per hour and spend your time playing poker.

Another thing is that you have to consider is what your goals are. Determining what kind of COCR and cash flow you need will help a lot for knowing which properties to buy.

Another question I have is: what are you looking for that is not included in the property? Do you pay much attention to whether the area has jobs/schools, vacancy rates in the area and so on - or do you simply trust in your own ability to offer attractive rentals to your tenants?

I pay some attention to the neighborhoods. Obviously I'd rather have a property that is close to schools and libraries. But there are other more important criteria for determining value. The vacancy rate in an area is important. You'll deduct vacancy as an expense when you determine a price.

Another question of personal nature.. You said you didn't quite wanted to expand any further. So what do you do with all your net income now? (Paying back loans, charity?)

I live a pretty low-key life style. We don't spend money on a lot of extravagent things. Partly that is just the kind of people we are. Partly that is because my tenants wouldn't appreciate me pulling up to collect rents looking like the guy from Monopoly. For a while I had a BMW, but I felt like people treated me just a little different for driving it, so I got rid of it.

We don't spend a lot of money on consumer goods. In fact, we dont' even have cable. I've got lots of hobbies and TV is just too big of a distraction. I used to spend like 2 hours per day watching TV until I decided to get rid of it.

I've never been a guy that is out to make money just to see how much I can accumulate. I've always had a very specific idea of what I want my life to be like. I'm working now to create the financial situtation that will provide that life. I'm almost there.

I don't give a ton of money to charity. However, my wife and I do spend a lot of time volunteering. I serve on a few local boards and my wife works as a child advocate for kids in the court system. We volunteer our time rather than our money.

Spex,

in your opinion and expeirence are there area any properties, deals, etc. that you would buy that would not meet your COCR and cap rate criteria.

For a rental, no. I am comfortable with risk. However, I don't gamble with my investments. Gambling is for the casino.

I have done negative cash flow deals before. However, those were very unique situations and in just about each one I was capturing a significant amount of equity when I bought the property. Plus, I planned to later use the proceeds from the sale of the property to buy income producing RE.

How do you weigh other factors like appreciation, equity, terms, etc. into your investment decisions? Would there be any circumstances where you would buy a property that did not fit your COCR investment criteria?

The price of income producing RE is determined by the cash flow. So my properties don't appreciate in the same way that single family homes or duplexes do. As I've pointed out, $1 additional income is equivalent to $10 additional equity if you can sell the property at a 10% cap rate ($1 = $20 at a 5% cap rate). I only care about finding properties where I can add significant value in a relatively short period of time. I 'force' appreciation by making improvements, renting, and lowering expenses. So I don't really care too much about MARKET appreciation.

There are never situations where I'd buy a property that didn't meet my approximate 25% COCR criteria. However, 25% is a target more than a rule. I could be pursuaded to take a lower of a COCR if the circumstances were right. Usually the circumstances being right would mean that I'm either getting a trully fantastic price or I'm getting fantastic terms. But a great property at a great price doesn't help me that much if I can't beat the stock market by a lot. Basically I want to make money. Having too many hard and fast rules can hinder you in that regard.

Didnt have time yet to read the entire thread but will do later.

For a little shorter than a year I've decided that i really don't like poker and want to do something else for a living.
However i still want to be rich and i need 4-6k a month for living expenses.

I have 2-3 hours a day i have to spend on poker and about 2 hours a day for school.
So i could fit in 1-2 hours a day of real estate i guess.
Im still in the learning fase just reading some books Tien recommended to me.

So my question basically is, is it realistic to combine real estate with school and poker at first and when i can make money with it just combining it with school. I really enjoy going to school so quitting it is not an option.
I do have 20-30K disposable money atm for this experiment.as long as its +ev i dont mind risking it.
Also how hard is it to get into it at age 20.

I want to make several points. Take them for what they're worth. If they don't help you, then disregard them. You don't need to defend yourself to me.

First, your schedule seems pretty lax. You are 20 years old and you work 5 to 7 hours per day. Getting rich is hard. If you want to be rich you have to think like a rich guy. Basically, you have to look at your life, figure out where your time is best spent (in terms of maximizing wealth), and do more of that and less of everything else. That is how you get rich. I'm sure that you don't want to hear that. But its true.

Second, I dont' know where you live or what your situation is. But I can't fathom that a 20 year old kid needs a minimum of $4k per month to live. That is crazy. I know a lot of rich guys. I'm a relatively rich guy. You might find this hard to believe, but most rich guys don't spend a lot of money. In fact, most rich guys are pretty cheap. Thats because part of how you get rich in this world is by saving a lot and investing a lot.

If you spend 6 hours per day playing cards, and $1500 less per month, you'd have the makings of a great career as an RE investor. You'd have a significant bankroll to get started at much lower risk. After a few years of investing you could scale your poker back to only 3 hours per day. After a few more years you can quit playing poker entirely. A few years later you can hire out all the management of your RE portfolio and THEN spend your time going back to school for the joy of learning.

Right now, I'd advise you to spend more time working, cut back your expenses, and save money. And spend a few hours per day reading about REI. If you doubled your hours per day playing cards and cut out $1500 per month in expenses and read RE information for 2 hours per day, you'd be ready to start investing in one year. Your banker would see your huge bankroll, look at your tax returns and see your income, listen to your expertise on matters related to REI, and write the loan. I doubt he'll care if you're 20.

Spex-

Do you have any experience in package deals? I have come across an investor who wants to sell off his entire portfolio of properties at the same time (about 25 properties total). Have you every put together a deal similar to this? Or do you know of any ways to structure the deal? Things to look out for? How does it differ from just buying a simple duplex? Is there anything special that should be put in the Purchase Contract, Deed of Trust, or warranty deed? Anything else in specific to consider?

Thanks

IMO, package deals seem really hard to pull off successfully. The DD just seems very difficult. Consider 25 inspections, 25 appraisals, 25 of everything. Yuck.

There won't be one deed for all 25 properties. There will be 25 deeds and all the associated 25 recording and filiing fees, etc. I've never bought more than 2 properties at once, but my guess is that there will also be 25 different mortgages with all those associated fees. So it seems like the transaction costs for the package would be a lot higher than if you just bought a single property for the same price as the package.

I dunno, unless you are getting a smoking good deal for buying all 25 together, I would think that buying a package of 25 is not too much different than buying 25 individually. Honestly I'm not sure though because I've never done it.

Spex. Even though you're preferably a buy and hold guy, you also mention the necessity of an exit strategy.

When you do intend to make an exit. How do you exit? Through what channels do you sell? I mean, you're making money from motivated sellers, how do you manage to not become one yourself? (E.G. What makes you able to get fully paid for your properties?).

Excellent questions.

I invest primarily for cash flow. Bascially, every time I buy a property I want to see my monthly income go up by a little bit. When I got into REI I decided that my properties would take the place of a normal job. So I structured my business around being able to pay my bills each month. The positive cash flow that goes into my pocket each month is a realized gain.

But cash flow is only one part of the equation. Obviously it is very important that some day I can resell the properties. At some point I'll want to cash out the equity that I created by paying down mortgages and increasing cash flow. Equity is an unrealized gain. If I want that equity to become a realized gain, then I've got to sell the property.

Basically, when you sell a property you are trying to get the equity out. There are three ways to accomplish that. First, you can take your equity all at once (cash sale). Second, you can take your equity a little at a time (installment sale). Third, you can combine the other two - take some cash now and the rest over time.

When you're considering a purchase, it is extremely important that you understand if and how to later sell the property that you're buying. If you're buying a duplex in a middle class neigborhood, obviously, you can expect to sell on a straight cash sale. Same with an apartment complex in a decent enough neighborhood. Those properties are relatively easy to sell for cash or a small carryback so long as the lenders are lending.

But recently I came accross a property that would be very difficult to sell for cash. It was a mixed use property - motel in front, four plex, and 20 unit mobile home park. The mobile homes were all park-owned rentals. The MH spaces could only accomodate 12x60 MHs. The property was in a pretty bad area and accross from two sex shops.

The property would have showed an excellent positive cash flow. However, reselling it later on was, IMO, going to be difficult. First, banks don't love to lend on mobile home parks. Second, banks don't love to lend on mixed use properties. Third, the small MH lot sizes were going to highly restrict bringing in new MHs. Fourth, the bad area would attract the worst category of tenants. So even if I could buy the property at a decent price and make a significant positive cash flow, I would have a problem accessing my unrealized gains - i.e., there were no good exits.

Ok, moving on....

I don't know exactly WHEN I'll exit a property. Right now I'm trying to use the power of the 1031 exchange to move my portfolio into some different RE types. I want to buy more mobile home parks, some self storage facilities, and possibly RV parks and campgrounds. So right now I'm selling off some of my portfolio as opportunities become available.

As for selling, it depends on the kind of property. For small rentals I try to use a realtor as little as possible. I advertise the property as a FSBO, and there are some services that will list your FSBO on the MLS for a flat fee. I try to use realtors as little as possible because they're expensive and I'm cheap. If I'm selling a small multifamily I advertise that I'll carryback a second. If I'm selling a manufactured home, I advertise that for a while normally but after a while I'll start advertising it as a lease/option.

For commerical property I use a realtor. I use CCIM designated realtors wherever possible.

There is no guarantee that I'll never become a motivated seller. Stuff happens, and I can imagine a situation where a catastrophe forces me to sell right now for pennies on the dollar. However, if you buy right and increase value, then you can insulate yourself from taking losses even in catastrophes because you've built in an equity coushin. Motivated sellers get motivated because they have to sell right away. So long as you don't have to sell right away and your price reflects the current market conditions, you can sell any property. So time is what prevents me from becoming a motivated seller.

General macro question, if you were just getting into RE, would you wait for things to settle down or start getting your feet wet here?

I'd start looking now. If I found a deal that was good (20% below FMV & positive cash flow), I'd take it. If you can get properties that show a positive cash flow from rents, IMO, that is pretty decent. But having some equity to soften the blow of a possible down market is kind of important. Also, if you're planning to hold for more than 7 years, you're probably fine not matter what - so long as you're showing a positive cash flow.

But obv it depends on your market and what kinds of properties you're after.

In short, I'm not advocating waiting or buying now. I'm advocating finding strong deals that insulate you from normalish swings in the market.

Can you comment specifically on the advantages/disadvantages of one getting a Realtor's License? I seem to recall earlier in the thread that you mentioned you didn't have one, and I know it's not a necessity for investing in real estate, but would being licensed hinder or hurt you at all?

I've only read the first four chapters or so of "Deals on Wheels", but something that struck me was Lonnie mentioning that he's glad he doesn't have a license and specifically states that "the two biggest killers of real estate deals are attorneys and Realtors." He feels people don't trust Realtors and thinks that his real estate sells better when he does FSBO and leaves Realtors out of it. Since he doesn't have to declare that he's a licensed realtor, he feels people trust him more.

I was planning to get licensed this summer simply to learn more about real estate, but I'm wondering if this is a bad idea when it comes time to sell my house in a year or so.

Selling real estate is very much about self-promotion and salesmanship. Those attributes are just about completely useless for a real estate investor. Realtors have no special knowledge whatsoever. they tend to be very uncreative and most of the time if you try for a creative deal they don't understand they'll represent your offer poorly to the seller. That happens a lot.

Besides all that, people think that realtors DO have some special knowledge. In every transaction that you participate in you'll have to disclose the fact that you're a realtor. So if someone thinks that they're getting hoodwinked by some kind of ringer they might not take it too kindly.

Getting an RE license is good if you want be a Realtor. If you want to be a real estate investor, I'd advise you to not waste your time trying to be a good realtor.

Spex, how is your market? Are you currently in a depreciating market?
If yes, how has the market conditions been like in the last couple of years compared to today?
When you speak with sellers, what is different about their mindset today than it was years ago?

My market has been flat. I haven't checked recently, but I think that sales are a little slower. I live in a college town though, and we've seen about 7% or so appreciation over the last several years. The peak was 2006 and its stayed approximately flat since then.

As far as I can tell, sellers here are scared. They hear all the hype in the news about the bad housing market and freak out. My city has been on teh AARP radar for a great place to retire, and we're seeing a lot of retired people coming into the area - particularly alumni of the university. Luxury condos (which sell for about $200k in my area) are being built pretty steadily. Lots of new projects.

Honestly, I don't know what is going on the mindset of Suzy Seller because I don't buy those kinds of properties. But prices of income properties - which had gotten slightly out of control over the last few years - seem to be coming back down to earth. A 20 unit building recently sold at a 8.25% cap rate. Not too long ago you could finance that building with a 6.5% cap rate. Not anymore.

Spex,

How did you purchase your personal residence? Since you said you normally don't find deals in nicer areas, I was wondering if you had any tips on how to get a good deal on a personal residence.

It depends a lot on your market. What I did is identified several homes that worked for my family. I took the ones that had been on the market more than 120 days. Of those, I took that ones where they buyer is not living in the property. Then I put in multiple lowball offers simultaneously.

We don't have a real fancy house. That isn't something that we feel we need. We have a simple house. Our house appraised for $160k when we bought it. We paid $140k. So that was a pretty good deal all things considered. But it was a situation where the seller was carrying a $1000/month mortgage. She had rejected higher offers than mine previously. But we bought in October, and she rightly figured that it was now or carry the place for several more months.

However, for a personal residence, I don't feel that its too important to get a tremendous deal. I mean, we didn't have a strong preference for neighborhoods or anything. and even though I consider myself successful, I don't really want to live around a bunch of doctors and lawyers and stuff. I think that its more important to get what you want out of your home than to get a great bargain.

was just curious because folks have said before that you can't find "cash flow" deals in middle income neighborhoods. But there have to be some kind of deals right?

Thanks for the advice.
Max

Nope, there don't have to be any deals. Once in a while you'll find one if you devote yourself, heart and soul, to finding deals. Thats basically what GiddyUp does.

Depending on your market, you're looking at getting most houses in middle income neighborhoods for a minimum of 30%+ discount. That isn't easy to do.

do you use any software to help manage your properties?

I use Quickbooks. Otherwise we have a paper work order system that we've developed over time.

What laws and regs were u referring to about the credit reports?

I'm not affected by them because I've got a separate business entity with its own tax ID number, office, etc. So the new laws don't really apply to me. My understanding is that small landlords now have to jump through several hoops in order to check credit. Like you have to get a signed statement from the tenant permitting you to check credit. YOu have to send proof of ownership of the property to the credit agency before you can get the report. You have to have an office with a locked file cabinet. The office will be inspected, which costs $75. There might be a few more things too. Your local landlord's association or REI club can give you some more information.

What % down payment do you usually ask for in an l/o deal?

On a l/o deal you're not asking for a down payment, you're collecting option money. Big difference. A down payment gives a buyer an equitable interest while option money doesn't. I'd want to get at least 1.5-3% of the purchase price.

What, if any, paperwork is required to execute a wholesale deal?

A purchase agreement and a contract assigning the purchase agreement to the investor. There might be more that I'm not aware of.

My wife is a mortgage broker for a RE investor who also owns a brokerage. She has found a program that requires no seasoning on title to take out an equity loan. We have decided to use this in combination with a HML to purchase our first property. The REI would give us a HML to purchase a property. $2,000 Fee + 9% Interest (he charges more to others, but since my wife works for him this is what he has offered)

Huh, around here they charge 4 points and 14-16%, plus fees. I think you're getting a bargain. Just be sure there is no penalty for early payoff.

We would then go to the lender that uses this program and take out the equity loan against the property. Obviously the interest he charges will be next to nil so we are looking at a shade out over $2k to get the money before the fees on the equity loan.

I have met with him once and he operates on the same purchasing ideas as you. Mainly foreclosures on single family homes around 30% below FMV with a >25% COCR. He said he would help me find the properties and start teaching me the REI business.

He made it known what he charges on the HML and also said he would share in the profits after the sell.

Maybe GiddyUP could be more help than me. Personally, I wouldn't be willing to pay points + 9% + a share of the profits. There won't be anything left for you guys. His share of the profits is the $2k plus the holding costs you're paying him. I'd give him the choice of either points + 9% OR a piece of the upside.

There is a difference between a money partner and a hard money lender. This guy is trying to be both for this deal. It doessn't work. I feel that the deal he is offering you is unreasonable. You're doing all the work and getting the smallest chunk of the money. I bet you he's going to try to take a 6% commission on top of everything too. This deal is not that good for you guys.

My quesitons to you:

On a straight sell, assuming I did the majority of the repairs, what would a fair split on the back end be?

I can't answer that. You have to decide that for yourself.

I assume what ever percent we decide I will also use that percent when calculating his portion on cost of material and carrying cost?

If its a partnership, then the partnership will pay all expenses and split whatever is left over.

I have thought about this quite a bit and still cant settle on a number that would be fair to both of us. Obv, I am assuming all the risk once we get the equity loan, so I feel like I should get a large % of the back end profits, but I also understand that he will be helping find the property, giving us advice on what to do to the property, and helping us find buyers/renters. I feel like I have a great opportunity with him taking me in and being willing to teach me the business so I dont want to offend him with any numbers, but I also want to get my fair share.

Sorry for the long post.

I'm not following you here. Where does the equity line come into this? If you need both a HM loan AND an equity line (which you won't get in any case) then you are paying too much for the property.

Why did you say I won't get the equity loan?

I see what you're saying. You're not taking a home equity loan, you're refinancing the property. Those are very different. In a home equity loan, the order to liens remains the same with the HELOC taking a subordinate position to whatever liens are there first. But with a refinance, the lender pays off all liens and their position is first lien on the property. You are talking about refinancing, not HELOC (home equity loan or second mortgage).

I thought you were originally saying that you'd need a HML plus a HELOC to do the deal. That won't work for anyone. I'm with you now. Yes, that is the way to do it - buy w/ the HML, fix, sell or refinance. The project should probably take no more than 3 to 4 months so that you have time to refi or sell.

I like what you said it being either a partner or a lender. I'll talk to him about that and see what he has to say. It makes it a little tricky since my wife works in his office and he takes pretty good care of her salary/commission wise.

This is a business transaction that is totally and completely unrelated to your wife's performance at her job. He takes care of her because she is worth it. This deal isn't going to change that. Plus, this guy is a businessman. He thinks in terms of dollars. Either a deal works for him or not. If this deal doesn't work for him it shouldn't have any bearing on your wife's work of his treatment of her. What I'm getting at is that this is not personal. Its not a reflection on him to reject a deal that you offer, and its not a reflection on you if you reject a deal he offers. So I can't see how this deal is relevant to your wife's position. If he is a professional then he'll act like it.

I know Stephen Moore has been on record saying he wants to see them raised from 15% to 31%. What impact if this were to occur do you feel it will have on the REI market? Would you be better off paying capital gains now if you are going to sell then trying to do a 1031 exchange and possibly being hit with a greater tax in the future?

I dunno. Personally, I'm not going to live my life in fear of what might happen. I think that if you're concerned about the tax implications of an investment the best thing to do is take to a qualified CPA.

To answer your question, I don't know of anyone that invests in RE primarily for the delayed exchange benefit. IMO, delayed exchanges make an already desireable investment type even more desireable. I don't think that a change of the capital gains tax rate will have a huge impact on RE as an investment. However, I'll also say that the tax implications of an RE investment are really important to understand. A LOT of RE investors went broke in the 80s when congress changed the tax implications of owning property. Could that happen again? Sure, of course. But that could happen in ANY investment.

Also, I don't believe that its a huge risk that cap gains will go from 15% to 30%.

Do you do very much marketing for your properties or do you have any creative marketing ideas? Also do you ever offer any incentive lease rates if you're having trouble filling properties? Like maybe offering a discounted lease rate for a year or two if they sign a long term lease. Sorry I know that's a bit more geared towards commercial which I know you said you don't do but I'd love to hear your ideas for marketing and incentive offers for both residential and commercial.

Well, I have waiting lists for my properties. It is typical in my area for leases to automatically switch to month-to-month leases at the end of the 12 month term. So when I have a vacancy I just call my waiting list and get a new tenants.

I've found that the regular newspaper works the best for attracting tenants. When I started out I'd ask neighbors for referrals and give them $50 or so. That seems to work. But no, you don't need to do much creative.

I ordered "Wheels on Deals" and I'm sure it will go into this but have you personally ever had to foreclose on a note? How difficult is the process when are dealing with mobile homes and is there a high rate of foreclosure dealing with lower income individuals? I'm assuming it's no different than foreclosing on a single family home where it is quite a lengthy and can be expensive process. Is that correct?

You dont' foreclose on a MH, you repossess it. MHs are technically vehicles and are regulated by the DMV. Check with your state DMV to learn how to do it. It should be something like: send letter to buyer asking for payment; send letter of repo to DMV; DMV puts title back in your name; (if applicable) evict; clean/paint/rehab; resell.

I don't do a lot of these deals, but I've taken one home bakc. They called me and explained that they got moved (miliary couple) and asked if I'd take the home back. I said I would if they left it clean. They did. No problem.

Last question, sorry, if you don't mind sharing but what do you feel you biggest mistake you've make in REI has been?

I don't know. I've made lots of mistakes. By biggest mistakes have always been paying too much for property.

The article also mentions that Buffalo has 10,000 vacant homes and commercial buildings. These areas are clearly troubled economically. Are they suffering too much for investing to be advisable? Or is the opposite true, that the huge supply of available properties for dirt cheap means if you look at buildings of a higher quality you can get some great value?

Thanks for your comments, I look forward to reading them.

I'd be more inclined to look at decent buildings that you can get cheaply rather than buildings that have to be turned around. As long as there are people there, you'll have some market for rentals. But it seems like people are leaving. Similar things are happening in Detroit. I wouldn't invest in these markets just because they're cheap. Not unless you have a strong provable income on the property.

Hrm. Any insight to what the largest monthly expected swings cash flow wise in your portfolio are to your overall cashflow (Like... you own a water park that makes 10k a month in the summer and costs 2k a month in the winter. If you're cashflow is 300k a month... Whatev. If its otherwise 7k a month... This could be an issue.)? Its seems this is something I should care about, but I'm not really sure at what point I should be bothering to.

Hopefully this will be one of the multitude of BR related issues that I research and never have to use :/

I'd just average it. In the summer I'd set aside enough cash to cover my expenses in the winter. I'd average all the income and expenses for the year to determine my monthly cash flow. Everything should become apparent to you in the due diligence process.

However my father feels our focus should be on decent properties, of which we will be trying to buy reasonable quality.

You can't find decent properties of good quality in low income areas? I beg to differ. Why do you think this?

Of course COCR will likely be less but in the long run one's risk should theoretically be reduced and gains from appreciation will be higher.

Huh? How do you figure? What about middle income areas do you think will reduce your risk? Middle class people are almost NEVER long term tenants. My tenant turnover is less than 5%. You think that a property that isn't S8 will have that low of a turnover? No way.

I've got another question for you. You think the gains from appreciation will be higher. What will fuel that appreciation?

We have a bankroll of approx. $1 million to put into this venture so we won't be starting at the bottom so to speak. We will likely be looking at commercial properties and larger apartment buildings if we look at residential. Is my father's view reasonable or are we missing something?

I think that you need to think your ideas through very carefully. I would seriously question some of the assumptions that you've made above.

What is the best way to capitalize on all the foreclosers that are going on right now?

Either negotiate short sales with banks or buy REO properties. Either way, buy for less than fair market value. Most of the time you'll need to fix these properties. So buy for less than FMV, fix, rent or sell. Thats about it.

My father feels those areas are currently undervalued and buying or developing there will be profitable long-term. Baby boomers will be retiring and purchasing waterfront properties around there. If we buy say a retail plaza or waterfront apartment building in these counties it could be lucrative but wouldn't be considered lower class. I guess my question is, are you saying that with commercial properties you would still stick hard and fast with lower income neighbourhoods?

What do you mean by 'undervalued'? A property's value is determined by what a willing buyer will pay for it. Are you saying that properties are selling for less than what most buyers will pay for them?

As to RE being 'profitable long-term', I'd say that RE will be profitable long term just about anywhere. Not everywhere will show the same appreication rates. But you can make up for less appreciation by collecting cash each month in positive cash flow. Then you can reinvest that cash into other properties.

Besides, profitable someday doesn't taste so good when you have to eat beans every day because you're going bankrupt right now. If you buy properties that make you money right now, then you don't really have to worry about it.

So just to be clear, what you're proposing is that you buy a property that will show break even or negative cash flow because it is in a location that you suppose will someday be a hot destination for retirees? Is that about the gist of it? I'd urge you to take another look at what happened to the speculators in Miami, Vegas, etc. Those guys were thinking the exact same thing.

I've got news for you. If you buy at less than about a 8.5% cap rate you can't make a positive cash flow. Your expenses and debt service will eat all the money. Besides that, banks don't like to lend you money unless you can make at least a 1.1 debt coverage ratio. But that is irrelevant. What are YOUR minimum criteria. Thats what counts. Have you and your dad sat down and really thought through what your goals are with this investment?

I am just trying to compare the logic my father uses for approaching real estate investing with yours. I'm sure there are multiple paths up the mountain so to speak.

yes, you are right about that. I have one philosophy among many. Partly my philosophy is the result of that I started with nothing and I've never been able to afford to lose any substantial amount of money. I only had one shot, so I stuck with investments that made sense and I've never taken many chances. Now I'm to the point that I don't need to take any chances, so I don't.

IMO, what you're proposing is gambling. I would rather find a deal that makes sense today than a deal that might make sense in a few years if x, y, and z happens. That is just my opinion. FWIW.

Do you just walk into banks and start asking about their available properties or are there other channels for this process?

yeah, you can do it that way. Most banks have a realtor that they deal with to handle their REO properties. I dont' fool with single families anymore though, so you might ask GiddyUp what the best way to find the REOs is

Spex not sure if you saw my question, maybe GiddyUp can answer. I am also interested in REOs and foreclosures, I am in Ohio so a similar market to what Johnny is seeing in Michigan.

Any good books to read up on that you might have heard of on these subjects? Also any good online forums for these type of talks? Zillow.com is a shiathole for discussions.

I've never read much about buying REOs or foreclosures, so I don't know of any books. If you are looking for reading material, you should look at John Reed (www.johntreed.com).

I read very few forums regularly. But I've found good information on reiclub.com and creonline.com and biggerpockets.com (which also has a useful property analysis tool). I know that I'm forgetting some, but those three can keep you reading for months.

Spex,

I think the key is, if you get a good deal on the purchase price, good financing and are thus able to get a positive cash flow on the building then the appreciation is really more of a "freeroll" than a true gamble. I feel that if I can learn your approach: the ability to source deals, emphasis on cash flow, and methods of getting extreme value on the prices you pay for properties, and combine it with my father's understanding of local markets and prospects for growth then I think our venture can be quite successful. Anyway I hope that clears it up a bit.

I wanted to add that I think this concept is reasonable. In fact, that is exactly what MOST RE investors are doing. That is why cap rates are so high. So its certainly not a new approach. But there are still a lot of problems.

For instance, if you guys buy a shopping center expecting huge growth in that area over time, what will happen to your shopping center when you go to sell? Will it really be desireable? Will it have enough parking to meet the current demand? Will the facades and general condition of the property be up to par for attracting the big companies? Or will you have to invest another $1M cash in order to bring in Bed, Bath, and Beyond?

So maybe over ten years you invest $1M cash to make $4M in equity. That is a lot of appreciation - probably the most you could realisitically hope for. What now? Do you invest another $1M into renovations to attract the big stores? Now your return is down to $2M over ten years. But lets say that you don't have to invest that extra $1M, and you can get another $3M over 10 years. That is roughly a 30% ROI. That is high, and would probably be a good deal if all the cards fell right.

Now consider if you put that $1M into a $5M apartment complex at a 10% COCR. That deal would be relatively easy to put together. Suppose that you can clean up the property and increase cash flow by 10%. So you'd be making about $110k per year in positive cash flow. Even if rents stay the same, and assuming an 8.5% 20 year mortgage) you'll have made $2.8M in equity from paying down the mortgage plus another $110k or so from increasing cash flow. PLUS you collected $1.1M in positive cash flow. So here you invested $1M and made the EXACT SAME $3M profit. The difference is that you didn't have to speculate.

Now consider the effect that reinvesting that $110k per year in cash would have on your bottom line. If you bought a $1M property every other year, what effect would reinvesting that cash flow have on the performance of your portfolio. After ten years you could probably double that $3M profit. And all that with NO speculating whatsoever.

Spex, do you ever consider in investing in other business than RE? I know you dogged the deal with the motel included. But would you consider self storage or other types of businesses?

Oh sure, I've got positions in several other businesses that are not RE related. I invest in other businesses, but RE is the only business that I actually run.

IMO, self storage is a great opportunity. I'm actively looking for SS facilities, but I haven't found a deal that makes sense yet. Any time that you can get an RE investment with hundreds of tenants, you've got the makings of a good deal. Consider that if you've got a 500 unit property at 80% occcupancy, you'll make an extra $2k/month in cash flow if you raise the rents by $5. How many people do you think will move all their crap to another facility to save $5/mo? Not many. That is power.

Plus, since you're not renting living space the landlord/tenant laws are much more favorable to landlords. Plus, SS facilities offer many different sources of income from sale of packaging supplies, locks, mailbox rental, truck rental, etc. The list of profit centers goes on and on. I think that SS facilities are a great investment.

And how would you've ran the motel? Just let the manager do everything and just check the books?

I would've hired a manger to deal with the 6 motel rooms and run MHP and the apartments. I would've likely kept the books myself

Spex - John T. Reed talks about locals overreacting to events they believe will affect RE values.

From his website:

"Double-digit cap rates happen when some disaster, natural or man-made, hits the community or region in question. The local people get so pessimistic about their own market that they refuse to buy......These opportunities typically only last about six months because outsiders recognize that the locals are overreacting to their temporary problem."

http://www.boston.com/news/local/art...s_slam_limits/

In Boston they just passed a law that no more than 4 college roommates could live together in a unit (see link above). In many areas there has been a sudden surge in student housing buildings for sale where it was common to have 6-8 students in a 4 bed room apartment.

I went to Boston College, I lived in one of the area's they are talking about. There is NO WAY this law will be enforced. Simply no way. Do you ever act on this type of information? Is it super risky? I'm seriously considering combing the area for some owner who is panicking and thinks his rents will be cut by 25%.

Thanks.

I dunno. Personally, I wouldn't want to be in a position where I buy a propery knowing that I'll have to violate a law in order to make the returns I need. I'm sure that your sense of the situation is right. However, I just don't think its wise to knowingly violate the law. Particularly if you need to violate the law in order to make an investment

What if housing prices decrease? And how do you want to sell a rental property that's losing money? Who's going to buy it?

Price decreases can happen for a lot of different reasons that investors have no control over. Changes in tax law, tenant rights law, zoning ordinances, neighborhood association rules, financing/banking practices, and on and on and on, can all cause the price of rental property to decrease.

If you are upside down in a property, you will lose money. Period. That doesn't mean nobody will buy it. It just means that nobody will buy it for the price you need to break even. The best you can hope to do in that spot is keep a low vancancy rate by keeping a clean, desireable property to the market segment you're after.

The only way to combat price declines is by buying right to begin with. When you buy right you can afford to take a hit on the price and still come out ok. When you overpay the market will kill you in a decline.

I was just looking around and found a recommendation for this place (http://www.tenantverification.com/tvs-fees.php) as a tenant screening service. How do these fees look in comparison with the kind of effort and fees involved in performing tenant screening yourself? My initial impression is that the fees are somewhat expensive -- but I am learning here.

Dang! These rates are on the cheap side. I'm going to give them a shot myself. I haven't shopped around for a while. I'm glad you posted this.

I wonder what database the eviction search accesses though. If its only their internal database it prob won't be much use. In any case, I'm going to give them a shot.

Glad I could actually give something back to you. I gather you wouldn't be paying for every single service in that menu right? Which ones would be the best set?

I think that credit/criminal/eviction for $35 is a bargain. Thats the one I'd use. Even if you can only charge $30 or $25 for an application fee, I'd probably eat the other $10 just to know

I am in the process of buying a CO-OP on long island. I am putting in $9,000 as they require 10% downm and taking out an $86,000 mortage for 30 years. I figured since I am obviously never going to pay it off, that it is smartest to keep the monthly payments as low as possible. I need a place to live while I finish graduating college and since I can afford it, I didn't want to waste money renting. Once I graduate and get a good job, I will probably be looking to sell this. I know there is a ridiculously low ceiling on these as far as investments go, but I am not so concerned with making good money on it. I am more concerned with recouping the $500/month common charges when I sell it. I guess what I'm asking is, in your opinion, can/will the price of this go up ~6K/year and is

what I am doing smarter then just renting an apartment while I finish school. If it would help in your analysis I could tell you my net worth, just PM if that is the case.

You forgot the huge transaction costs that you'll have to pay to buy and resell. You're looking at 3% to buy and 8% to sell under normal circumstances. So unless you plan to stay at least 5 years its normally not worth it to buy real estate.

Besides that, I doubt that 6% appreciation over the next few years is realistic. Obv it depends on your market. But lenders are wary right now and who knows how long that is going to last.

On top of that, consider that the vast majority of your first 60 payments goes almost entirely to interest. So you're not creating very much additional equity in your first 5 years. That means that your mortgage payments each month will be roughly break even as compared to rents. Its just that you're paying a bank rather than a landlord. Plus, who knows how the market will be in a few years. You don't want to end up holding a property that you don't use and can't rent out for months and months.

All in all, unless you can get a super good deal, I'd hold off buying anything until you are a little more settled

ok thanks...two follow up questions

1.) would keeping it for five years pay off alot more then two years? is there any other benefits besides transaction costs

Not necessarily. Over five years you hope for some appreciation and a little bit of principle pay-down. But there is no guarantee that the property will appreciate at all.

another consideration is that rents are likely to be cheaper than your monthly payments. And you'll have other costs, like taxes, insurance, and maintenance.

2.) what other alternatives do I have besides renting an apartment where I'll basically be pissing away at least $1,000 a month and never see it again

I dont' see any alternatives. If the chioce is either rent for 3 years or buy for 3 years and resell, IMO, renting is a better choice.

If all you're trying to do is minimize loss, then I'm not really sure what the best thing to do is. The mortgage interest is deductible. So are some of your closing costs. And you don't have to use a realtor to sell, which will save you a chunk of change. Run the numbers and see.

Property 1: low income area of town

pros:
decent area for low income jobs
good looking house for the block
near a strip mall, some fast food and a gas station, 4 mi from interstate
12% cap (currently attempting to negotiate at 15%)
27% cocr for 12% cap
currently holds a section 8 tenant
tenants have a 1998+ model Ford truck and seem to keep the lawn in good shape
can acquire property at least 33% under FMV, negotiations will probably push this to 42% in my estimation (bringing to 15% cap, but I'm calculating based on the 33%)
seller reportedly rehabbed property 30 months ago with new HVAC, electrical, paint, and roof as needed
cons:
tenant is paying month-to-month, lease is expired

our local laws allow the water board to place liens directly on the property (not the tenant) if the tenant doesnt pay the water/sewage bill
home was built in 1920
area is stagnant, no growth; current community members are financially tied to area and thus no real flight either

Property 2: low income area

pros:
decent area for low income jobs
average looking house for the block
2 mi from interstate
12% cap (currently attempting to negotiate at 15%)
26% cocr for 12% cap
currently holds a section 8 tenant
can acquire property at least 33% under FMV, negotiations will probably push this to 42% in my estimation (bringing to 15% cap, but I'm calculating based on the 33%)
seller reportedly rehabbed property 30 months ago with new HVAC, electrical, paint, and roof as needed
cons:
tenant's lease expires in 4 months
our local laws allow the water board to place liens directly on the property (not the tenant) if the tenant doesnt pay the water/sewage bill
home was built in 1930
area is stagnant, no growth; current community members are financially tied to area and thus no real flight either

These two are almost exactly the same IMO. The biggest problem with older houses is that they construction materials used at the time were not uniform like they are today. Like a 2x4 studs in 1910 were not all exactly 2x4 like they are now. They're all slightly different. Then they just use the lathe and plaster to make the finished walls straight. this is an enormous pain when you're trying to use modern materials on an old house like this.

But I'd say that if the major systems have been upgraded and there hasn't been a lot of shifting in the last 80 years, then the house is likely solid. IMO, if a structure has been standing solid for the last 80 years then its likely to continue standing solid for the next 80 years.

edit: is it ok to ask for an appraisal when there is a tenant actually living at the place? it seems potentially invasive

Yeah, its not problem at all. the landlord has the right to enter a property so long as he's given 24 hours notice (or whatever the law is there).

Personally, if the water board tried to attached a lien on my property for the actions of a tenant, they'd have to fight me in court. My name isn't on the water bill. Why should you be held accountable for a deadbeat tenant's bills? Should you have to pay your tenant's credit card bills and car payments too? Its not right, and most likely its never been challenged. So I wouldn't worry about it too much. If you're really concerned, make the tenants pay a little bigger deposit.

Month to month leases are meh. I use a lot of M to M leases. Frankly, a 12 month lease doesn't guarantee that anyone will stay 12 months anyway. But the 12 month lease looks better to the bank when you go to use that income to finance other properties.

These properties look like solid investments. One thing to be aware of is that when you buy SFH in low income areas you're buying cash flow more than unrealized gains. The properties don't appreciate fast. And they aren't worth that much to begin with so the mortgage paydown isn't a huge wealth creator. Just be aware of the fact that you're mostly buying a cash flow instrument here. Nothing at all wrong with it, I just want you to be aware.

Do you think there is a specific range under FMV I should look at when considering a property in this manner? Right now I'm looking at between 58-66% of FMV which I think is good, but I hear people finding stupid deals in these low income areas down to 10-20% of FMV on foreclosures and shorts.

Not really a range. Mostly I'd look for positive cash flow. As long as you're getting positive cash flow you should be fine. But if you can get properties at 90% FMV and get positive cash flow in your area, then great. Some areas you'd have to get a property for 50% of FMV to get positive cash flow. It just depends on housing prices versus market rents in your area, so there is no generic standard that you can apply to everyone.

Also - since I have 2 duplex's - what would you think my next step would be? To keep moving up and say buying a little apartment, or just do whatever works for me.

I know people whose entire portfolio is made up of single families and duplexes. Personally, I prefer multifamilies. Smaller properties are generally more of a hastle overall. They're more expensive too. Basically, you can do whatever you're comfortable with.

The thing is i do 100% of the stuff myself (except lawncare where my tenants do) I guess when I get 5+ properties then I will be calculating that cause it'll just be to much for myself.

My advice is to read through this thread carefully before going any further. I've addressed the problems with your thinking earlier.

Are you referring to my questions - or the fact that I do pretty much everything myself and dont include 45% for expenses?

All of these are included in my ROI's ratios - do you guys think 15% and 20% are to much?

Advertising
management
cleaning & maintenance
repairs & improvements
trash & utilities
Insurance
taxes
landscaping & lawn care
miscellaneous - supplies, equipment, etc.

If you haven't included the cost of your time in your ROI calcs, then your ROI is lower than 15%. And for the record, I do not think that 15%+ ROI is too high. If you can't even get a 15% ROI in REI, then I'd advise you find a different investment vehicle.

s it true that you have to have money to make money? I'm a 21 year old college student with no credit history. What if I went to the bank and asked for say a $10K loan to start buying mobile homes? Or, I should ask, what size of loan should I take out to start doing that? Will the bank back me if I have a co-signer?

No, you don't need money to get started in REI. In fact, IMO, you are better off starting in REI without any money. It is important to figure out how to put together deals without money. You also need to get private money. To get private money you have to become an expert. That is good. Overall, being broke at the outset will force you to be really creative and that will make you a better and smarter investor overall.

If you need money to do mobile homes, try www.prosper.com or www.lendingclub.com. You can get some cash that way.

There are a lot of other things that you can do though. For instance you can learn all about tax lien certificates. Go find a family member that would be happy to get a 15% yield on their money. Use their money to buy an 18% tax lien and keep the spread. Or give them a 20% yield on their money and use it to buy mobile homes. Or go out and get good contracts then flip those contracts. There are lots of ways to get started with very little money.

Spex, could you tell us about your experiences buying properties and re-zoning them?

Rezoning is a type of bureaucratic nightmare. I've done it a few times. Once it was not successful because the property was in a historic district and I got shot down by the historic resource commission.

The biggest challenge for doing this - at least in my experience - is dealing with neighborhood associations. When I've done this in the past I've had residential RE rezoned to commerical. It turns out that neighbors are very reluctant to allow this to happen. The associations have a lot of pull and they exist specifically to fight these kinds of changes. If you really want to get a property rezoned your best bet is to join and become active in the neighborhood association. You need relationships to get this job done.

I'm not really sure what kind of information you are looking for here.

Also have you done any work that involved buying a old building with a big lot in a prime location, and building a multi-story commercial building(say 3 stories or higher)?

No, I've never done any devlopment on this scale.

I'm loosely aware of the 1031 tax deferment, and that it's based on the idea of immediately re-investing the entirety of your liquidated asset into a higher-valued property, but what of investing it into two lesser properties? Would it still apply or do you have to pay the capital gains tax?
yeah, for the most part, investing it into two properties is fine. Check with you lawyer about the specific deal tho.

Also, I'm assuming that your monthly rent acquisitions get taxed, but are there any deferment options if you solely use the profits for investments later on? I understand that your tax situation is different than your average Joe's, but perhaps generally speaking?

Yes, if you own and/or operate the property out of a self-directed IRA the taxes can be deferred. I'm not aware of any other way to defer taxes on the income from REI.

Some cities are easier to deal with than others. Where I live for example, city council is very pro development and rezoning while still a painful process at least doesn't get hamstrung as often by neighborhood associations. This is definitely a major issue to consider while doing your DD.

Yeah, a major issue in DD, and VERY difficult to know the city's disposition w/ regards to this. I live in a college town w/ lots of history and huge victorian houses. The history buffs have a ton of sway here and they make life miserable for anyone trying to make changes in the established neighborhoods.

Incidentally, if you look on the planning department website, what you'll see is a lot of garbage about how prodevelopment the city is. That is garbage. The planning commission bases much of its decisions on the feelings of neighborhood associations. There is nothing wrong with that model per se unless you're trying to rezone something. Believe me, you'll be seriously considering some assassinations.

I have a question regarding the distance you are from your rental units. Some people can't cash flow in their general area and even if they can the margin is very small. So I am wondering what you think of buying out of state where you can get far better cash flow. I see people post number that seem unreal to me, what if I were to start buying in these locations to increase my cash flow. Do you think this is a feasible option? I just want to maximize my cash flow and I feel that my best bet for this is going to locations that aren't directly around me.

I agree somewhat with Tien. If you can't find cash flowing properties in your area, I'd be hesitant to invest. On the other hand, a lot of people invest in RE this way. So I dunno. I wouldn't invest out of state. But I've got good deals to make in the local area.

If you are dead-set on investing in REI, why not just move?

What kind of lifestyle does being a RE investor allow you to have? You say that you are financially free, but are you tied down to your job geographically? Does REI permit someone to travel carefree, or are you required to be near your investments?

This is a hard question to answer. Its like asking Phil Ivey what kind of life playing poker professional allows him. I bet he's say "well....it allows me to play poker all the time, which is what I love to do." That is kind of how I feel. I like to make deals. I like to talk to other investors. I like to operate my business.

At the same time, I've deliberately structured the business so that I can pretty much work as much or little as I want to. The staff deals with tenants and stuff. I do most of the bookkeeping, but I also have a lady that will do my bookkepping for me if I need her.

So pretty much if I want to leave for a few weeks or something, its not that big of a deal. This didnt' happen overnight. It takes time to find and develop your staff. But yeah, I guess I could go ahead and travel carefree if I wanted to.

Did you get a real estate license and is it useful at all?

No, and I doubt it would be of much use. It depends on what you are doing though. I'm sure that GiddyUp has found his license to be somewhat useful.

Spex, what would you do with the float you have (the money accounted to expenses in the future, say new roof) if you wanted to expand? Would you/do you pull a Buffet and use it to acquire new properties or are you more conservative and actually put the money away for a long time?

No, I don't invest it. I stick it in a high interest savings account. Eventually the money gets spent on the property. Once benefit of having a savings account with a huge cash balance is that it looks extremely good on your balance sheet when you go to the bank for a loan. But I've never felt comfortable investing the money because I've seen too many landlords end up busto. Most of the time the landlord didn't figure his expenses right or he spent all the money that was supposed to be his reserve fund. That won't happen to me.

o, I am set to close on a 2 unit rental house tomorrow. Purchase offer was signed and all conditions waived on July 18th. Monday I found out from my lawyer that the property isn't zoned R2, and it isn't even zoned R1. It's zoned tourist commercial. Now it is (was) a single family home, updated in 1977 to 2 units. Now, the lender is backing out as the mortgage was guaranteed under the condition of being zoned R2 or being legal non-conforming. As you can see, I will be unable to close tomorrow. I have a "seller property information statement" signed from the seller stating that the zoning is R1 Residential. I could have closed under the legal non conforming provision with R1 zoning. I am about to renage on the purchase agreement, what is my play?

First, you are not about to violate the purchase contract. 99% of the time the contract is contingent on the buyer attaining financing. Since the bank is the one backing out, you are off the hook. You no longer have financing. You will either get your earnest money back or you will sue for it. Period.

Second, the seller's disclosure only reports the condition of the property to the best of the seller's knowledge. In order to sue on the basis of a seller's disclosure, I believe you'd have to show that the seller had knowledge of the defect. The seller shouldn't be under any penalty for making a good faith report of the property's condition (in this case zoning) even if the seller turns out to be wrong. Its up to each of us to protect ourselves - thats why you hire inspectors to verify physical condition, and title services to do a title search.

I'd guess that this problem was uncovered during the title search. I've heard of such things happening, even when competent attornies have done a title search on the property only a year before. It happens. No harm done so long as you get your earnest money back.

It is a "complete system" from one of those paid program adverts on T.V. The hook is that, yes, you can get a house for paying the tax. "There are government programs that allow you to buy houses for $300.00" give or take, , whatever the taxes, "no matter how much is owed on the house." If I thought about it, I'd think sounds like a job for a lawyerly type, involving a lot of law suits. And if someone does completely abandon a house b/c they can't even pay the taxes, I'm sure cleanliness and maintenance of the property was not on their list of priorities either. I can't remember the cost of the system? Can you get a house "free and clear" by just paying the taxes as this T.V. Ad claims, sometimes, always, never without a lot of hassle?

Yes, this can be done. Basically, a tax lien takes precedent over every prior lien. Normally you would buy the lien at auction. You are not bidding on the purchase price - that is set at the amount of back taxes owed. You are bidding on the interest rate that the debtor will have to pay you to get you to remove your lien.

So say that you bid on a $3500 lien. You bid the lien down from 25% to 15% and win. What happens depends on the state, but basically you get title to the property. However, the debtor has a right of redemption period where he can pay you back the $3500 plus 15% interest. Normally the right of redemption period is 12 months, but in some states its 24 months.

If the debtor never pays the lien off during the redemption period, you own the property. The VAST majority of the time the debtor will pay the lien off. Since you've got a tax lien you get to skip in front of any mortgage holders, its a virtual certainty that any mortgage holder is going to pay off the lien (plus interest) and foreclose on the property.

So very rarely will anyone actually own a property by investing in tax liens. However, what you can do is get a very decent ROI on your money invested.

IMO, tax liens are great. If I were starting off today, I'd probably sell used mobile homes. After I met some investors that wanted to do passive investing, I'd borrow money from them at 12% or whatever and go out and get some 18% liens with the cash.

NOTE: I'm not anywhere close to an expert in tax liens. In fact, what is above represents just about everything that I know about investing in them. FWIW.

To answer your other question. I don't think its smart to buy RE information from TV ads. Just about everyone I know that has done that has regretted it. Normally you'll get called constantly to buy more REI materials. Plus, if the materials were so great they wouldn't have to hard-sell them on TV ads. Spend some time online researching what the best materials are. Find some forums that discuss that topic and see what the regulars recommend.

Spex:
The only thing that concerns me is I am one year out of college and not sure exactly what my long term future would be. I like the area and would probably always stick around there, but may

decide at some point I want a traditional home.

IMO, you should wait until you're in a spot that you plan to stay in long term. Buying a property is an investment. Its not something that you do for fun or because your uncle said it was smart. When you make an investment you decide how much to pay, how long to hold, and most importantly how you plan to make money. It sounds to me like you don't know how long you expect to hold or how you plan to make money. I'd say pass until you are more settled.

How much should I worry about getting this duplex for a price that would allow it to cash flow? I know the value of the house will be tied to the rents I am able to receive, but it seems like so many people buy places that don't cash flow or are break even. I am concerned that if I ended up having to sell in 4-5 years I could have trouble getting what I have into it.

You should worry supremely about getting the duplex for a price that will cash flow based on today's market rents. If it doesn't cash flow, don't buy it. Period. Good rental investment properties cash flow. When you buy properties that cash flow you are protecting yourself from serious future financial difficulties.

Ive done a bit of reading and leeched onto a fairly successful REI over the past few months. I dont know a whole lot at this point, but I have the basics down and Ive been looking for a spot to jump in.
My question is about financing. A friend of mine got started a year ago trying to flip a house. Ended up not being able to sell and now hes renting it out and barely covering expenses with a ARM that moved up to like 9%. Hes already done all the repair work and has a good tenant thats signed through next year. He cant get refinanced. I figured if I went in on it with him, it could get me started and get him out of a bad spot. If we turned this around a bit we'd both be in a spot to start looking for more properties.
So far weve been turned down completely from our mortgage broker. Hes got two mortages (his house and the rental) and hes cash light because he threw it all into the repairs. I work at a bar, so on paper I make about 20k a year, but I have almost 40k in cash. Im also already in a 150k mortage with my roomate. We figured with my cash on hand, and his W2 income (about 50k) we could get refinanced. But I guess the bank sees it as his lack of cash and my lack of income.
Weve gone through a short list of other potential investors, who either didnt want to do it, or didnt help us as far as getting us qualified. So were pretty much out of people we actually know.
Any suggestions?

So you've got a friend that made a bad investment and your plan is to buy into that bad investment? Sounds like you need to think this through.

Plus, you should declare more of your income. It was mistake to hide so much. You'd likely qualify for a loan if you had declared more.

If you want to hear the arguements for the 2 extremes....for the leverage yourself to max go take the 3 day $500 seminar from rich dad poor dad.

If you want to hear the arguement for using little to no leverage, listen to dave ramsey.

Both have valid points, it's your COMPLETE picture that should ultimately determine it (risk tolerance, amount of money needed for your goal, etc.)
I
wanted to clarify one thing. IMO at least, leverage is not necessarily inherently risky in REI. Leverage is risky when you buy properties that can't be sold at a fire sale price without having to declare bankruptcy. If you buy properties for prices that make sense, you'll likely be able to sell the property quickly without taking too bad of a hit (if any).

Say you've got $100k. You could buy a $100k house. Or you could buy 5 $100k houses putting 20% down on each. Or what you could do is buy 20 $100k houses but pay only $80k each, putting only $5k down on each. Or you could buy a $100k ARV property for only $50k, spend $20k on fixing it, and then refi.

Which is more risky? IMO, pay for the property outright is the most risky, and buying for less than market value is the least risky.

My personal goals would be to invest 100k into real estate in Summer '09 (I will be done with school by then, and will use the time in between to learn enough to feel comfortable doing so. I'm using the 100k figure because you recommended not starting with more than that). In the long term, my goal would be to build a real estate empire. I plan on starting with a couple "trial runs" at ~3 family homes, and eventually branching out to larger apartment complexes, and continuing indefinitely along that route. How would you evaluate my cap rate/COCR/ROI needs based on these goals?

It is strange to me that your goal is to invest $X in vehicle Y. shouldn't your goal be to find investments that give the returns you want? What is the point of having to goal to invest $100k? It is easy to invest $100k in any number of vehicles. What is sometimes hard is to invest $100k at a return that will get you where you want to be in the timeframe that you desire.

As to building a RE empire....Why do you want to do that? Just to do it?

A goal is something specific. Like this, "I want to retire at the age of 45 with $5M of assets." Or this, "I want to make enough from passive investments to put my kid through college." Or this, "I want to pay my house off in 10 years time." Or this, "I want to have enough passive income to spend half the year in Thailand."

You see? When I talk about having goals what I mean is that you need to think about what you want your life to be like. Then you can start figuring out how to get in a financial position to make that life possible. You have to think about the things that are important to you.

Anyone have any experience owning vacation rentals? (i.e. beach houses, etc) The rental money coming in is way over what normal property goes for. From what I've seen in my area, 1200-1500 SF beach houses are bringing in $1200-$1800 per week in rents and the MLS listings in the $300-350K range depending on closeness to water, etc. Of course, any deal is a good deal at the right price and if a motivated seller is willing to take -30% under FMV all the better but what type of occupancy rates are typical for these properties? I've looked at many many houses on online booking places over the last 3-4 months and most of the properties seem pretty filled up for 3-4 months out then taper of sharply. New reservations seem to come in at a steady rate to fill up the outlying time frames and the few open dates left over tend to get snapped up about 3-4 weeks ahead of the date. Any thoughts on these?

I bet vacancy is high in the off season. I know that there are managment companies that specialize in managing vacation rentals. But I don't know any more about the niche than that.

Is it tough to make money flipping contracts?

Its tough to make money at anything. Flipping contracts is very much about who you know. Get involved in your REI club. The last thing you want is to spend weeks searching for a bargain only to not have an investor to flip it to.

Question: First, you've mentioned before that this is not a get-rich-quick-scheme...nor is it easy to even do well at all (easy meaning that any shmoe can just jump in and do it...it requires skill, but it's not a skill so rare that someone can't study up and give it a go, just like poker). So, given that,

what do YOU define as 'rich'...and 'quick'?

Well, I dunno. I've got more than $100k in passive income after 15 years. Plus I've got a substantial amount of equity in my properties. However, I'll say that the vast majority of that money has been created in the last third of my career. The first 5 years I made very little money. The second I made probably three times more than the first. The third I made probably 10 times more than the second. Wealth grows exponentially.

Right now my goals in REI are to sell off everything that eats time (basically everything besides the mobile home parks). Then I want to get into self storage and more passive stuff like that.

Maxtower has gotten me excited about the potential of websites in his thread. I'm learning more about that stuff too. I don't really need the cash, but it has captured my imagination. So who knows where that will go.

So I've been trying to get pre-approved for a mortgage for an investment property. No property in particular, just trying to get a bank to give me papers saying they will lend to me. At first I went to the bank where I keep all of my money. Lady takes all of my information, seems very interested in my source of income. (online poker) She says she has never dealt with this situation before, but does not think it will be a problem. I have tax returns for 06 which I files myself, and 07 which was filed by a CPA. She has to submit the information to under-writers before I can be approved. I told her I was looking to be preapproved for a property in the 150k range and am willing to put 20% as a down payment. I have 115k cash in a savings account with this bank. So she calls me back about a week later asking for more information and tells me a decision will be made very soon. Don't hear from her for another 2 weeks until I get a letter in the mail telling me I've been rejected. Standard BS reason "the bank does not grant under terms requested"
So the Saturday before last I go to US bank to talk to a loan officer there. He looks at all of my information, tells me my credit looks good, but has to talk to his manager about my source of income. He seems to think that it won't be a problem. He tells me he will call me on Monday. I have not spoken to him since that meeting and it has been nearly 2 weeks. I did talk to someone at the REI club 2 days ago and he says it is best if you work with smaller local banks. I don't know if that will help my situation though. Another option I have is to try to use a mortgage broker, which I had to use to buy my condo. (The banks wouldn't do it because it was "under construction") I'm not sure if this is the best option though as they do charge a bit higher rates. I'm not sure if you will be able to give any advice besides try more banks, but I'm getting a bit frustrated with this whole process considering how much of my time has been wasted waiting to be rejected by these banks. Oh and thanks Spex for recommending the REI club, I've learned a lot from just the first two meetings and next month they are bringing in a speaker to discuss short sales which is a topic I am interested in.

Listen to your friend from REI club. Find a small local lender. I'm an experienced RE investor and I don't even walk into the big national banks. They reject me too. They reject anyone that doesn't fit into a very narrow mold.

This is a great forum and all the information on here is accurate. Thanks for taking the time to help everyone out.

I have some background in commercial real estate finance, and acquisition so I understand most of the stuff on here. I have recently been trying to buy shells(abandoned row homes) and restore them and rent them out. Currently, the area is very suspect but has a major hospital spending over $1 billion on expansions and new medical facilities. There is also a mixed use development project getting ready to break ground across the street from the hospital. The hospital is also a top medical school and often has people visiting for long periods of time. I see gentrification of the area taking place in the next five to ten years as well.

With that being said, there are many "investors" who bought shells from 2003 to 2006 that greatly

overpaid. These people had no intention of restoring these row homes, their plan was to buy and hold expecting the hospital and the area to appreciate the homes without actually adding any value. So with that being said, I am trying to get in there and buy these properties for much lower then what they paid, because that's the only way the numbers work. These people are unwilling to sell for less then what they paid and I think it will in turn greatly slow down the overall development of the area.

So basically I'm stuck as to what's going to happen and what to do. What is your opinion on how to go about getting these places at their current value? The intrinsic value of these properties is still there but as I said before buying them for the right price is hard because of all the speculation by current flippers and investors. My only solution right now is to wait it out and see if there will be any foreclosures or the stubborness of the current owners subsides. Your thoughts on this would be great, thanks.

So long as these guys can afford to hold onto the property and bear the pain of seeing their money disappear, I'd say that there is nothing you can do. You can't make someone sell you a property. I think you have to wait it out.

Leverage question.

Lets say you in 2 properties worth about 1.5m and you owe about 1.4m on the props.

Is it not a good idea to try an get into as much of property risk as possible after this fact. If the housing markets collapse you are busto anyways right so why not try an max out leverage so that if it does recover you get maximum reward. It seems like no brainer, im sure Im missing something.

Well, first of all, how are you going to pull out the money? No bank is going to leverage the properties this high. Not right now. Even in the free-wheeling days of 2006 I don't think you'd have been able to leverage the properties up to 100%. Maybe, but it would've been difficult to get more than an 80% refi on either an investment property or a second home.

Second, it amounts to the same thing. See, when you borrow money to buy RE, you have to pay that money back. If the market collapses and you go busto, the bank is going to get the $100k back that you borrowed against the house. Either they'll sue you for it, or you'll lose it in the bankruptcy. Either way, you're not going to get away with all the money and leave the bank holding the bag on your bad investment.

The best thing is to never get into this situation in the first place. You do that by buying properties cheap and keeping them rented. Another thing you could do is buy properties and be sure to put at least 20% down on them

When properties are assessed by the towns its broken down into land and improvements. Are these two linked when it comes to appreciation or does one usually appreciate faster then the other?

No, they appreciate together at the same rate. However, there are special circumstances where it is of benefit to change the use of the property. IN that case, the land is usually worth a bit more empty than it would be with the structure since the structure would likely be destroyed for the new use.

Spex, in the neighborhood that I might purchase a property a high % of the population are not legal citizens. Would you ever consider an illegal alien as a tenant?

Yup, in fact, I've got some in my mobile home parks. Being a legal citizen of the US is not part of my screening criteria. In my experience, illegal immigrants work very hard and pay their rent on time. This business is about getting the rent. These people pay the rent on time every month.

Look, I've got plenty of guys in the MH parks that just sit around all day. They make no effort whatsoever to become gainfully employed. These illegals work their asses off to make their lives better. I respect that. I don't give a **** what their citizenship papers say. Anyone that is willing to work in a pork manufacturing facility for 9 hours a day, or work picking asparagus or lettuce, or clean bathrooms all day, and never bitch is a goddam hero in my book.

The only thing that I'll caution about the illegals - I'm speaking about the Latinos - is that they cook with a lot of grease. At lease the ones I work with do. Grease does bad things to drain lines if its dumped down the drain. I had to teach more than one tenant that they need to seal the grease in a container and put it in the trash. But once I taught them what to do they stopped putting the grease in the drain

I am not spex, but I specifically have looked at the college town thing where I went to college. Here is the couple extra difficulties I found.

College kids can be harder on properties, so just make sure you security deposits, etc cover you.

It is harder to find one where the numbers work. I can think of a couple reasons that would make this the case.
High occupancy, so desirable rentals.
Parents who buy something that their kids will live in while they attend school. They will probably pay more for the place than someone buying it purely for income.

I have yet to find anything with much over a 5-6% CAP rate. Which sucks and isn't worth the hassle.

Another thing is that college towns tend to be desirable places to live even if you're not a student. That drives up prices a lot. In my experience its pretty hard to find good deals in college towns. but like any other market, if you dig for the deals you should be able to find them.

spex, what do you think about multifamily properties that arn't zoned correctly? For example a duplex or triplex that's zoned for a single family.

Most of the time these are grandfathered in for multifamily use. A lot of the time the city has down zoned certain areas. If a property was already converted to multifamily use before the down zoning occurred, it'll retain the multifamily designation until the use of the property is changed.

If, however, the property isn't grandfathered, then its an instapass. If a neighbor gets pissed the city can shut you down.

Now with all this in mind, hopefully I am on the right track, I have set up goals for the next 6 years of my life.

-By the age of 26(4 years) own 5+ properties creating 10K+ in cashflow annually.
-By the age of 28(6 years) own 10+ properties(duplexes-quads mostly) with a cashflow of 30K annually.
-Save 10-15K every 6 months for a 10-20K down payment(20K with my partner) the first 2 years to get the snowball rolling.
-Create capital to re-invest and hopefully by property 10 I can be re-investing my cashflow and not saving up my paychecks, etc.

And a Longer term goal would be by after property 10 I would start investing in bigger properties(10-15 unit) for greater cashflow.

I will be hiering a property managment company for each property fwiw.

Now my question is are these goals ridiculus? or if I set my mind to it they can definetly be achieved? Thanks for the advice and input, and thanks again for everyone that took apart in this thread, its awesome.

Your first goal of 5 properties in 4 years is moderate. The goal of buying 5 more properties in the following 2 years is moderate-aggressive. Reinvesting cash flow while continuing to work full time is conservative. I think these goals are great and totally realistic. If you stick to low-end properties, fix, rent, refi, repeat you can do this easily. If you stick to high-end properties you'll have a tough time getting the cash flow you need to make these goals happen. Good luck.

Hey there spex.
Big props for the thread. You've invested a LOT of time helping ppl here.

I'm still reading the whole thing, but by the recurring questions and themes (and because of my situation), I think it hasn't been answered yet.

I'm from Brazil. RE market is VERY different here. We don't have Mobile Home Parks. The government has laws that favors the tenants (you might have a serious headache trying to expell a non-payer from a residential building/house). Plus, banks get a very high risk-free interest from the government, so bank loans tend to be very expensive interest-wise because of the risk of the loan for the bank (when compared to Gov. Bonds). The "market" has found some questionable ways to avoid the super-high rates banks charge: people form pools, paying a monthly value, in order to buy an apartment every month, etc (I'll get into detail if someone is interested, but for now I think it's not that important).

Now I'm sure there are plenty of excellent opportunities in my market (in my city it is a general concept that almost any RE will improve in value over time, because it is the capital of Brazil, space is very limited and demand/tourism is rising very steadly), but I've looked and didn't find any REI Clubs in Brazil. So I want to start out, understand and invest in the RE market, but I'm having a hard time finding information and advice that is applicable to my country/city.

Summing it up: I have a small amount to start out (the equivalent of an american having 30-40k in the US, I guess), but we don't have MHPs. With the money I have I can't make a large down payment (40%+) even on a small, cheap apartment. And financing seems to be out of the question, because of the high interest. Would you have any advice for me? How should I proceed to understand the market and determine the most profitable ways to invest?

Thanks for your time,
Lucas

I'd probably find something else to invest in.

why would it be bad for a new investor vs a more experienced one? (curious as I'm interested in a similar situation)

i fortunately know multiple contractors who could go with me to look over the properties before buying-because they will surely catch a lot of things I will miss, and can give me estimates on how much repairs would cost that I could then use to bargin down the price with. thoughts on making cash offers for cheap places like these?

there are a lot of places in this country where you can buy houses for <15k...obviously they will be in relatively bad neighborhoods but not necessarily terrible or unsafe ones. figure especially once the market crunch really hits it could be very profitable to make offers on places like these- if I get a bunch , just use a reliable property management company?

Because as a property is in worse condition and worse neighborhood the investment becomes much more risky. You're going to attract worse tenants on average. And you don't really ever know what you're getting into on a rehab until you get started - no matter how many contractors look at the place. IMO a new investor is prone to make very large, costly mistakes on a deal like this that could be avoided. I'm not saying don't do it, use your own judgment. If you are comfortable, go ahead and give it a shot

whats your opinion on investing in not low income areas...it seems like these are the only places that have properties that cash flow (NJ)..but then you have to deal with crappy tenants...my goal is to build up a portfolio of cash flowing rental properties

i assume that investing out of state is a horrible idea

IMO low income areas are the best places to invest if you are investing for cash flow. The trick is to only rent to Section 8 tenants. You'll still have your share of problems, but now as many as you would renting to non Section 8

would it be a good idea for me to look into a property management company if I purchased multiple cheap properties to rent? I'm not too concerned with losing some extra money in repairs short term, but I am a bit worried dealing with tenants, especially when I most likely won't be living in the city I want to invest in.

I think that you're going to have a very hard time finding a good property management company to deal with your property. Property management companies are not too interested in dealing with poor condition properties in bad neighborhoods. So be careful that you'll actually be able to find a company to do the job.

so then it may be better for me to invest in fewer relatively cheap properties in the suburbs, than ones in the ghetto- easier to manage, better tenants/higher occupancy, more likely for me to find a good property management company?

Not necessarily. If you need high cash flow property that you can hire out the management for, you are wasting your time trying to buy single family homes at all. ON the one hand, you're not going to find properties with good cash flow in good neighborhoods, but on the other hand, you can't hire out the management on properties in bad neighborhoods. See? You're stuck.

Perhaps you should save a while longer and buy an apartment building or a commercial property instead.

maybe when I find places like that in not so good neighborhoods it would be better for me to fix + flip for a few k profit, than to hold on and try to rent.

It seems to me that you're going to have a hard time accomplishing this because its hard to find buyers in such neighborhoods. Maybe rather than flip for a cash sale you could do some seller-financed deals or something. What I'd probably do is buy, fix, carry back the mortgage, then sell the mortgage to a private investor.

Sometimes real estate is way cheaper then you think. I close on a house for 9k today that needs less then 10k worth of work to make it rent for 500ish

I want to point out that RE prices are highly local. Just because you couldn't by a $10k house in your area doesn't mean that nobody can. and just because you can buy a $10k house doesn't mean that you can do that everywhere. Depends entirely on where you are.

What happened to spex? Haven't seen him posts for a LONG time? Hope all is well.

I'm still around. Not spending as much time in the office. Obvious reason: I'm out taking advantage of the huge buying opportunities in the current market. I'm looking at several properties a week right now. Basically, I'm spending too much time getting richer...sigh...

Speaking of that, I've started buying single family homes again. I just can't pass them up when I can get $200 per month positive cash flow per unit, with NO REHAB (no kidding, I've bought like 4 of these in the last few months using private money). Its ridiculous. Right now I'm putting together a group of investors to start buying on a larger scale - my goal is to buy 50 over the next three years. Say what you want to about the current market, but if you follow the advice in this thread you 1) aren't in a position to get hurt so bad when prices decline, and 2) are in a position to draw some equity and go on a buying spree when the time is right (like now).

Anyway, another reason why I've been MIA is that the action has slowed considerably on this thread. Sorry if you guys feel neglected. I feel proud to have started the most active thread ever in BFI. But most everything substantive seems to already have been said. So barring some very specific individual situations, it seem like the answers I've been giving here lately have amounted to "reread this thread". I'm not complaining or anything, and of course I'm happy to help, but I'm just not as juiced as I once was.

Still here to help as always

Congratulations Spex with your success.

It must be a lot easier these days now that you have a succesful track record. Gathering funds must be a lot easier.

How are you planning on forming the parnetship? Are you setting up an entity together with a bunch of investors? 50 units in 3 years is quite a target. Good luck with it.

Well, we're still working out details on that. The idea is to get together enough investors that we can buy the properties outright without having to go to lenders. I know that I've always said not to work with partners, and I still stand by that. The main problem with partnerships is that you have to give up so much control. I've made it very clear to my investors that this is MY business - I will not give up control. Since I'm going to be the one doing all the work, and since I have experience and expertise in this area, i haven't encountered any real opposition. Also, we have a clear business plan, a clear timeline, etc. That won't guarantee that there won't be problems down the line. But I've also been very selective with the people I've approached. I'm not going to partner up with a middle class office worker that just got a $50k inheretence. I'm working with more sophisticated people that have experience in REI.

Anyway, the structure is still being worked out, and its still possible that we end up doing more than one group. Most likely what we'll do is purchase 5 or so homes in a LLC, then form another LLC for 5 more homes. We'll form one LLC to do the management. Their are myriad ways to do this and I've got a meeting with my lawyer (also and investor) this afternoon to see what his ideas are. Some guys just want to lend, others want equity positions. So everything is still being determined.

The homes we're focusing on are inner city REO properties. In the current market I'm finding homes for $10k-$20k with only minor rehab, and down to like $3,000 with major rehab. These are properties that should appraise for around $30k-$50k right now. Even at those prices, I can only afford to do a limited number before I run out of cash. Plus, if I spend all my cash on these I won't have any to do the bigger deals that are available. Hence the rounding up of investors. The idea is to buy, rent, collect the cash flow, 10 years from now, start selling them off. Perhaps we'd sell off the whole package if we found an interested party.

spex,

I've read this thread through once (as it progressed so it's been a while for most of it) so hopefully I'm not asking you to repeat yourself. Say I have $300-400k usd (and would be able to do more monthly) that I could invest and that my current hourly is in the $1k range (so doing small deals would only be worthwhile for experience) what would you do? I seem to recall you mentioning something about commercial real estate? What resources would you recommend that I get?

Would you recommend maybe looking into getting a mentor or something to speed up my learning/replace experience gained from small deals if possible to minimize my loss of hourly? I'd be willing to invest basically anywhere, but euroland would be preferred as I live in Malta atm (not sure if anything would be viable locally as prices are high/rents cheap).

Any advice on what I should consider looking into/do would be greatly appreciated.

Thanks

The best investments that I've made have been mobile home parks. They are easy to keep filled with low turn over, easy management, low operating costs, and good returns. If I could only own mobile home parks I would in a heartbeat. With your resources, I would buy mobile home parks only.

The nice thing about MHPs is that it is relatively easy to conduct the DD on them since the infastructure is so simple. If I were you I'd hire Frank Rolphe. I know several people that have hired him to conduct DD for them, all with good results. I never have hired him, but I've met him a few times and he is definitely competent.

Self storage is also seems to be a very good business for the same reasons. I don't own any SS now, but I would buy such a facility if the opportunity arose.

Hi Spex,

I'm not sure if this has been asked as I have not read the entire thread.

I am completely new to real estate and don't even know what a cap rate is. But what I do know is that I want to invest in my first rental property (residential) within a year. I'm motivated and determined and have the right frame of mind, it's just figuring out the best way to start is my question.

What advice would you give me in my journey into the real estate world? Tell me everything you would do if you were a beginner in my shoes. What will I need to do in my first year? Thanks so much!

Um, I started this thread in order to answer that exact question. I'd suggest you read it throughly.

You need to start by deciding what your goals are. That should take you about a year (just kidding). Once you know that, you should take a hard look at your personal finances. Figure out where you can cut back and save more money. Pay off all of your consumer debt if you have any.

Study REI. Read everything at the library. Join an REI club and go to all the meetings. Borrow the REI club's materials if they own any. Learn about all the ways to make money in REI. Think about REI all the time. LOOK around you. Every time you see a derelict house try to imagine how you could turn that into money. Read the newspaper and keep up on market rents. Read the MLS and keep up on property values.

The first book you should read is "What Every Investor Needs to Know About Cash Flow and 36 Other Key Financial Measures". Learn how to apply the formulas.

All that should take you about a year.

My goals are to become wealthy investing in real estate so I dont have to work for an employer ever again. Is that specific enough? I have zero debts and about 50 thousand dollars to start
.
Those are goals in the loosest sense of the word. I want you to set specific goals with specific action items to achieve them. You want to become wealthy. What does that mean? How much money do you

need? How are you going to continue to make income after you stop working? The answer to the question of how much money you need depends wholly on what you want your life to be like. You invest to get the money. But you want to get the money so that you can be master of your time. Thus, investing - in REI or anything else - is a means to some end. That end is your goal. Consider what you want your life to be like and how to make that life possible. This what I mean.

I don't even know much about homes in general. So I was thinking about adding significant value to my own home to get practice and experience. See if I am even creative enough to solve these types of problems.

That is not a good idea at all. Do nothing except learn. AFter a year of learning, PM me the answer to this question.

Are there any REI books that talk just about deals and analyzes them? How do I go about finding a mentor? through REI clubs likely?

You don't need a mentor. If you want one, read everything by John Reed. That is all the mentoring in REI anyone would every need in this life.

So you suggest saving as much money as I can to get into this business.... what kinds of things will I need to spend money on?

Down payments on properties. But I feel its important to get rid of all your consumer debt before investing. That is just my opinion. You'll want all the credit you can get, and paying off all your balances will help your credit score tremendously.

Can you comment on investing in RE during a slumping market and in an up market? What are the challenges/benefits of each?

In a slumping market you can find better deals. In an up market you can't find many deals at all. One thing about the up market of the last several years was that credit was sure easy to get. That helped all the smart investors but screwed pretty much everyone else. I hope that one day you'll be one of the smart investors.

Sorry if this has been covered. If so, please point me to the page or post and that would be great.

Anyways, two of my friends have been investing in real estate now for two years. They currently have a 3 bedroom rental home, two 8 unit apartment buildings, and most recently purchased two 12 unit buildings (same property) that were flooded here in Iowa.

I've started assisting with the renovations and am looking to partner up with them. The problem is that I personally do not have the extra income to make an immediate financial contribution. Right now we're trying to come up with$20k-$30k to complete the renovation of the flooded units and I've been researching ways to come up with the funds. Are there any government grants or federal loans for this type of thing? I'm somewhat familiar with the SBA but if there are grants available then that would be good. If not then what is the next best option(s) for coming up with funding?

Thank you

This sound like an extremely BAD investment. Perhaps I'm misunderstanding the situation. But it sounds to me like you're buying into a flood-damaged property. You should not do that

If I have a property on a certain street and one comes up for sale a couple houses away, how much value would be added to an investor who can get a portfolio in a central area?

I can't see it adding any real value. If anything owning a whole subdivision of houses would decrease the value of each since they would all be in a neighborhood full of rentals

Spex

What is your story?

How did you start? What were the 1st 5 years like? How did you start getting capital for commercial deals?

I ask because I want to get out of the residential market pretty soon. I want to start acquiring commercial property.

I was lucky to have some capital from a business I sold, and I also had a good job as a market analyst when I started. I also got lucky that my first property - which became a rooming house that I still own to this day - was in a neighborhood that went on a tremendous upswing. A bunch of old Victorians that a local lawyer decided to start renovating. Plus even not knowing what I was doing I got that property for about 15% under FMV because I caught the seller putting out his FSBO sign. About 3 days later we had it under contract.

That first house produced a positive cash flow. We saved a lot of money by living WAY below our means. Then I got a duplex - we moved in, renovated, rented, then bought a fourplex. We were able to create a lot of equity that way. I think we did about 10 deals like that in the first five years.

The first big break I got was around my fifth year. I developed some relationships with several local bankers. Pretty soon one of those guys called me one day to offer me a warehouse they were going to foreclose on. The banker knew I had some equity and some cash. The balance on that loan was $75k, and the place was worth $150k FMV. They wanted 20% of the $75k, but I didn't have that much. So I convinced them to take a second on one of my properties, and I gave them like $10k and the owner - a real old man - sold me the property in lieu of foreclosure. It was a sweet deal that just fell in my lap.

I only held that property for about a year, but it was a complete cash cow. I had it rented for $1400 per month triple net and I think I was paying like $500 on the mortgage. thinking back, I'm a little surprised I could get that much. I saved all that cash for future investment. After a year or so I sold the property to the tenant for $140k.

Now I had some cash to play around with. I liked commercial property, but I couldn't really find a good deal that I could afford. One of the SLUMLORDS at my REI club was retiring, and I picked up a 15 unit building. The place was a disaster, but I got a good price on it. I figured that I could add value and refi some cash out later on. So I did. Those units were renting for $375 per month. I rented them Section 8 for $550 per month each. I think I had about $40k or something in that thing (I was doing almost all the work myself then). I goddam near doubled the value of that place. A year later I refied my money back out.

Somewhere in there I got a single family house that was on a major street. I wanted it because I saw similar properties that had been converted to office space and the rents on in similar locations were real high. I figured at the least I could rent it out cash flow neutral and hope for appreciation, at best I could rezone it and rent it out for a good cash flow. I did rezone it and it was a pain in the ass. I rented it out to a lawyer for a while who finally ended up making an unsolicited offer to buy it. I sold it for probably 10% under FMV, but I created $70k in equity on that property plus the cash flow. So I didn't complain too much.

I tried the buy, fix, refi with a smallish B retail shopping center. The thing as half empty when I got it. I spent like $100k in cash sprucing the place up. I filled it up and it was making good cash flow. Eventually I decided to cash out of it and focus on mobile home parks exclusively.

Basically the rest is history. By that time I had enough capital to just buy, fix, rent, refi. Eventually I discovered that you can make REAL money in flipping mobile home parks. Later on I got a mobile home park and added like $300k in value in two years.

There are a bunch of other deals too, but I think you get the idea. Several years ago I started developing a manufactured home subdivision and that has been very lucrative for me. But basically, I developed relationships with people and those relationships paid off.

When you're using a fix, rent, refi model, you quickly realize that you can add tons of value very quickly but then your ROI flattens out. I used to always want to cash out to reinvest the cash where I could put it to better use - by repeating the process. The problem though is that eventually you get to the point where you've got too much cash and not enough time to keep doing those deals unless you're always risking everything on every deal, which obv sucks. So I started holding more stuff, and here I am. Now I pretty much only invest for cash flow.

I'm not sure this rambling post answered your question.

pex-

If you wanted to continue growing at the same rate that you did when you first started, I'm curious as to the route you would take. Would you look for bigger commercial buildings and try to acquire them cheaply/add value to them? Develop high end properties? Continue to look for mobile home parks/self storage properties in surrounding cities/states? A mix of whatever seems to make sense?

Well, i was trying to make the point that it is very difficult as a one man operation to continue growing at that rate. If you put $100k into a project and cash out $200k in two years, then put that $200k into a project and cash out $350k, then put $350k into a project then cash out $1M, then what? What about if you've got $2M? What about $10M? In the beginning you don't have much, so you are forced to put everything into every deal. But after you get some cash, I'd advise not risking all of it on every deal. Do you plunk down $1M into one project, or spread it out over several projects? You can realistically only do one of these type deals at at time, and you'll be working very hard at that one. Its just too much work for a small operation to do more than one. Plus the deals aren't all that easy to find. I happened to find them, but I got lucky and I was operating in times of easy money.

The key to generating wealth quickly in REI is to buy, increase value, then pull money out to repeat the process. With a modest amount of cash, good credit, a good REI education, and a strong work ethic, you can go anywhere in REI.

What is your minimum threshold in terms of price/cash flow (not as a function of the PP) for looking at a deal?

this is best described in terms of cash on cash return. I need a 20% minimum COCR to do a deal, and that cocr has to come from the current cash flow. You buy based on what is there, not what the upside of the deal is.

Of course it's dependent on the upside but I assume you aren't going to be even looking at a 50k SFH or somethng that's gong to cash flow 100/month for you. Do you still actively search as hard as you used to for deals or do you sit back mostly and wait for someone in your network to come to you wth something? The pool of buyers shrinks as you get into higher and higher end properties, at what dollar value, if any, do you think that a significant portion/most of the people actually considering buying a property will know each other? Does it get harder to find motivated sellers on 1m+ properties?

Actually i just put together a group of investors that will be buying 50 SFHs over the next three years. We're just getting ramped up, but we're planning to start buying in April. Why are we doing this? Because there are lots of foreclosures in a certain area that has shown consistent growth, stable employment, and reasonable appreciation rates. The area is marginal inner-city but is in the path of progress. We are cash buyers so we are going to be able to negotiate very good prices on these houses. Best of all, the houses will cash flow about $200 each rented Section 8. So I'm still buying SFHs, just on a larger scale.

If you want to do what I did you have to look for properties in marginal areas. Inner city properties are the best for what I'm describing. I don't know the answer to your question. The upper end of my range is really $2M properties. Is it harder to find good deals on $2M properties? depends on where you look for them.

Spex thanks again for all the information you've shared in this thread.

When you talk about pulling money back out after increasing value, are you talking about a HELOC?

50K purchase price, 20% down = 10K cash in property, 40K mortgage ... pay 10K to increase value by 30K, you have 20K invested in the property that is worth 80K ... do you get a HELOC for the 20K you've put in? Then you have a property worth 80K, a 60K commitment to the bank, and no real capital depletion?

You could do it with a HELOC, or with a cash-out refinance. Or you can sell the property. You're probably going to get a better deal on a refi than a HELOC. But yeah, basically what you said above is what I mean. You want to be sure you're not over-leveraging your properties though. Try to stay at 80% LTV (of FMV, not of PP). This is not a hard-and-fast rule, but it is the safest way to invest. So in your example you'd probably want to find a $50k property, get no more than $16k into it total, then refi up to 80% LTV.

You also want to be sure that once you refi up to 80% LTV you're still going to get a solid cash flow from the property.

One last question, and thank you so much for answers, do you have to have a real estate agent? It seems like the agents are mostly for finding you properties, but I am able to find the properties I like via Zillor or redfin. Maybe you already answered that, if so could you give me an estimate of where in the thread, so I don't have to dig for too long?

I don't like to use agents, however, I deal with them all the time. There is nothing wrong with using an agent. If it makes you feel more comfortable, go ahead. A buyer's agent is trully redundant and unnecessary. Its up to you

It seems to be the case that we all have to eat ** for the first couple of years learning the ropes until we are ready for the big leagues.***

REI is very unglamorous IMO. thats why I try so hard to encourage everyone to consider their goals carefully. Its hard work, especially in the beginning. If you aren't exactly sure why you're doing it, you probably aren't going to last

Spex,

posted this as its own thread got no responses. Although it's not your normal type of rei, wondering if you had any thoughts on it:

Title: Foreclosures/Sheriff's Sales

From what I understand in many counties in my state, these houses used to go for 80% of market

value, now it's down to 60% with the possibility of going lower. Other states that had bigger bubbles even more discounted.

Is the following scenario possible in today's lending market?
1. buy house valued at 80k for 40k.
2. Get loan for 60k.
3. Put 5k into cleanup, landscaping, carpet, etc,
4. Rent out so it cash flows
5. pocket 15k.
6. Rinse and repeat.

Obviously it's not as easy as the above, and some challenges/problems I foresee:
1. Bank not lending as large amount over purchase price.
2. Not getting to look through house you're buying. How to gather info in this situation?
3. Most houses at sales are bought back by original home owner. Do you only bid on houses where original owner has walked away?
4. Even if loans are possible, may need to take out less than 75% to make it cash flow.
5. Getting people being foreclosed on to actually leave.
6. Restrictions in neighborhoods/cities on turning house into rental.

Normally you have to deliver cashier's check within 24 hours of sale. These properties sell for cash in hand. In other words there will be no closing. This is a major problem for pretty much every lender. You could maybe get a hard money lender to finance these and then cash them out with a refi after 12 months. But you gotta find a HML that'll hold the note for 12 months, and most don't like to go out that long. Other than that significant hurtle, your system is pretty good. Your best bet is to approach a rich uncle or rich poker player on this site.

Could you explain the late night infomercial (can't remember the exact name) that is declaring that they can show you how to find a 100k house for $500 because it is a government tax foreclosure? Do these really exist and if so is there a free listing anywhere for these? I am obviously a real estate noob and this caught my interest.

Thanks

These are actually courses on how to buy tax liens. A tax lien is government imposed for back taxes. The rules are different in each state, but the gist is pretty much the same. The investor bids will purchase the government's tax lien at auction. The government just wants the cash. The investor is bidding on the interest rate that the home owner will have to pay to clear the title of the lien. So, for instance, on a $4500 lien, the investor will have to pay out the $4500 to the gov. at the auction. The investor takes back the lien as collateral. The home owner must pay the investor the interest rate he got at auction. The home owner has X amount of time (1-2 years normally depending on the state) to redeem the property by paying the investor the $4500 plus interest. If the home owner does not redeem the property clear title is transferred to the investor.

Is it possible to get a house for $500? Yup. Is it likely? Nope. the money in tax liens is made by getting good interest rates on secured investments. The VAST majority of the time the home owner will redeem. Personally I don't invest in tax liens because I don't live in a tax lien state. as a passive investment it has always seemed like a good deal to me though.

Southern Minnesota which is about 3 hours from where I live, but my friend who is managing them lives there. There are a ton of similar deals. I made crazy lowball offers on 7 more today. The friend with 81 units has 100 percent occupancy which is nice to hear, the only risk I see to buying these is high vacancy.

The 3 I bought so far were bank owned. I bought one for 21k from Chase Manhattan bank. In the past couple of months they had declined offers of

31k and 25k. Then they accept my 21k offer. Go figure

Slow down. These deals aren't going anywhere. Follow through on the offers you've made. Then get the units rented out before continuing. You don't need 15 empty houses. BE CONSERVATIVE and take it slow.

Congrats though, these seem like great deals

Anyway, here's my question: every deal in there depends on having a very clear knowledge of what a property is actually worth. But I don't feel comfortable with my own assessment of fair market value for properties. I don't really know what to expect homes to sell for. So how can I get better at determining fair market value? Especially in such an uncertain, downward moving market as the current one, it seems difficult to determine fmv.

Also, what are the websites you use for checking comp sales? (<-- I realize this has prob been answered before but I can't find it.)

Normally residential property is appraised based on comparable sales. The appraiser will pull out several comps from recent sales in a given area and compare them to the property under contract. Just have the realtor pull some comps off the MLS for you. It won't take long for you to get a good feel for the market

Spex,

For example, if a 3/2 with no garage sold for 200K and two months ago, a 3/2 sold with double garage sold for 205K, should I assume that the difference in price of 5K is the value of the garage? Or is it the two months that went by?

Thanks!

Normally the appraiser will attribute a value such discrepancies. Like, they might add $10k for one property having a larger lot or something. Where they get these numbers I have no idea. I guess its an appraiser's trick or something. Appraisal is far from an exact science. If you can get into the ballpark of about 10% give or take, IMO that is pretty decent

I live in Northern Michigan where most of the money that comes into this county is from tourism. Snowmobilers and hunters in the fall/winter, and Boaters and dunebuggys in the summertime. Home prices have been killed here. I have the ability to pick up 2-3 bdrm homes between 650sq ft to 1100 sq ft. The price range is between 15-20k. Rentable income in the 400-450 is very do able. My plan is too purchase at a price that the rental income will cover the entire purchase price in 4 yrs.

Do you have any advice. I have never bought rentals before. My goal is to acquire 10-20 with 2-3 yrs. At these prices and rental return I would be a fool not to do this I believe.

Thx in advance and none of properties would be mobile homes. More like cottages with and without additions.

I've given lots of advice about this in the thread already. I'd suggest that you review the 1100 posts in this thread for more information. After that, I'd say that I think these sound like pretty good deals. I'd also caution you to take it easy and make sure you're not over extending yourself. Buy one or two, get them rented, then see where you're at and make a decision. No reason to rush - just take it slow and steady and make consistent smart decisions based on your goals and you'll be fine.

Hi i am Ronald,

What are the biggest real estate investing mistakes?

PAYING TOO MUCH FOR PROPERTIES. That is by far the biggest mistake I see people make. IMO, MOST people overpay.

As a corollary to the last one, underestimating repair costs is pretty huge. Also, misjudging expenses in pro forma analysis is pretty big.

I think those are the top three biggest.

Spex x,

Say you own a SFH (my former residence) that could cash flow well but cannot ever get a rental license due to off street parking requirments.

My ability to buy more properties w/o a partner is going to be tough for a while as my income is all from poker/REI/small business with little history and not much income.

Would you sell knowing you will not be able to reinvest the time and money in other RE or would you rent w/o a license?

(note that I do not have any other rentals in this city and can probably tell I am trying to find good reason to rent it w/o license)

Most likely I'd rent without a license, then plead ignorance like crazy if I got caught. Most of these types of ordinances are intended to bring owners into compliance without penalty. I can't imagine that you'd ever get caught in a million years for this. If you do, I can't imagine that you'd actually get in any real trouble. Find out what the penalties are, and go from there.

My dad got 'caught' with his duplex. There was a MINI fire in the basement, fire department came and inspected the house. The electrical was 'out-dated', (nothing to do with the fire) the basement ceilings werent fire rated drywall, and there wasnt a fire rated door.

They made him update everything - which cost us $3000. If he didnt, they would have made him vacate the people in the downstairs unit.

So option A is spend $3k, get license, rent unit. Option B is rent unit, collect rents, get caught someday, spend $3k, rerent unit. Seems like B is the clear winner.

My probelem is that there is no updating I can do to get a license. I don't hav the 2 off street parking spots required locally and there is no way to add because there is also a max of 35% frontage used for parking(I have no back or side access).

I'd just hate to rent to somebody and then get caught, I am sure someone would forcing them to move out basically. I am sure I could pay the fines and re-rent it out risking getting caught again but I have no idea how they would take to that.

Have you considered asking for a variance so you can add your parking spots? It would be pretty common to get something like that. Happens all the time.

Have you considered asking for a variance so you can add your parking spots? It would be pretty common to get something like that. Happens all the time.

Yeah I have thought about it but I just don't know if there is any risk in bringing the specifc property to the cities attention. When I have called in and asked I have always asked "hypotheticals on a property I am looking at" but if I actually ask for the variance and they deny it then I have no way to plead ignorance and the address has been brought to their attention.

This is a lower middle class neighborhood with mostly first time home buyers and renters, no kids running around. I don't really envision anyone tipping off anyone that I am renting without license.

I have also thought about just adding the parking(I am a cointractor and can do it for cost) and then if I get caught w/o the license maybe they will view the effort of providing parking as a sign that I was trying to do things the right way but was just stupid. Seems like if the parking is already there they just gotta grant the variance on the 35%. But if I ask for a license they will say no cause you have no parking and can't put it in.

Within this, where is the biggest margin?

-the inefficiency created bc there is an illiquid and/or scared market for really beat-up properties?
-the value added to the property when it gets improved?

Now if you were working within a downtrending market how are you discounting the period of downside risk? I would assume say now, you are trying to renovate and move these things as fast as possible.

The comment you quoted was regarding flipping. I'm not a flipper, I'm only a buy and hold investor. I was just relating what several of the established flippers that I know do. So with regard to flipping specifically, I guess I don't really know the answer to your question for sure. Maybe ask Tien or GiddyUp, they'd probably have more sophisticated response to these questions.

If you're talking about my business model of buy, fix, rent, refi, that is another story. But I think the difference b/t market inefficiency and added value is kinda splitting hairs. Really, they amount to the same thing. The reason you can add value to the property is because you can get the property so cheap to begin with, and the reason you can get the property cheap is because it needs repairs. Am I missing something, or does this clarify things for you?

That's obvious but perhaps I worded this poorly. I was referred to within the context of his own work. From reading his posts, seems he does have an angle and preferred market. Most RE developers/ investors usually work within a niche they understand and within those niches have areas of the project where they really look to maximize return.

If he only wants to talk about things qualitatively guess I am barking up the wrong tree.

Ok, I think I'm with you now. You want to know what types of problems are fixable, what degree of effort different types of fixable problems with take, and the expected return of different types of fixable problems. Right?

It depends a lot on what property type you're looking at. If its a single family home or a small rental (<6 units) you are looking for structural problems. That is because all these properties can be bought with regular SFH financing. So there is a lot more competition for these properties. Also, generally having great cosmetic qualities are generally NOT going to be worth the investment. You want to do BASIC cosmetic stuff (mostly paint & carpet). But in order to get properties that show a good cash flow, you gotta go find properties that are distressed so you can get the low price you need.

If you're looking at apartments, MHPs, or other residential commerical property, you are primarily looking for properties that are POORLY MANAGED. You get more bang for your buck for your cosmetic improvements here because you have some economy of scale so you can negotiate better prices. Plus, each tenant added will be worth more money to you than the SFH tenant.

On the other hand, you DO NOT make much money in this asset class by buying properties that are extremely distressed. that is because the property will be valued based on INCOME ONLY as opposed to the SFH which will be valued based on comparable sales. Distressed commerical property will gain very little by fixing the foundation, for example. You have to fix the foundation to keep the building standing. However, unless you can translate that foundation repair into more net income, fixing the foundation will add basically no value to the property (or, another way to look at it is that it will turn an unsaleable property into a saleable property).

So that is why cosmetic improvements will make you more money in the apartment complex. You make cosmetic improvements, raise rents, get more tenants, then you'll seriously improve the bottom line. In commerical REI, you want to find properties that have high turnover, poor quality tenants, outdated cosmetics, bad or no landscaping, few tenant services, etc. Those are things you can fix easily to create value quickly. But in SFH, you primarily want to buy the property super cheap so you can fix whatever is wrong and still be able to get your money out and still have a postive cash flow.

Spex,

It seems that you own some MHP's and it sounds like apartment buildings. Are you worried about selling these when it comes to retire or cash out? I know you have mentioned that you are most concerned about cash flow. Do you plan on needing to sell off these or pass them on to family?

Per sqft in my area comparable duplex/triplex properties sell for less than SFH's and seem to move slow. I only have a few rentals and am looking for another that can be easily converted to SFH when I am through for a higher sale. Do you put much stock into resale of cashflow investments or just search for the best flow and figure you will get what you can when you are through with them?

I plan to wait until the market is real high and then start selling them off. For single family deals we are always considering the upside over time. We intend to sell them in 10 years or whenever the market recovers. In the mean time, and this is IMPORTANT, we are getting a significant cash flow from the units. Even if in 10 years we only got the cash out that we had initially invested, we'll still have made an excellent ROI on the cash flow alone (like 25% pretax yield or so).

For commerical property it is different b/c it will be valued based on income. For those, I'm VERY concerned with creating a bunch of equity right away. First off, I can tap that equity to buy more property. Secondly, I can get all my money back out the property quickly. Thirdly, the equity adds to my net worth, which makes me less risky to lenders. Fourthly, the added equity is my primary retirement vehicle. I haven't decided at this point if I'll sell the properties, or keep them. Most likely, I'll sell everything except the mobile home parks (which are not management intensive anyway) and hire out the management to someone then live on whatever income the properties produce.

Honestly, I love this ****, and I'm pretty sure I'll never retire.

Spex,

Ever looked into small scale developing?

Be is creating MHP or campgrounds or turning raw land into lots, Lakeshore development?

Seems like there is a boat load of money in developing if you have the right connections. There is a group around me that seems to do fantastic in devlopment of sub divisions. I understand that the owner of road/utility construction co. and a RE guy have a stake in it.

I don't know what kind of risk/profit share % they have but I don't see the RE investor bringing much to the table in the partnership except the vision.

Yeah, in fact, I'm developing a small mgf home subdivision right now. What I do is when I find a good double-wide home for sale for a good price I buy it, buy a lot in the subdivision, run the utilities, build a foundation, then stick the double wide on top. Shazam, you turned an unfinancable trailer into a piece or real estate. Then I lease/option or seller carry the sales price. Most of the time I seller carry then I sell the notes to other investors.

The risk in developing depends largely on what type you're doing. Building custom homes is relatively low risk because you've already got a buyer. Building spec homes is somewhat more risky which is why all the builders are busto right now.

I view the commission compensation as 3 possibilities. 1. I could make more money than I would at any other job with my age/experience. 2. I could make roughly the same amount of money. 3. I could make less than minimum wage.

I view the opportunity as a great learning experience especially to be working hand in hand with Justin (the owner)

Jordan

You're spending a fortune on college in order to make yourself more marketable to employers. That is a smart thing to do IF you're going to go work for an employer. Its always smart to spend time and money acquiring the knowledge you need to succeed in your chosen field. But, if you're going to start flipping houses for a living, then the money spent on college coursework might be wasted.

So lets compare. On the one hand you're PAYING someone to teach you about stuff that likely will not enhance your income. On the other hand, you're being offered the opportunity to learn how to make as much money as you want in a field that you want to work in.

I'd say that you'd be getting a good deal to work for free compared to college courses. The fact that you're getting paid anything is gravy. Its a good deal. Take it.

I have a question I suppose sort of fits the criteria for being related to real estate investing.

I want to know how much the rent would be for a commercial property, like a store of sorts, that has an entrance with a small front desk area, 5 small rooms, and a small bathroom. I know I'm being somewhat vague here, so a range, depending on the exact particulars, would be just fine. I just want a ballpark figure.

Depends on the market, property, and location. There is no way for me to answer that question. Go to loopnet.com and look at properties for rent in your city.

He basically wants to play possum and trick RE investors into overpaying for property by pretending to be motivated sellers when they actually are not. It is complete fantasy and would never work. Pretty sure this is just one in a series of retarded posts by mr adam d that I've seen today.

Well....I can imagine some situations where such a ruse would work. for instance, some property sellers will offer low down generous short-term financing terms to buyers knowing that they buyer will never be able to close when the loan is up. I've seen that kind of think in the MHP arena a lot of times. Seller asks a very high price for the property, but at 10% down, interest only for 3 years or something. The inexperienced buyer, fresh out of a little-money-down seminar, snaps the property up, hoping for an easy turn around. Later on they find out that its going to cost much more than anticipated to rehab the park, and the interest pmts on the inflated pp eat up all the cash flow. Inevitably, the loan comes due in 3 years and the buyer defaults. The seller repeats the process. I'm aware of two sellers that are notorious for doing that over and over again.

Basically the seller is doing exactly what adam suggested. He is playing the motivated seller in order to entice a motivated buyer to pay too much on unreasonable terms. I can't see how that kind of thing could work in a Lonnie deal.

Thanks for a great thread. I havnt read the whole thing but im working on it.
I have a situation i would love to hear you comment.

First some background on me:
I have been a highstakes pokerpro for many years and i have made good money. Recently i started to feel that i need and want to do something else than playing poker for a living.

Now the case:
My wifes dad is a real estate businessman and he goes back 30 years or more in the business. He builded a very big company out of nothing but was wiped out in the beginning of 1990 due to some major bankcrises in sweden. After that he started out again and has built up a new company with my wife and her sister as 50/50 owners.
He doesnt own anything on paper but he is the man that decides everything and kind of owns it despite whats on paper.

Anyway he is 65 years old now and wants to quit working. He needs to sell the company, or his share of it, to get some money to live the end of his life.
He is a very nice guy and we are very good friends.
We have talked about me buying majority of the company from him, leaving my wife and her sister as minority owners.

Everybody but me think it would be great. I dont really know. I can say 100% that he is not going to scam me in any way. I will probably get a fair price. We have decided that he should ask an old reputable firm that estimate prices on these kind of houses to get a price that we can work out a deal from, if im going to buy.
Before this company has done this estimation he thought that the price for 60% of the company would be around 300k. I can and will probably pay that in cash if im buying.
The company owns 3 buildings with rental flats. The are newly renovated and in very good shape. They are central located in a small town of sweden and fully rent out. (Im swedish btw) This town is 400 km from where i live at the moment.

My idea is that i could buy this company for a fair but not great price but instead of doing a superpurchase i could learn from him at and get his knowledge along the way. He has said that he is going to help me all that he can if i want to.

My plan right now would then be to sell these properties in lets say 5 years, and buy something that is nearer home for me. When i sell i hopefully do that with a profit and at the same time i have learned much faster about the real estate business with him being my mentor.

What do you think of my situation? I would be very greatful if you could say exactly what the downsides and upsides are for me.
Every advice is valueble for me.
I havnt decided yet to buy, so i hope you understand my thinking.

Sehr Gut

1) if you father in law has not TECHNICAL ownership of the business, then he has nothing to sell. Basically, you are the only buyer. Who else could he market the business for sale to? So the most you would willingly pay for it is exactly what his "share" is worth. No willing buyers means that you don't have

an asset.

2) It sounds to me like you don't really understand the investment too well. Probably not too smart to put $300k into buying something you don't really know how to operate.

3) I wouldn't do this deal. However, I can see why you might consider it in your position - with the seller being your father in law and such. But you DEFINITELY under NO CIRCUMSTANCES should pay the full amount in cash up front. That deal is WAY to generous even if the guy is your father in law. Perhaps if you move forward you would give him maybe $75k up front and make payments on the balance or something. That'll keep him more active in the business while you **** it up for a few years.

How big of an investment would you recomend to start with if the 300k is not money i need, and i will continue playing poker on the side and hopefully be able to grind out about 300k next year as well, and on top of that have some other money available right now as well?

Its not the dollar amount that concerns me so much as that you dont' really understand the investment too well. Personally, I'd probably want to start with about $30k or so and give REI a try for a bit before committing so much more. What if you can't stand it? REI is usually an active investment - its a business that'll have to be run every day.

3) Could you explain the exact reasons why you wouldnt do it?

I don't invest in businesses I don't understand how to operate.
I don't invest in businesses where I'm the only willing buyer without getting a steep discount.
I don't invest in simply order to help out people that I'm fond of.
I don't invest substantial amounts of money into a new idea.
I don't work with partners for the most part.
I don't invest in businesses where it is impossible to calculate the return. In this case, you don't understand the risks, so you can't calculate your return.
Its not worth that much, but on a gut feeling level, this just doesn't seem like an amazing opportunity for you in your situation.
There are probably lots more reasons that I can't think of right now.

Plus there are a ton of unknown variables, and issues that you don't know to ask about, nor have the background to understand. The biggest one that comes to mind is the debt structures and their ramifications.

Some other questions too:
Do you think the mindset of a pokerplayer is something that you can use in the real estate business?

Hard to say. You don't have to be a genius to excel at either poker or REI. But in either you have to be diligent, hard working, and willing to hone your craft. One problem that I've noticed with poker player landlords is that when they pull down $100/hour at NLHE it becomes hard to muster the will to chase tenants for $500 rents.

Do you think one can start with this business at 20% work rate, and playing poker the other 80%, and still learn it good and become successful at it?

My thinking was that i could try it out and do some kind of fading with my pokerplaying. Then if i liked it i could just develop this business or if not i could sell it and go on to other stuff. What do you think of my plan?

yeah, this seems like a doable plan. Almost everyone starts in REI while working full time.

spex, I found this statement on a REI page and wanted to know your thoughts.

"There are 4 main benefits to owning real estate:
1. Appreciation
2. Depreciation leading to tax benefits
3. Principal pay down
4. Cash flow

Charts will continually show that #1 and #2 are the keys to creating 'TRUE WEALTH' in real estate, and far out distance the last 2 in the short or long term."

Rich Weese

Would you disagree with the last statement? I know you favor cash flow over appreciation but could you elaborate on your view of appreciation in REI. Would you consider that investing for appreciation is riskier but also potentially more rewarding?

Wow, i think this guy is a joke. IMO, his method of buying break even properties and hoping for appreciation is stupid.

however, he is not completely wrong either. In a way I invest for appreciation as much as if not more than for cash flow. The difference between us is that he is a PASSIVE investor and I am and ACTIVE investor. What he does is buys properties with little down, and hopes the appreciate. I've made my thoughts on that method clear numerous times (low yield, time intensive, and essentially gambling).

What I do is find properties that I can increase the value of by increasing the income that they produce. I FORCE appreciation. I do that buy increasing the net income of my properties. The cool thing about that method is that when I increase my NOI BOTH my cash flow AND my appreciation go up.

So lets say that I find a 15 unit building that currently rents for $400/mo for 2brs and is pretty crappy. Crappy owners usually are not able to keep expenses below 55% because they're too lazy or dumb to operate their properties correctly. So we're looking at $43k NOI and I get the place for $430k. I get it at a 10 cap because of the condition and tenancy problems.

Now lets say that I can rent those units out S8 for $500/mo. So I fix them up and do that. And lets say that I can make some operational improvements and decrease expenses down to 45%. Now my NOI is $66k and because its now nice and functional I can sell it at an 8.5 cap. So the new valuation would come in at $776,000.

So I forced the property to appreciate by $346k. I also increased my cash flow from $43k less debt service to $66k less debt service. depending on return on equity, I might want to keep the property, sell it, or refi.

My way beats Weese's by a long shot. IMHO.

spex, I can't get your numbers to work. I can get it to work as a 20 unit building rather than 15. Is it me or the numbers?

Its the numbers. i think i started out using a 15 unit example, then I calc everything using 20 units. Dumb.

In looking to sell notes on non-real property, is it better if the title is in my name (transferring it to the note purchaser) or the debtors?

In my state, the title must be transferred to the debtor's name. I guess it depends on your state laws. I think that this is really a legal question, and my feeling is that the answer will depend heavily on the disposition of your state's laws regarding these ownership issues. So perhaps lawyer would be a better person to ask.

how do you determine which are good or not? just go to them? what about the ones that require an annual fee? (REI club)

I joined them all. Annual fee is about $100 per club. I regularly attend 4. Not a huge investment. True, some are better than others. But they're all worth the $100/year.

If you're asking this question, you don't know what to do with your capital.

Park it in the bank and go out there and absorb as much information as you possibly can.

Go to all the REI clubs, find out who the successful investors are, and ask questions. Learn learn learn.

You won't know now what to do. You may want to do loonie deals, you may not. You may want to buy apartment buildings, you may not

.
QFT. IMO, I'd avoid lonnie deals if you can. They make money, but they're for building. If you already have cash, prob you're better off investing elsewhere. Nobody gets rich from Lonnie deals. However, you can use them to create capital to get rich with.

For now, follow Tien's advice.

On another note, what % of your assets are you willing to invest in one time. I did forex for a while, and i never risked more than 1/50 of my account on a particular trade. do the same rules apply here?

Risk is, of course, somewhat diminished in a typical RE deal, and is very very much diminished if you follow closely the guidelines I've set out for you in this thread. But I can't really tell you HOW risky REI is. You gotta guess at it. Remember too that due to experience REI is way less risky for me than it is for you.

Having said all that, the % of my money I'd risk depends on what type of deal it is. All REI deals have a lot of risks that are totally out of the investor's control - government regulations, tax law changes, etc. Personally, I try to get as little of my cash into the deals as possible and I do deals where I can get all my money out really fast.

ok this question is sort of intrusive.

were you in that group of house-flippers that got burned when the bubble burst?

if not, did you find the situation humorous and say " I told you so"?

I think that what Wyman was getting at is that in, I believe, the very FIRST post of this thread I specifically stated that I'm NOT a flipper. Second, I've pointed out repeatedly that my area of expertise if in RENTING. Third, I've said repeatedly that I deal mostly with commercial property, specifically apartments and mobile home parks.

I don't find it amusing when misguided people lose money chasing a dream. The unfortunate reality is that the REI advice industry is SATURATED with con-men "gurus" that prey on people's dreams. Many people were sold a bill of goods and suffered for it. Many others got rich on luck then gambled everything on the next deal only to lose it. But no, I don't find other people's financial difficulties amusing, and they don't make me feel smug. I'm not trying to be a big shot. I'm trying to help people get to where I am. I would think that after all the time that I've put into this thread that would be pretty clear.

For the record, I'm not too impressed by your comments. It seems to me that you asked me if I feel smug because in my spot YOU would feel smug. That makes me think you're an *******. Correct me if I'm wrong.

There is an area about an hour south of me that has houses for sale at an unbelievable price compared to where they were a couple years ago.
so?

My plan is to go in with cash offer, prob even offer full price and rent the houses out and wait for them to appreciate. The second one sold for 250k in 2006. I don't expect it to be back at 250 but I wouldnt be surprised if it goes to 150+ in 5 yrs. I figure I can get min 800/month rent. I won't have a mortgage so I am pretty much assured positive cash flow.

Have you read ANY of this thread at all? I TOTALLY AND COMPLETELY disagree with this method of "investing". I've outlined me reasons for this throughout this thread.

Since most of these are short sales, what are the chances of the bank accepting my full price cash offer and how long before they accept? I know banks are swamped these days.

I have no idea why someone wouldn't accept a full price offer for anything that they were trying to sell. I have no idea how long a bank would take to close a short sale deal. It probably depends mightily on the bank.

If houses are selling this low, then why are people renting instead of buying? I know credit is bad but with a 12k down payment the mortgage is like $250 /month.

Because most people don't have $12k in cash. Sad fact. Also, many of the people that have $12k in cash want to put 10% down on a $120k house rather than 20% down on a 60k house.

Oh, and wtf difference does it really make? People rent for myriad reasons. Not the least of which is that they were recently foreclosed on.

Bump. I got a couple other's people's input in response to my post. Do you have anything to add to this spex?

Tough question. I grew up working around SFH renovations, so I was somewhat competent starting out. I'm expect your local REI club could guide you somewhat here. Also, a few hours at the library couldn't hurt. that is where I'd start learning before I even looked at any houses. The fact is that once you understand basic construction, problems start to jump out at you.

Also, if you are afraid to get ripped off by contractors, be sure you are using people that are recommended by REI club members or other landlords. I've found that if you ask 10 or 15 people for 3 recommendations, there will be a couple names that get mentioned over and over. May not be the cheapest guys, but will generally do quality work at a fair cost. Obv you don't want to just hire the cheapest guys.

I've also found that speed is a way bigger problem among contractors than honesty. In my experience they are honest but tend to be slow. I use guys that have proven to be quick. Although sometimes the only way to know is trail and error.

Spex,

I really buy into your REI strategy of buy, refurb, rent, refi. This seems like it would be the quickest and safest way to reach my financial goals. As you like I have determined my financial goal as follows:

"To have enough money to be financially free. That is (a) to never have to work for an employer again, and (b) to have a passive income from my investments that covers all of my living expenses."

This is a very good start I think. What you might consider is the AMOUNT you'll need in a diversified investment portfolio that provide you the kind of life you want. This gets somewhat trickier, but is pretty important. The idea of having cash-generating investments like REI is great IF you also have somewhere to stick the cash. Over time you want to try to spread out your money.

Honestly if I were bringing in £45,000 per year I wouldn't know what to spend it on since I'm not from an extravagant background.

This might be true for you now, but I promise that things will change. You'll get older, get married, have kids. You'll want your wife to come with you to travel the world, so you'll have to factor her living expenses in. Then you'll have kids who'll want to go to college, etc. You'll want to buy a house, so you'll have a mortgage to pay.

I'd like to be at that stage where I know I'm safe by 35 (I'm currently 21) and then spend my time travelling and continuing to develop my portfolio as a challenge to reach a £100,000 annual passive income. Do you think this is feasible?

Is it possible? Yes, definitely. However, I want to strongly caution you here. People tend to be very focused on getting rich FAST (14 years is fast). That kind of thinking is why so many people get busted investing. You want to invest like Buffet - content to wait months or years for the RIGHT opportunities to come along. Rushing will cause you to make mistakes.

My initial plan is to try to get hold of 2 bedroom terraces for £40,000, these would require a 30% downpayment with a 7% mortgage. If I can get a mortgage for 30 years this would be for £28,000 with monthly repayments of £188.00.

I dunno about the UK, but here you are generally not going to be able to get a mortgage this small for a 30 year term. You're probably looking at a 15 year tops.

But this means my rent works out to 0.8% of my investment and not the 2% goal. Honestly I know people have said it before but to be getting that number seems impossible. I'm already trawling bargain bucket properties in auctions, repossessions and at the county court whilst having the longest possible mortgage. To make that 2% figure I would have to find a 2 bedroom house for £25,000 which I don't think exists in the UK any more. Should I seriously be considering anything less than 2% an instapass?

If the numbers don't work they don't work. You're going to help yourself tremendously by being patient. Perhaps rather than focusing on SFHs, you should try to learn more about creative REI. Creative REI focuses on taking properties nobody wants and making them into properties that everyone wants. This is what I do with mobile home parks and crappy apartment houses.

2. Would you instapass on the £40,000 house outlined above? What about if you were just starting out?

yes and yes. this thread has afforded you the opportunity to pass on trash deals.

3. Do you have any tips for filling vacant properties?

Easiest way is to have properties that people want to live in. You do that by giving them something that they feel is better than they could afford.

5. What would be the quickest way to get from that £45,000 income to £100,000? I have a few ideas

in my head but I doubt any of them are worthwhile. Something tells me that maybe I should just set £100,000 as my goal because all of the mortgages paid off at £45,000 is more of a hindrance than a help. I would be better having that capital leveraged across forty units than having fifteen fully paid off. And then trying to get all of the mortgages paid off through cash flow and moving equity around.

Where is you market? Right now I'm interested in expanding my rooming house portfolio. Thats because every time I have a vacancy in my rooming house, I get about 40 calls. I know that people need the housing, so I'm in a position to capitalize on that population. THAT is the quickest way to create wealth - find a need and fill it. I don't intend to be vague or to blow your question off. I realize that you are asking for specific methods for buying houses cheap. The key is to get the stuff that nobody else wants. That is what makes it cheap. SFHs are generally NOT cheap.

John Reed wrote a book called "How to buy real estate for 20% less than FMV" or some such. Its worth reading both volumes. I'm not sure if or how the techniques will transfer to the UK though.

The only realtor i know in my city is the one i used to buy my house 3 years ago. I have a few target neighborhoods i am looking at for potential flips and am unsure if just calling this realtor and have her start pulling comps and info from the MLS for me is OK, or if I should be doing things like this myself. Also, if/when i successfully flip a house, is there anyway to negotiate a lower commission % or is the ~6% something standard that you cant really control and just have to factor into the numbers?

Thanks

Some observations about how you're going about this. Flip candidates are almost never found via realtors. Usually to get the kinds of prices you need to flip a house and make any money you have to use aggressive techniques like pre-foreclosure, foreclosure auction, etc. Its not really a matter of looking in certain neighborhoods. Usually its a matter of looking in certain large geographical areas (like large cities, or even several cities).

Realtors have no skill for finding bargain properties. And rightfully so considering that a realtor's job is to get the best price. If the property is being listed by a Realtor, that person is going to have the fiduciary responsibility to the seller to get the best price. That pretty much precludes bargain purchases.

You definitely can negotiate lower commissions. However, the best realtors (the ones you want) probably aren't going to be that willing to take much less than the market rate. On the other hand, the best realtors typically have the most business sense. I'd say its worth a try.

Spex x Great thread only onto page 3.. So much great info.

Quick question, Since most your family is in the RE game or were. Did you soak up all the information they gave you.

Oh yes, for sure. However, none of my family was very good at REI. They were mediocre at best. I learned more of what NOT to do. but they definitely got me interested in it to begin with.

Did you go to college and learn some more, or was talking to family better investment time then paying for classes. I hope that made sense.

Ha! I majored in religious studies. It wasn't until later on (after grad school) that I realized I didn't want to pursue that academic life. but I was a pretty lazy guy so I wanted passive income. That has always been my focus.

Spex great thread, i've read through it a couple of times over the last year.

I'm graduating college this fall and basically have my choice of the country to move to as my field doesn't really require a specific geographic location. I've only ever lived in California and have seen in this thread that getting off the ground areas like California and NYC are just to expensive and competitive to start out in. I'm serious enough about real estate that it is my number one criteria for a destination. Going off that, do you have any advice (either a specific location(s) or a feature of that market that I should be paying attention to) of where I should relocate to?

Thanks for the whole thread,

Lucas

It really depends on what you want to do. You could go to a place like Detroit and buy property for $1. But you'll have a harder time renting it out to anyone. Personally, if I were starting out I'd probably find a state that tends to have looser laws regarding manufactured housing and start out doing mobile home deals. Then I'd buy MH parks.

But as a general rule, you want to look for a two things: 1) good economic base including blue collar work, 2) stable or increasing population trends. IMO, blue collar towns that are growing are the best candidates for rental property investment. Think Chicago, Milwaukee, Tulsa, OK City, etc.

Then again it depends on how you want to invest. Low income housing, apartment buildings, development, flips, or what?

I'm not sure how helpful I'm being. I don't analyze too many cities for investment, so I'm not too sure how to answer the question.

I

So we are currently thinking about getting into real estate, I have some accounting background and we're both decently clever. Feels like the fact that we have decent capital should be in our favor as well. However, we are at the brainstorm phase and we find it pretty tricky to start off, you mentioned earlier that it might be better not to pay too much in cash for example, what you recommend for 300 000USD? Should we try to be pioneers for the Swedish MTP? (:

I don't know what to say other than you just want to buy properties that show a significant positive cash flow. $300k is enough to buy retail property, however, IMO you should probably stay away from commercial to start. Perhaps some small multifamilies costing around $150k or less with significant upside on rehab would be good. I mean, mortgaged the properties would have a smallish amount of your cash tied up, and you'd have plenty left for catching up to the learning curve.

Mostly, I advise that you start off small and leave plenty of cash in the bank. Don't invest it all at once. Do a deal, make it work, and go from there.

Hi I've read a few pages of this thread but I haven't been able to find what I'm looking for. If this question or something similar has already been answered please direct me to that.

I'm at the brink of committing to an investment plan. I'm looking for long term growth and have a high risk tolerance. What are the advantages to choosing real estate over other forms of investment? What are some characteristics or situational advantages one may have that may make real estate more lucrative than other forms of investment?

Good question. It depends a lot on how you invest and what other specific investments you're considering. I'll point out first off all that RE is generally not passive, and I'm not aware of any way to make it totally passive. I price the non-passivity into my deals, and I recommend that you do too. Anway, here goes:

1. Passivity - compared to other small businesses, REI is much more passive
2. Safe leverage - REI is a much safer way to leverage your money for higher returns.
3. Tax advantages - REI offers unique tax advantages, most notably depreciation. These advantages shelter your income against taxation.
4. Multiple ways to make money - This is a big one. Positive cash flow, mortgage paydown, appreciation all contribute to ROI.
5. Opportunity to make money quickly - Another big one. Using some strategies you can make several multiples of cash invested over a short (1-3 year) period of time. Cap rate values multiply NOI. So at a 7% cap rate when you spend $100 to get another $100 in net income per year, you add an additional $1400 in equity ($100/.07=$1428). Thats a 14x multiple of the cash invested.
6. Geographically diverse - Principles can be applied from anywhere, including out of state or out of country investing.
7. Easy - REI is pretty straight forward stuff. At least at the level I do it. If you're doing $10M deals, its probably another story.
8. Low competition - There are a lot of great opportunities waiting for someone creative to come grab them.

Thats all I can think of right now but I'm sure there are more.

really see myself holding properties for a while and caring more about the cash flow. That said, if I can fix up a property and refi at a profit so that I can purchase more rentals that just makes too much sense not to do. So to be clear my focus is 100% initial cash flow and what makes a rental unit rent for more money... secondarily I'm wondering what are the best improvements in a the actual property to increase the market value. These would all be residential units. And also to be clear I have no desire to flip.

Ok, so you want to buy single family homes and small multifam units I guess. In order to make money in that game the most important thing is to buy for way way less than fair market value. Normally in order to get those kinds of bargains you have to buy properties that need extensive rehab. You also can't make much cash flow from small rentals even if you do add significant value. Not unless you use some specialized management system like single room occupancy or inner city Section 8 properties.

Another problem that arises with bargain purchases is that you typically need to close fast and dirty - no disclosure, all cash, no inspections, no contingencies, right now. With traditional financing that is hard to do. Not impossible. Most people have to use nontraditional financing techniques like hard money to accomplish these deals. The problem is that hard money puts you in the flipper's dilmena - carry costs are daily eating your profits. That means you're under lots of stress. hell, you might was well just flip the dang house and be done with it.

What this all should tell you is that its not a matter of buying a property and sticking in some new flooring and laughing all the way to the bank. You aren't going to get paint & carpet properties for enough discount that you'll get a good cash flow or add any real value. Why not? Because there are a million young couples out there willing to overpay and taking nothing for there labor. You can't compete with that. You gotta get the houses they're scared of.

There is one exception that I'm aware of, and that is distressed inner city properties. You can buy these at huge discounts, rent them S8 for decent cash flow, and sometimes add a lot of value with simple improvements. The reason the prices are so low though is because not too many people want to buy the properties. So you could get stuck with a catch-22 come cash out time.

now, if you're talking real income property such as apartment buildings or mobile home parks, that is an entirely different beast. I can address those if you want to hear the differences. Just let me know.

If you wouldn't mind I'd love to hear your take on apartments and mobile homes. My buddy did a Lonnie deal where he picked up a trailer for $200 and sold it for $2k. The profits seem disgustingly sick, and the fact that you can finance at those profits at 10%+ seems even more sick. The only

thing that bugs me about mobile homes is that my inner Adam Smith can't fathom how I can pick something up for $200 and sell it the next day for $2k. In any efficient market this should obviously never happen. But that said I respect that a lot of people have made large quantities of money trading by completely ignoring Nobel prize winning economic theories.

The market value is the most someone will pay for a product. However, what happens when someone is willing to pay more money for a mobile home than the amount they have? What is the market value then? Of course, its still the price they are willing to pay, even if they can't afford to pay that price.

You are willing to pay much less, but still more than the owner buyer can pay. So the seller has the choice to either 1) finance the buyer at market value, or 2) sell to you for less than market value. Enough sellers will choose option 2 that you can make good money.

IMO that is an efficient market. Its just a housing market where there are very few lenders. The reality is that the seller is normally making out about the same either way. Say the seller has the choice to sell to you for $2,500 cash, or sell to another buyer for $5,000 on a note. If the seller takes back a note, the fair market value of that note is only about 50% of the face value. In other words, if you went to a note buyer you'd be able to sell that note for about 50 cents on the dollars. So that $5k note is only worth about $2,500 cash. Either way he is getting $2,500 in value out the the home.

And fwiw I'm looking at duplexes currently. I also got a nice big dose of reality when I gave my list of properties that I was interested to an agent who basically said none of the list prices are deliverable prices and there's people bidding up prices quite high to the point where I don't see how they will make money. I guess it's time to start going to RE investment club meetings.

Yeah, welcome to the world of REI. Most real estate 'investors' are nothing more than appreciation speculators. That is pretty much the whole reason I started this thread. There are only two real ways to make a profit in REI: 1) adding value, and 2) buying for less than fair market value. Period. You don't get either of those from properties listed on the MLS. Or at least, I'm not aware of a method for doing so.

f you wouldn't mind I'd love to hear your take on apartments and mobile homes.

Commercial property is valued totally differently than residential property. Income is going to be the main driver of value in a commercial property, whereas comp sales will value the residential. This difference is so tremendous it is hard to overstate. That is because the income of a commerical property is capitalized, which means that every dollar of additional net income has an EXPONENTIAL effect on valuation.

Say you buy a residential rental house. You buy it for $100,000 and you net $100 per month. You upgrade the carpet and paint, maybe plant a few shrubs or something. Now you net $200 per month. How much is the house now worth? Probably a little more than the $100k you paid. Maybe $107k. You created $7k in equity.

lets compare the same scenario to a commercial property. You buy a small mobile home park for $100,000 at the market value of, say, 8% cap rate. you add $100 per month in additional income, or $1,200 per year. That $1,200 per year adds $1,200/.08 = $15,000 in additional equity to the mobile home park at the market cap rate of 8%. Thats twice as much value for the same income increase.

If we take it to the next step, consider the affect of buying distressed commercial properties. Say you buy a half empty mobile home park with a net income of $25,000 per year. Since it was half empty you negotiated hard and got it up to a 13% cap rate, which is $192,000. You know that if you get it up to 100% occupancy you can sell it at a 9% cap rate. You fill it up and the income goes up to $50,000. $50k/.09 = $555,000.

So you can see the huge affect that increasing net income has in commercial properties. The VAST majority of the money I've made in REI is by buying properties and increasing the net income by improving operations and making upgrades. this is what I do with both apartments and mobile home parks.

Very good insight, thanks spex.

So in a way residential income is unique in that rents and property value are two organic values that really have little to do with one another?

Its not quite that simple. Rents are generally about equal to the mortgage payment not including T&I, however, market is a huge factor too. Rents and home values should generally mirror inflation I guess.

If that's the case then simply getting residential income properties when property values are low would be your best bet since rents haven't dropped anywhere near what property values have. In fact, if anything there's more demand for rents and thus they should be higher when property values are lower in combination with the fact that many people went from home owners to renters.

yeah, except that you have no idea whether property values are going to rise, fall further, or remain the same. And you don't know when any of those things would happen. You can only guess at it. Personally, I don't want to make my money by guessing. I want to use my skills and knowledge to get into sure things. I want to make my money ON PURPOSE.

You are right about rent increases though. more demand should push them up.

I guess that would imply that between now and 5-10 years it's the golden era for snatching up residential property.

Not necessarily. Prices of RE fluctuate all the time. They always have. The best you can hope to do is either 1) buy for less than the market value right now, or 2) buy for the market value and create more value. There is no reliable way to predict where prices are going to go from here.

spex. i'm very confused. i went to my local real estate investment club and they said a bunch of stuff that contradicted with this thread. they talk about timing the market, they like robert kiyosaki (john t reed doesn't, i didn't think his books were that good either), they say CREOnline is a bad resource to learn real estate.

i mean, should i be joining this kinda club? it also seems to be like one of the few legit clubs in the area, with about 200-300 people at the last meeting.

yeah, hard to say. Like I've said, most real estate investors are not very good at investing. In terms of the REI club, it depends a lot on the leadership of the particular club. We've got some local clubs that I don't belong to because they focus exclusively on beginners. They just bring in REI course pitchmen to speak and offer very little actual content.

If there is an apartment association where you live, that might be a better fit. Or sometimes landlords will form a landlord's association. Those are a bit better because you get get info from people that are actually investing, not just course sales pitches.

A good REI club will have presenters from local businesses that can offer services to landlords. Could be an insurance agent, Realtor, Fire Marshal, cop, community service organization such as Section 8, etc. Those are the clubs that will give you information.

Check out the National Apartment Association website.

Searched in the thread but didnt find much advice for Vacation rentals and the profitability in buying and managing them. Any advice on them and if is a profitable adventure, obv depending on the area and price, or if we are better off going a different direction with out money? Also, anyone know of a good place to find legit info on this subject?

No experience, but I've heard that the management companies necessary to operate such a business take a huge chunk of gross.

spex x,

I've noticed you've recommended John T Reed books in another thread. I think he's great. He seems to be pretty antagonistic (these days) towards buying houses for the prospect of their potential long-term appreciation. He admits that that's how a lot of money has been made over the past few decades, but makes the point that this is not always the case for a given period. He believes that the bulk of the money made is made when you first buy the property. So, for example, in his How To Buy Real Estate For At Least 20% Below Market Value he recommends buying at least that low so you can then turn around and sell your property quickly for say 10% below market value...and free up cash so you can move onto your next deal. What do you think of his attitude about appreciation (he almost equivocates it to gambling).

I agree with Reed exactly. This is my exact attitude on appreciation. I expect my properties to appreciate. However, my investment strategy is NOT to buy properties for appreciation.

If most of the money made is made when you first purchase the property, would you agree that having a system that effectively enables you to scour large numbers of properties on the cheap is possibly the most important component in a future real estate investors gameplan?

Well, you can either buy for less than market value, which is what you're talking about here. Or you can buy and create additional value. Either way is fine. I tend to buy and create value. There is more money to be made in that strategy.

But you're right, if you want to find properties for below market value, then you have to have some kind of a system for doing so. This is not easy to do, however.

Quick question here:

**** Vacancy might also be lower than I am allowing because I expect lower turnover due to the 55+ community.***

Like Tien, I'm very proud of the responses that I've seen from the other posters. A couple years ago there were very few people on this forum that could even do a basic analysis of a RE deal. I'm glad we've done some good here.

Anyway, on the quote above, it is a stretch to make this assertion. On the one hand, you'd expect to have vacancy less often, but when you do have it, you'd expect to have it for longer because of the age restriction. You can't really know either way unless you're familiar with that rental market.

Another thing to consider is having a ton of equity in a property (like owning outright) opens you to a much more significant liability risk because you will have a larger target sign on you. Just more things to think about when you compare this to other investment options.

Would you ever send a letter to the other tenants after such an eviction letting them know what happened and reminding them of the rules? Not so much to remind them of the rules (little doubt they know the rules), but to spread the word that you won't tolerate the rules being broken. Is there a potential downside to sending such a letter?

Ha! They're all related. Seriously. No point to sending it. They'll all know what happened before I even sat down to type it up.

Today I ran across a 6-unit building on the MLS that lists $1,200 in laundry income. spex x, have you ever retrofitted a portion of the basement of a such a building to add a laundry room? What about putting a coin-operated laundry in the site of your MHPs?

I wouldn't put a laundry facility into a building with less than 10 units, maybe even 20. I seriously doubt that $1200 net on laundry on a 6 unit building is accurate. Maybe $1200 gross, but after you amortize the equipment, pay utilities, do maintenance, etc, you're probably operating at a loss. Plus, I find the number $1200 to be suspicious. Shouldn't it be more like $1267 or some such. $1200 even sounds like proforma to me.

Anyway, to answer your question, I've never actually added a laundry facility. Most space that could be used as a laundry facility could be converted into livable/rentable space, which would definitely be a better use.

It's funny how brokers make the numbers look as good as possible in the MLS to justify a bogus asking price. This one had income of $51K and expenses of $19K for a net of $32K and a cap rate of 9.18 based on an asking price of $350K. Except that they've got a zero management fee in the expenses and are assuming 100% occupancy in the income. Doing some quick, dirty math it looks like their true cap rate is a a lot closer to 7.7 at the listed price, which is 4-5% too low in this market.

Oh yeah, this is completely typical. Thats why most MLS deals are junk. The numbers are completely made up.

Noob question - Spex keeps talking about buying rental properties with positive cash flow. Lets say you were looking at a 4 unit complex and the expenses and mortgage pmt was 1000 a month. Lets also assume that each unit can be rented at 300 dollars. If you were looking at a deal where you could buy this complex with 3 renters in it and one unit vacant then it would have negative cash flow. Does this kill the deal? Can you assume you can rent it?

Well, normally you'd just assume you can rent it unless there is evidence to the contrary. If one of the units is consistently vacant, then it probably indicates the rents are too high and you might have to lower them.

stupid question, but when people say they are going to pay in cash is that cash cash or like a check? why would you get a better deal if your paying cash is the owner gonna hide the sale price on his taxes?

No, not cash cash. You'd have your bank transfer funds to an escrow account at your closing company and the closing company would transfer the funds to the seller's account. Otherwise you'd get a cashier's (secured) check for the funds.

You'd only get a better deal because a cash buyer represents less risk to the seller. There is no bank to squash the deal. Cash buyers can also close more quickly since there is less bureaucracy to deal with. Usually fast closings are a benefit to the seller since they're going to have less mortgage interest to pay on the property being sold. All things being equal, you'd always sell a property to a cash buyer over a financed buyer

Spex,

I have a duplex that I lease out. The upper unit's lease is going to end in a couple of months. I got an email from the tenants asking what I'll be asking for a new 12 month lease, and if I'd consider a six month lease or month-to-month and how much I'd want for those.

They have been very good tenants - always pay on time, no trouble, I've seen the inside and they

take care of the place. The rental market here would probably be described as poor and I'd definitely like to get them to re-up for another year. They are currently paying $600/mo

Any suggestions on what to ask for in each case? I've also considered lowering the security deposit (currently $600) to induce a new lease. What do you think of this idea?

I'd probably ask whatever the market is currently getting for each type of lease. I wonder what their situation is that they need a short-term lease. i don't like the idea of lowering the security deposit unless the market is demanding lower deposits. In sum, go with the market.

Most landlords are opposed to lowering rents in a soft market. Thats dumb. If you are having a hard time leasing your property, 99% of the time its because your rents are too high. Soft markets mean lower rents. No way around it.

I have had to come to grips with the fact that, while I buy below FMV, I am essentially paying FMV for a rental. That is because when I flip it to myself I could just sell it for FMV instead. So... am I really willing to pay FMV for a rental (because that is essentially what I am doing)? I started thinking about this when another investor mentioned that a property will never be worth more than when it is newly rehabbed and is fully occupied.

I bought a 4 unit for $31,000 after 18 months of negotiation. I spent $15k per unit on rehab. The units rent for $650 each. That means I am in it for $91k total. When I refinanced I ended up with no money in it. So my COCR is infinite and my cap rate is 18.9%. If I can sell it for FMV when I am done (9% cap rate) I would get about $190k. Would I be willing to pay $190k for this property as it sets? Because I am effectively doing that if I don't sell (opportunity cost).

Actually, I think you are confusing a couple of different measures. On the one hand, you have COCR and cap rate, which you discussed above. But on the other hand you have return on equity. I can see that you intuitively understand there is a difference. COCR is your return on the CASH you have invested. Cap Rate is the return on the PRICE YOU PAID. Return on equity is the return on the EQUITY YOU CREATED. For the vast majority of RE investors, return on equity is never much of a consideration because they have neither equity, nor an aggressive investment system to maximize wealth creation. But for us, when we are deciding whether to hold, sell, or refi, return on equity is a huge part of how you make that decision.

Generally your return on equity decreases as your equity increases. This is particularly true when you flip to yourself since you are creating so much equity in such a short time frame. So you end up in the situation that your are in now - $100k tied up in a 4 unit property. If your return on equity is really low - IMO anywhere less than 15% - then you are probably better off cashing some of the money out and putting into another deal.

You are exactly right in your post. The opportunity cost of leaving huge chunks of cash in properties is way too high. In your example though, you are missing something important. The question is NOT would you be willing to pay $190k for the property you own. The question is how can you maximize your returns so that you can achieve your goals.

COCR isn't an issue for you b/c you are cashed out. But I bet that if you leveraged this property up to 70% you'd make a good ROE, maintain a solid cap rate (on the refinanced amount), and have the benefit of a solid semi-passive cash income to reinvest. I also bet that if you did a total ROI analysis of selling the property vs. keeping it w/ 30% equity you are going to be much better off keeping it. If you keep it you gain from principle pay down, tax advantages, and cash flow. But that is with 30% equity, no more.

I don't have your numbers, so I'm just guessing. But IMO if you can KEEP a property and cash out by refi and still show good returns, you almost invariably should do that. But this is really a math problem more than anything.

I loved this question. what a good question.

ASK ME ABOUT REAL ESTATE.........

You'll never be able to make money again in real estate in our life time and the next...

game over

I'm interested to know why you think this is true. The problem with your post is not so much your conclusion (which I disagree with), but the fact that you posted a conclusion only with no supporting evidence of any kind. Your post says "The world is such". To which one can only possible respond "No, its not". I'm not going to argue with myself here. If you have something to ADD to this conversation, I'm be glad to participate in a lively debate. I like to make money, and I don't like to lose it. So if you have some unique insight as to how I can avoid losing money in REI, I'd appreciate hearing it. In fact, if your insight is good enough and I do save money, I'll personally fly to where ever you are and take you out to dinner.

I do have a question, when you say "you'll never be able to make money again" in what sense do you mean it? Because there are lots of different ways to make money in REI. I guess that you mean that you won't see tremendous appreciation rates? Because anyone can see that you can still make money in REI by buying for less than FMV. Or by renting at positive cash flow. So I'm not really sure in what sense you mean 'make money'

The government intervenes way too much...and now they are creating an artificial demand for housing, signaling a false bottom. People are going to get slaughtered investing/buying homes now. The commercial real estate market is going to be a bloodbath... that will add to the the already terrible problems in real estate market on a whole

There isn't even any demand for housing right now and the government is trying to tempt people to buy with artificially low interest rates and giving free money in the forms of tax credits...

I think you're entirely missing the local nature of real estate markets. Real estate markets are totally local. National figures are not indication of the future of any particular housing market. Indeed, housing markets are local to the micro level. Some specific neighborhoods might show strong demand, and thus upward price pressure, while others in the same city decline. The tax credit might be hurting some markets, and helping others.

Either way though, if you buy on the criteria I've layed out in this thread, you shouldn't get hurt too bad even if values fall in the short term.

20 years ago we had interest rates at 10% and that was a hot market... now we have interest rates at zero and now one is buying crap... lending ONLY SUPPORTS growth it doesn't CREATE GROWTH. And there is no growth going on anywhere. And the increasing of the money supply is only going to make prices nosedive even further.

Um, you're completely wrong. Lending absolutely creates growth in the housing market. You could not be more wrong. In fact, over lending was the main problem that caused the bubble if I'm not mistaken.

I'm not an economist, however, it seems intuitive to me that in a market where transactions are 100% dependent on buyers borrowing the purchase funds, lending is going to dictate both expansion and contraction.

interest rates don't mean anything... the ONLY thing that matters is the size of the payment.

interest rates are only one determining factor in payment size. So I'm not really following how you came to this conclusion.

With all that said...I think people who are not real estate professionals are absolutely insane to go snapping up properties for investment purposes, they are going to get hammered. Oh yea, and the dollar is laughably worthless on top of things

Everyone starts out in REI as a non-professional. So what? A good deal is a good deal whether you are a 'professional' or an 'amateur'. If you find deals that make sense your status as a 'professional' means nothing.

Heck even the professionals are getting hammered...

Yeah, SOME professionals are getting hammered. What nobody is talking about is the stuff I see every day. All the investors that I know are making more money now than they ever have. There is a silent army of RE investors that are buying like crazy, especially smallish apartment buildings (under 50 units) and commercial properties. Single family flippers too are doing well too. The thing is that you have to have cash to get deals done now. So a lot of people had to drop out of the game for a while. then again, thats part of why the market for investing is so good right now.

Frankly, I think you're argument is nuts. It shows that you don't really understand what you're talking about. I mean, you might know the latest numbers and projections on housing prices on a national basis. but you missed the fact that NOBODY INVESTS IN NATIONAL AVERAGES. You invest in specific properties, in specific neighborhoods, in specific cities, in specific states, in specific regions.

If I was in real estate, especially now... I would try and control properties and own absolutely nothing, but that is good real estate advice in any market

Which is fine, and there are several great ways to do that. However, all of the ways for deedless REI are quite advanced. They're not really for novices or beginners.

I think this is the lesson in Spex-style investing. I'll be okay no matter what. Banking goes to *... I'm okay. Property values plummet... I'm okay. Interest rates go sky high... I'm okay. Runaway inflation... yay for me. I hope that is what potential investors take from this thread.***

This is a great conversation, and it underscores the importance of maintaining adequate liquidity in REI. Part of the problem for so many investors right now is that they've over leveraged their properties and didn't maintain enough cash reserve to survive difficult times. The problem with REI information in a general sense is the idea that 'Other People's Money' means that you are not taking on risk. In fact, when you make a living by borrowing (like an RE investor does), taking on debt of any kind carries risk for not only the deal you're working on, but also ALL subsequent deals. In other words, when you make a bad move your lenders suffer, there goes your REI career. At least for several years.

Considering that for a decent real estate investor the value of future earnings using 'Other People's Money' can be literally tens of millions, you can see that the idea of using debt to reduce risk is ludicrous. Sure, you reduce the CASH risk, but in exchange you take on a huge CREDIT risk. If you have good CREDIT you can leverage your CASH up to 5 times its value. So clearly CREDIT is a lot more valuable then CASH. Protect it, and don't **** it up.

I read an article on this idea recently, and I'll try to post a link to it whenever I figure out where that was.

How hard is it to manage a duplex/triplex from out of state? Or rather, should I ask, how expensive is it?

Its not particularly hard if you can find a management company to take care of the property. That should cost you about 5-10% of gross rents. Many areas are more expensive. I've seen as high as one month's rent up front plus 8% of gross. Even in the best case its pretty expensive.

If you are going to invest out of state, I'd recommend that you avoid buying anything less than a 20 unit property that can support its own manager.

from what i've been browsing on reiclub.com creonline and other real estate investing forums, california has an extremely high barrier to entry for an investor. the avg bay area house price is about 500K maybe slightly less but rising each quarter. This is also the "bottom" price over the last 5 years.

tell me if i'm wrong, but it doesn't even seem possible to find cash flow deals in california according to the forums i'm reading. i see a lot of recommendations on wholesaling contracts to other REI's who have a lot of cash.

Yeah, that is probably true. I don't live in or invest in CA markets. I know prices there are high. I doubt you can find properties that cash flow in CA.

what do u think of wholesaling contracts (especially uninhabitable ones in need of rehab) to other RE investors? i think this means you negotiate to buy a house under contract that's contingent upon finding financing in 21 days. u then sell that contract to an investor who has the cash to do this.

now is there a way i can structure a deal so that i get an equitable share of the profit?

i.e. i get a contract contingent upon finding financing for a house in need of rehab at 500k
rehab + closing costs= 200k

i sell the deal to a REi who has the bankroll to finance this, but i want him to put up 630k and myself to put up the other 70k (10% equity).

There are tons of guys that will do this deal. They're called hard money lenders. If you pay them 10 points, they'll put up the cash to purchase and renovate. You pay them back when you resell the house.

If you want someone else to actually do the work, then you're out of luck. You bring nothing to the table for a guy that has $630k in cash and the experience to flip the property. That guy doesn't need you. He'll pay you maybe $500-$2000 for the deal and send you on your way. I've never heard of any investor paying more than that for a deal from a wholesaler.

final sale price= 1 million
net profit= 300k
yield= 43%, obviously there is a lot of risk potentially hidden costs

Get real. Most flips net the investor $10k-$30k, usually not much more. In fact, usually more toward the $10k side. Making $300k on a single deal is exceedingly rare, and based on your questions I'd guess that you don't have the skills to find such a deal.

You gotta forget what you saw on the late night infomercials and on 'Flip That House'. It isn't reality. I can't stress enough that flipping properties is an advanced real estate tactic. Its very risky and not really for beginners.

t's not a triplex, it's a single family house we ghetto separated into 3 units. Do you list the property with the tenants in it and then hold open houses, or what would you do to sell it, given that the upstairs tenants are signed to a one year lease?

Do you have the zoning for 3 units? If you don't, then the property is unsalable and you'll have to get rid of the tenants to sell it.

i think you're probably mistaken, most hard money lenders lend about 60-70% of ARV (after repair value).

No, I'm not mistaken. You asked if you could find someone to put up $630k on a $1M ARV property, and you will put in $70k. I told you that you should go to a hard money lender. if you pay the HML $70k (10 points) they'll likely do this deal. Assuming this is an actual deal, which I doubt it is.

so the profit margin is usually just a % of final sales price. Many houses in san francisco sell for 1M, i'd assume the profit margins being around 300k seems normal.

please critique. (are gittyup and tien specialists in this area of real estate?)

Ok, fair enough. Go find me 10 investors in San Fransisco that have ever made $300k on a single residential flip. You won't be able to do it because it doesn't happen.

Think about it. How dumb do you think the current RE investors in San Fran are? You think that they're so dumb they're letting $300k deals go to noobs that are using nuwireinvestor.com for their flipping expertise? Nope.
Fact: Making $300k is hard to do in any field unless you get very lucky.
Fact: There are already tons of smart people flipping houses.
Fact: There are tons more smart people wholesaling.
Fact: There are tons more than that who are looking any property that they can get under FMV.
Fact: All of those smart flippers, wholesalers, and investors are spending lots of money to find great deals.
Fact: Most houses on the MLS don't even sell for 5% under FMV, much less 30% or more.

I'm not trying to be harsh to you. But I think you're on the wrong track here. I suspect you are making a couple noob mistakes.
1) Overvaluing the ARV
2) Undervaluing the renovation costs
3) Undervaluing your total costs
4) Overvaluing the current 'deal'
5) misunderstanding the current market value.
6) overvaluing your own skills for making the flip happen.

If you can find good evidence to support your position on all of those issues, then you have a deal. If you are missing any ONE of those pieces, then you don't have a deal. Flipping houses is an ADVANCED TACTIC. I don't think you should start in REI this way.

First off, I respect ur opinion. I'm just trying to find out HOW HARD flipping is. I checked out several websites of hard money lenders, 60-70% ARV is what makes a deal.

Yup, thats what I said to begin with, and that is the deal you proposed. You wanted to put in 10% ($70k) on a $700k deal that you project will have an ARV of $1M. If this is a real deal and not wishful thinking, then the answer to your original question is that you should find a hard money lender to do this deal with.

Therefore if any deal is to be done at all in San fran, it has to be done with those margins.

You're getting confused. First off, just because you buy at a 30% discount to ARV doesn't mean your margin is 30%. Its much lower. A margin is calculated as total cost divided by sale price.

I'm not saying they're common, but it has to be at least that profitable or else nobody's flipping rehabs in san Francisco.

Which is why its very likely there are few people flipping in San Fran. You overlooked that fact that just because a HML wouldn't lend on a property doesn't mean jack as far as whether the property can be flipped. Hard money lenders only apply if you don't have the cash to do the deal on your own. Its pretty possible that there people flipping in SF w/ cash.

I know a wholesaler's job is purely to negotiate a deal for less than 70% of ARV so he can flip it to an investor or rehabber. So why can't I just tell the wholesalers what kind of properties, what location, I'm looking for and pay them a 2k commission. I'll let the wholesaler do the dirty work of finding those "good deals".

you can.

I totally agree, there could be several things that can go wrong and any one could destroy the profitability and cause a big financial loss for the rehabber. The risk is not small, but potential reward is hopefully large enough to make it +EV.

I seriously doubt it.

1. Overvaluing of ARV- Can't we just cherry pick good deals? Being patient, checking the numbers thoroughly and use conservative ARVs.

Yes, that is what you would do. Problem is there is a HUGE amount of competition for those deals. So much, in fact, that any time you get a deal you have to wonder if you overpaid on the sole basis that you were the highest bidder.

2. Undervaluing Renovation costs- what if I had 2+ years experience working as a project engineer for a large general contractor, working on $10M+ deals, with experience in construction estimating, cost control, bidding process and supervision of subcontractors? This is where I know a lot of things can get messed up, inaccurate estimating of time to complete. Not knowing that certain cities need certain permits etc…. bad sub contractors. Hopefully, this is where expertise and experience in the construction management is useful. As well as being able to spot what really needs to be rehabbed.

I doubt this experience would translate well. The fact is that its not really recognizing problems that is the hardest part for flippers. The problem is the very very tight deadline. Carrying costs are an enormous drain and breakneck speed is the key to success in the flipping game. IN the US you generally have 90 days, no longer. Considering that it takes a week for most contractors to even get around to giving you a bid, you can see how this would be a problem. Remember that at 15% APR on $630k, you're paying almost $2,000 per week in interest alone.

3. Total costs- which includes the remaining capital costs. According to those hard money lenders, I think they charge 3-5 points, and about 15% apr for the loan. There's probably a 3% closing cost to deal with a broker. They usually want "skin" involved, meaning I'd have to put up 5% of the total investment.

Plus 8% to sell and renovation costs, and taxes.

What if I made sure I had a reasonably competent partner with realtor experience to advise me on the selling process? How do I learn to read up on the indicators of real estate market movement within the area and on a larger basis?
What would the partner's role in this be? I very strongly recommend that you avoid partners. Very very strongly. I'm aware of maybe a handful of RE partnership that worked. I'm aware of hundreds that ended badly.

Also, if say I can't sell it quick, can't I refinance at 80% LTV ratio from a lender to repay the hard money lenders? And hopefully it'll still have a positive cash flow.

Maybe. What happens if you can't refi? Its hard to pitch a bank on a refi for a property that you couldn't sell. If you can't sell it, the bank isn't going to want to have to try to sell it if you default.

I know flipping is an advanced tactic, but can u suggest any other way for a mid twenties guy to get started generating capital? Mobile homes don’t work here, I was checking out tax liens but they don’t offer them in CA. (maybe I can buy them online out of state).

personally, I'd move. Small scale REI does not lend itself to high prices areas like SF. I would definitely NOT try to do a $1M flip for my initiation into REI. That is a terrible plan.

QUESTION;

i bought the bottom unit on a 3 story in cambridge ma a couple years ago for 285k with 20% down. since then it has appreciated, somehow, and the comparables indicate my place is worth about 330k. in the last couple months there have been 70 condos sold in cambridge. right now i pay 1,600 in mortgage payments a month and take in 1,500 a month in rent.

i bought this place without knowing anything about real estate. now i know a little bit and it seems to me my best option is to sell this place, do my research and work, and then put my money into better property. but then again, i just bought the place only 2 years ago so maybe i should hold it for whatever reason, maybe if the place appreciates in a bad market i should hold it and it will appreciate even more in the next couple years.

You should definitely sell this right away. There is no reason you could come up with to keep the property. This thing is going to cost you a fortune over time. Sell it as soon as you possibly can. This is the sort of question that has been covered at length here already, so I'm not going to rehash everything. If you have specific questions about content already posted, feel free to ask them.

My advice: Contact a Realtor today to list this property. We're going into the spring season right now and hopefully you can be out from under it in a few months.

This is my scenario:
Once the property is rehabed and tenant occupied, what are my financing options?

Mostly just a conventional mortgage. Which means that you have to have enough equity after the rehab to get you the right LTV ratio. So long as the LTV is right, and your credit is good, you have a lot of options.

It wouldn't be a refinance, correct? Because a refiannce is re-negotiating loan terms, but in this case I wouldnt have a loan.

Yes you would. You'd have the hard money loan. That is a loan. It would be considered a refi.

-What about the risk of not being able to find such a loan? Thus not being able to pay pack the personal cash loan, Can you quantify this risk?

The risk is huge. If you don't find another source of money, your HML can foreclose and you lose everything. Its a big gamble. I'd spend a lot of time trying to pin down several refi lenders BEFORE doing this deal.

In general I don't like the idea of financing 100% of a property. Its very risky unless you've been in the RE game a while and seen a bunch of people go broke. The reality is that hard money deals are very risky.

This thread is too long. I can't seem to find the info I need. How can a poker pro get a loan to buy a house? I have about 50K~ in stocks that I can sell.

This thread is just the right size to answer all the questions that I've been asked. Which includes yours. If you think this thread is too long, perhaps you'd be better suited to finding your answers elsewhere. That way you're not adding to the 'problem' of the thread being too long. I'll also point out that had you read the first post in this thread, you'd see that I'm not a poker pro nor a mortgage broker, and cannot give you advice about how to obtain a mortgage. I'm sure that topic has been covered at length elsewhere in the BFI forum.

I also have another idea which I am not sure about. Can I rent a big house with 5+ rooms then rent out individual rooms for profit? As long as the landlord allows me to do that, I can do it?

Yes, this is called subleasing. The landlord would be a complete idiot to allow you to do this. But I suppose its possible. Most leases require everyone living in the property to be on the lease. and why would he give up some of his profits to you? Than makes no sense.

If you are interested in rooming houses, you should read the book The SRO System (www.srosystem.com). I'm a rooming house owner, so I grabbed the book out of my REIC library. Its pretty good, and the only resource I'm aware of that discusses rooming house operations. I picked up several tips that I've incorporated into my business. I would have benefited from reading it before I got into the rooming house business.

ny experience renting from month to month ? Would you advise against it, especially regarding bank loans and such ? How about renting single rooms ? Rent for 3 beds one bath around here is 600-700 on a year lease. I have visited some of the places that rent out single rooms (either MtM, for 6 months or 12months leases) and revenue per month was approximately 320 with utilities for a dump and I have seen some go as high as 400*. Pretty much all of them are 100%. Many of these properties can be had for less than 100k...

Yeah, I have a rooming house that I rent out month-to-month. Plus, its typical in my state for leases to continue on a mtm basis after the first year. So yes, I've had and have lots of mtm tenants. Its no big deal.

Its funny that you ask me this question, b/c I recently read a book - the only one I'm aware of - on operating rooming houses. I noticed it in my REI club's library and grabbed it. I thought it was a pretty solid book overall. In fact, it was useful enough that I bought a copy, and I'm sure I'll incorporate some of the ideas into both my rooming house and my larger REI business.

The SRO System by Ryan Beckland. I googled it for you. www.srosystem.com

It sounds to me like the numbers above work really well though.

Also, how feasible is it to be a part-time investor but actually have landlord duties ? I'm looking at 60-70 hours weeks for many years down the road at the small firm I'll be working at and my girlfriend is okay with the idea of renting houses/appartments/rooms for cash flow but really wouldn't like collecting checks, answering angry phonecalls and such, so those duties would be handled solely by me.

I think its pretty feasible. In his book, Beckland has a whole system worked out for this using resident managers and technology to aid in management. I have a kind of a resident manager at my rooming house, but he doesn't do that much. I admit that I'm behind the times WRT using technology. Which is pretty dumb I guess.

IN any case, my wife has nothing whatsoever do to w/ my rental business. She has probably met less than 10 of my tenants ever. So I know for a fact that its not particularly hard to keep your family life seperated from your rental business.

This post hits home for me a little bit b/c I've been meaning to expand my rooming house business for a while, and haven't made much progress. In my area the rooming houses are occupied mostly by the menally handicapped, and I like the service aspect of the business. The cash flow is good too.

has anyone ever seen a company do a value add deal where they JV w the existing property

owner? For example, you have a very underperforming apartment building and its gotten to the pt that it would require a decent amount of improvements to bring it to par and dealing w getting tenants out (which if u are in LA, a big headache bc of rent control). Like someone offers to pay for the improvements and improve the tenant base and in return they gain equity in the project.

This scenario is sort of common in the mobile home park business. Lots of older parks have deferred maintenance issues that make them essentially unsaleable, but the owners can't or won't spend the cash and time on improvements. Budding entrepreneurs go in, take over operations, make improvments, and turn the propety around for resale.

So to answer your question, yes, I've heard of this.

If you wanted to move to another country would this be possible and how much would you end up paying for not being able to be around? Or would you just try to sell them all? (sounds tough to sell a lot of apartments with good prices fast)

Yeah, it definitely could be done. I'd probably have to hire a real property manager to do the stuff that I normally do. But there are a lot of systems that you can use to monitor properties online. A friend of mine has a bunch of mobile home parks all over the country, and he only visits them once per year. So i know it can be done.

Suppose your a single guy with no family obligations. You can pretty much move anywhere in the US for your job. You want to build a portfolio of residential real estate, then eventually move up to commercial. Where would you start off, and why? For your choice, what are the main factors as to why this particular location to start your REI business?

I would start off in stable blue collar towns. Properties are cheap, stable economy, lots of renters. Look for population growth that is stable with few or no dips. You don't have to go to major cities. And you're not going to be able to get bargains in cities like NY, Boston, Austin, Portland, or San Fran. Its tough to get started in cities that are 'cool'.

Another question, which is a better idea, start buying rental properties, or buying your own home? I don't see how buying a house would be an investment if I don't plan to tap into equity. I am very serious about real estate investing in the future and plan to keep expenses real low (rooming with others, cheap car/no car payment), and save a ton of my income to start.

You can do both. I got started with a duplex. We moved into one side, fixed the other, rented it, then fixed the one we were living in. You could do that. Or you could buy a SFH cheap and fix it up. ON a personal residence you can avoid capital gains taxes, so there are some advantages to starting that way.

Financing

I'm interested in the financing portion. You mentioned in a previous thread that typically banks want 30% down but are indifferent to where it comes from. From this you would typically try to get the owner to take a 20% second mortgage on the property. What type of give/take do you do with

him to get him to accept these terms? How is this done? Could you elaborate the process a little more using an example property. Do you just ask him, "Hey man, would you mind taking a 20% second mortgage so I can buy this thing?"

I just ask the owner "Are you willing to carry a note for a portion of the purchase price," or "What kind of terms do you need?" Sometimes sellers need to get the whole purchase price in cash. But lots of times they don't. This is particularly true if you've got an older landlord that is selling off his properties to retire. He doesn't need all the money in cash and he's not going to 1031 the proceeds into another property.

There is an old adage in REI - I'll pay any price for a property if I can choose the terms (and vice versa). So your give/take negotiations w/ the seller should reflect the relationship b/t price and terms. Like if a seller indicated that they would consider carrying a note, I would offer them whatever super-low PP I decide and ask them to carry 30% at 0% interest.

Now, naturally, that offer is ridiculous and will be rejected out of hand. Here is another adage - When negotiating, the first person to mention a number loses. By making a ridiculously low offer, I can get the seller to counter without having really tipped my hand for the price/terms I want. I reveal nothing, and now psychologically his 'turn'.

Anyway, say he comes back at his full asking price and agrees to carry 10%. Well, thats progress. And I'd keep going just like that. I'd write out all the numbers on the property and tell him, "look, if i were to pay this price my cap rate would be X. Unfortunately that cap rate is just too low for me to feel comfortable taking the risk. However, I would be willing to pay your price if you carried 30% of the purchase price as a note at 0% interest".

Well, now its his turn again. So now say that he comes off his price by 5% and agrees to carry 15% as a note at 9%. I'd say to him "Well, if i pay you 9% interest and have to put up 15% of my money, my cash on cash return won't be where I need it in order to make this deal worth my time. I can put up 15% and pay 9% on your note if you can give me the property for $X."

Etc.

You say you don't user a mortgage broker. How do you finance the non-seller financed part?

I work with small local banks and credit unions for the most part. I find that they're much more flexible and they can close very quickly when the need arises. Also, normally you're only one person removed from the bank president, so you can always get quick decisions.

I have been looking to invest in single mobile homes, or even parks if I can get financed. (I am a student, and I farm and play poker for dough) Getting financed will probably be my biggest issue, due to lack of tax returns + steady job.

Financing gets easier if you've got money for down payments. You either need money or credit in order get a loan for RE - from a bank at least. In my experience, despite what gurus will say, its not possible to start in REI with neither money or credit. But if you've got about 20% to put down you can get a no doc or low doc loan at a slightly higher interest rate.

Can you explain a lease option to me?

What is in it for the seller/landlord? What is in it for the renter? How is the purchase structured? Is it more expensive than simply renting? Why would someone lease option rather than purchase?

A lease option is simply a lease that has an option to buy attached to it. Normally the option price is set at the beginning of the lease, so the leasee knows how much he will need to exercise the option. Normally the lease/option contract is a lease for like 3 years or so and I allow tenants to exercise the option at any time. Another way to do it is have a 3 (or X) year lease and allow the tenant to only exercise the option after 12 (or X) months.

The way I do it is I charge a higher rent than market but I give a purchase price credit back to the tenant. So the tenant is essentially saving a small down payment each month by paying rent - that is one benefit for the tenant. I usually give my tenants a $100/month purchase price credit. If the tenant doesn't exercise the option I get to keep the additional rents - that is one benefit for me.

The tenants that I l/o to are people that have enough income to buy the property but not good enough of credit. I've also done deals w/ people that are community college students but have a family. The option period allows them to fix their credit over three years and buy the property with a normal bank loan - that is a benefit to the tenant.

Another benefit for the tenant is the fact that the property might appreciate by the time that they exercise the option. In three years the property could be worth more money but their option price is the same.

The benefit for me is that I make about $250 per month positive cash flow on these by renting them. The lease is written so that all minor maintenance (less than $300) is their responsbility. The vast majority of repairs are less than $300, so they almost never call me. L/Os are very desireable in the area that I'm developing - much more than renting, so I can get the property occupied fast, even if not on the perfect terms that I want. Another benefit is that l/o tends to attract a bit higher quality of tenants, bad credit aside.

Pound for pound, selling outright is better than lease/optioning. I'd never do another l/o if I could help it. But the fact is that l/o is sometimes the best way to get an empty property filled. I also love to go to l/o closings. They're invariably joyful for the buyer and it always gets me a little emotional - thats maybe an intangible benefit. I also get a fat check, which always helps my emotional state.

Quick question -- when you ask a potential seller to carry a note, do you generally expect them to carry it at a rate less-than, equal-to, or greater-than prevailing bank mortgage rates for the same period?

I generally submit several offers to a seller at once. I just figure how much money I need to make each month to cover the expenses and get ROI I want. Anything that is left over can be paid to debt service. That number is constant - so I don't really care how we whack up the debt service in terms of rate. I've got a fixed amount that I can pay. If the seller feels better taking more interest and lowering the principle, thats fine with me. One thing to be aware of too though is that the terms might have different tax consequences, so on a large investment you should probably consult a CPA.

Probably a newb question, but what can good credit be good for if you DON'T have a verifiable income/2 year report. Say you have a score over 700 but no job history, is that useful for anything?

Its useful because with good credit you can probably get a no doc loan.

Are there any set rules for banks to determine if they can give me a conventional loan, or if I need to qualify for 203K rehab loan?

I am interested in some properties that will require work. I would rather spread the work out over a few years and finance rehab with cash... so I would prefer a conventional loan.

You're not likely to convince the bank to finance the rehab unless you do some kind of construction-type or hard money-type loan. Basically you're asking them to loan more than the FMV of the home. They're not likely to do that unless they know that you're going to be bringing the place up to FMV in a very short time. Of course, each bank makes their own rules and has their own priorities and financial goals. So I'm not saying that its not possible. But its not likely IMO.

Another idea would be to get a conventional loan and use an unsecured LOC to do the rehab. The prob there is that you'll pay high interest for the two years or whatever. But then hopefully you can refi the house and pay off the LOC and still have some cash flow and some money to put in your pocket.

Have you ever had an issue with paying a mortage through one of your LLC's? My father and I just set one up, and have recently been told by a mortgage broker it can be an issue down the road. Isn't this standard? I thought the whole idea of the LLC was to limit your exposore, and if you are paying the mortages out of your personal accounts, and are commingling funds, then haven't you defeated the purpose of the LLC in the first place? Was I just given bad info? Thanks for taking the time to do this, lots of great info in this thread.

Yes, its standard to have problems working through LLCs. This is particularly true if you're using a mortgage broker since the broker doesn't have any decision making capacity about the loan. It'd be easier to go to the banks yourselves than go through a broker.

The purpose of the LLC is to limit your liability, yes. However, put yourself in the lender's shoes. If you're not liable for repayment, then who is? Banks aren't in the business of loaning money to people when they have no way to get the money back. They need assurance of repayment. Loaning money to a new LLC is similar to loaning money to someone with no credit history.

There are ways around that though. You can usually personally guarantee the loan in order to put the deal together. That way you'll have the benefit of the LLC for everything except the loan, i.e., if you get sued by a contractor or a tenant or a buyer, etc.

Personally guaranteeing a bank loan for your LLC is not the same as comingling funds. Comingling is when you use your biz accounts to buy stuff for your personal use rather than your biz use. So if you want to buy some groceries and you use your biz credit card to buy them, that is comingling. HOwever, if you write a biz check to yourself, deposit the money into your personal acct and buy the groceries from your personal acct, that is NOT comingling. The owners can take whatever money they want from a biz whenever they want to. They can also give money to the biz whenever they want to. But the biz cannot buy stuff for the owner's personal use without it being comingling.

Thanks for getting back to me. Just to clarify a little bit, my father got the loans in his name, and then we tranfered the properties into the LLC shortly afterwards. So I guess the loan is personally garenteed by him like you said. I didnt know if at this point, they would have issue with the loan being paid out of our LLC rather his own account, since we didnt get the loan through the LLC. I guess what Im asking is could a bank call th loan if they noticed it was tranfered into an LLC. Sorry I really wasnt specific enough in my original question.

I'm not sure if I'm understanding exactly what happened. Apparently your dad took out the loan in his personal name and signed all the loan docs. Then later on he went down the the register of deeds office and changed the name on the deed to your LLC rather than his personal name. Is that right?

If thats what he did, then that action would trigger the due on sale clause and the bank could call the loan. If I were your dad I'd call the bank up and get things straight before the lender gets the wrong idea about what is going on. The most likely scenario is that the lender just says no problem as long as your personally guarantee the note and all our lien has first priority on the property. But you guys should be proactive about this situation rather than waiting to see what will happen.

You think a property is poorly managed. As is, its terribly overvalued. If the manager isn't a tard, it becomes undervalued. How do you exactly do this? Its a trailer park, I'm familiar with the 60/30 rule you've used. But obv if it isn't cash flowing or is a huge dump like one of the deals you described... There is more concern.

This has probably been answered and I'm just donking it up.

I'm not following you here when you're talking about 'overvalued' and 'undervalued'. Under/over valued to who? I basically ignore all valuations other than the one that I make up myself sitting in my office. I get to determine the price I'll pay.

Basically, if you're buying a distressed propery you'd expect to get a high cap rate on current income. If the seller won't sell it do you for a price that makes sense ..... NEXT DEAL! Often enough the seller will call you back in 6 months. When you're the only buyer for a p.o.s. property, you get to set the price.

Spex,
I am a novice learning investor with no real experience. I was talking to a friend of mine about doing 7 day sales. The friend is a Realtor. He kind of turned his nose up at the idea and said. "You know stuff like that was really popular a couple years ago but no one does it anymore. All the guys who were making lots of money doing that are making money teaching other people how to do that now." Is this an accurate statement. I live in Grand Rapids, MI a fairly big city. I'm really interested in starting to 7 day sale some houses. As it sounds like a good way to build some capital fairly quickly. What do you think about this?

I'm not even familiar with the term '7 day sale' to be completely honest. I had to google it. So I don't know. It sounds like Tien knows about it, so ask him. He is perfectly competent.

Anyways, I'll make some general comments. I agree completely with Tien about the realtor. In 15 years as an RE investor I've met less than 10 non-CCIM realtors that know anything about RE investing. I'm talking about regular single family home realtors. They just don't know what they're talking about. To be a realtor you need to know about marketing and sales. Thats it. You don't have to know anything about RE investing to be a good RE.

Realtors, as a group are completely incompetent regarding REI. So I wouldn't be inclined to listen to a realtor about much of anything having to do with REI. Ask your realtor friend how many RE investments he has made. I bet its less than 5. Ask him to describe those deals. Dollars to donuts says that IF he even owns any investment property he bought a $0 cash flow property off the MLS at a retail price hoping for appreciation. Realtors are as incompetent as any other average joe when it comes to REI.

Now, if your man is more than the average realtor, then thats a different story. But still, if I were in your shoes I'd be hestiant to listen to anyone that can't tell me why a specific REI strategy won't work. If he is a 7 day sale guy that knows what he's talking about, then there is your answer. But my guess is that he is trying to impress you with his knowleged, but he really doesn't know WTF he's talking about. If he says that he knows people that do 7 day sale stuff and they're not making the money anymore, ask for their names and call them up. In the absense of a great reason why it won't work, I'd say that you should disregard his opinion.

Look, realtors have a very specific way of looking at buying and selling RE. They are arrogant because they have a virtual monopoly for RE transactions. Like I've had realtors literally laugh out loud when I tell them my investing criteria. They think that the deals I do are not possible. 90% of realtors have never done anything besides run-of-the-mill bank-financed residential property sales. These people are not a good source of information about REI.

I'd recommend that if you want to learn about a specific strategy for REI that you find someone local that is using that strategy and try to get them to point you in the right direction

I wouldn't laugh at ya spex. i'd just simply say if i do find a deal with your criteria I"M BUYING IT!

Its funny. I know a very good realtor that just brought me a deal that I've got under contract right now. Its a very good deal - 10.69% Cap rate, about 40% COCR w/ the seller carrying 15%. I asked her point blank why she is not buying the property herself. She is an investor with 29 properties - mostly SFH and duplexes. She said that she's working 4 flips (!) right now besides her rentals. She bought 12 properties and sold $8M since Jan.1. In my area, EITHER buying 12 properties in 4 months OR selling $8M in 4 months is an enormous accomplishment. Do do both is astounding. Basically she just doesnt' have time. This lady leverages her advantages as a realtor to do her own investing. But she is by far the exception.

Spex,

How are you keeping closing / refinancing costs down?

There is no way to keep them down. Transactions costs are super high in RE, higher than any other investment class. You try your best to price them into your analyses when you buy the property if your plan is a cash-out refi.

Are you taking out traditional mortgages in the first place?

Yes, for the most part. I do some limited development, and I pay cash for that. Otherwise I use traditional mortgages.

For someone starting out, and specifically for someone who's just looking at the rental side of REI and who fully intends to let a property manager handle properties in the beginning, does the following "team" seem adequate or excessive in any way?

**** Mortgage Broker***
**** Property Manager***
**** CPA (who can setup LLC's)***

I don't see any reason why you need either a mortgage broker or a CPA. You're going to be WAY better off if you develop your own banking relationships with local lenders. Approach small banks and credit unions. Those lenders know the market, are invested heavily in the local community, and are much more flexible.

A CPA is probably overkill for setting up an LLC. I've set up all of my LLCs on my own. Where I live it costs $165. If you're not sure what to do, conduct some research. After you do that, spend an hour with an attorney asking any additional questions. I think NOLO press as a book about this as well that is likely useful. In most places its literally a matter of filing a form with the state and paying a fee.

Where does the lawyer component fit in all this?

You don't need one right off (depending on if you live in a state where an attorney has to conduct the closing). Get a lease from the local landlord's association or steal it from a larger property management company (often they put them online). But you don't need a lawyer to get started in REI.

Is there any reason you know of not to purchase properties with an LLC whose loans are personally guaranteed? Any idea how long it takes an LLC to build enough credit so the loans no longer need to be personally guaranteed?

Thanks

You're going to have to personally guarantee loans made to your LLC. LLCs are not really for sheltering yourself from the consequences of business failure. Besides, by the time your LLC had enough credit to get loans without your personal guarantee, they will be too valuable and you'll just have to form a different LLC to protect yourself anyway. The idea is to use entities to spread out your risk of liability. If you have all your assets in one LLC it very much defeats the purpose.

Hi spex, I really enjoyed your last 'rambling' post.

I'm sorry if something similar has been asked before, but it's a long thread.

I have $50k in cash and net about $35k/yr (about 57k gross). I would like to purchase a home in a tight market (San Francisco) to take advantage of the first-time homebuyer's tax credit coming out with the stimulus bill as well as depressed prices and theoretically lower rent in the long-term. I think this would make a good investment as well as the market here has already tanked quite a bit.

What is the maximum price I could purchase a house for/get a loan for (I have little credit history, although no bad credit whatsoever, just not much to go on). I'm assuming 30 year fixed/20% down.

Now, if I change the equation, lets say I have a theoretical acquaintance who nets $100k+/yr and has $200k in cash. How does that change the maximum purchase price. Assume that we can rent out extra rooms fairly easily at market rates (typical rates in SF for 1 room are $750-1100/mo., the reason I throw this in is because with a larger maximum price could afford more than 2 bedrooms and thus rent out).

Thanks for any answers.

I'm not a mortgage broker, so I don't know the answer to these questions. I'd assume that you could qualify for about $250k mortgage making $57k with $50k to put down. If you had $200k to put down and $100k income I'm sure you could qualify for about $500k mortgage. Renting out rooms won't be considered in your mortgage application, so that won't help you when qualifying.

Also note that primary residences are not investments. Unless you are planning to stay in the property for at least 7 years, I think you should rent. You likely will not make any money from buying over the short term.

I have one question though. I'm not solid on how refinancing works in your strategy of buy/rehab/refi. I understand you buy below FMV and fix up the place to increase the value of the property. Say you buy a duplex for $50k (mortgage amount $40k), throw $10k at it and now it's worth $80k. When you refinance, what is the mortgage amount now? Ideally 80% of $80k, so $64k? Does the bank then cut you a check for $24k at close (difference between initial mortgage and the refi)?

Yeah, if that is the amount you want to cash out, the bank cuts you a check. As you can see, its important to have a solid budget in mind for doing repairs. This gets harder if you're dealing with a 10 unit building vs a duplex. But you have to know where you're negotiating from. then you have to keep in mind that after you buy and rehab, your property still has to show a cash flow. So make sure that you price all that stuff into your offers.

If I were buying low end rental properties, would I get better loan terms by paying cash then trying to get a loan after the property was fixed up and generating income?

terms-wise, I dunno. I'd expect you can get better terms after fixing the property up because it'll be a lot smaller risk for the bank (i.e., if they end up owning it, they'd rather have a fixed up property that they can sell quickly).

you also gotta consider whether you want to pull money out after you fix the property up. If you can buy a property for $20k cash, fix it up for $10k, then refinance up to $35k and still get a good cash flow, that is what you should do almost regardless of the difference in terms.

Also, I'm worried about all the fees associated with a mortgage on properties that will likely be worth less than $30k each. Can I get a loan on the value of several at one time to save on these fees?
(getting one bigger loan secured by multiple properties)

Good point. Yes, you can get what is called a blanket mortgage on several properties at once. Not all banks offer them though.

I'd be very interested in hearing other peoples experiences here lately as well. I haven't done too much digging, but in just looking around online it looks like 25-30% down is the norm now and with rates much higher then for regular home buyers, around 7-8% or so. I believe they ascended not descended! In 2003 I paid 6% with just 10% down for a investment prop

Steve

I shopped around just last week a bit, and the small banks are lending at about 6.5-7% in my area. I don't typically work with the national lenders because the conduit loans are too inflexible for my needs. Would a deal close at that rate? Who knows? All the banks want 70% or less LTV exposure, but I'm still finding banks that will accept 20% seller carry back on top. But just about all the national banks right now wanted 25%+ CASH out of the buyer's pocket to consider any deal. Most of the time that sort of deal won't fit into my criteria.

What are your most successful methods of finding investors and raising capital? Would you rather work with people who already understand real estate and want to be actively involved, or passive investors who just want a return on their cash?

you gotta raise the money from people who already know you and trust you. Its the only way that i'm aware of that works. Friends and family are a great resource, esp since your a lawyer and prob have some richish friends.

Secondly, it is of the utmost importance to sell your competence. Personally, I'd rather work with other RE investors because they understand the investments w/o a lot of education. However, I would not want investors to be actively involved at all. But with anyone, you gotta sell your expertise in what you're doing. you do that by putting together a professional quality investor packet, having a printing company print it up, then send it out to your investors.

One tip: if you want money, ask for advice. Take your top 3 to 5 potential investors, explain that you're working on a deal, and ask them to take a look at your proposal. Tell them that the proposal is in draft and you need them to critique it before you send it out. Of course, that proposal is going to be in air-tight final form before you ask for their edits.

and the sub-question:

What terms do you give your investors? Debt, equity, or a combination? One developer I talked to says he usually gives his investors a 9% preferred return and then half of the profits on top of that.

Thanks again.

In my market, most money investors want half of the deal - cash flow and equity. this is not an issue that has a right answer. Basically, you give up the least you can and still attract investors. If you don't offer a great deal, you're not going to attract the money you want. If you make someone a pile of cash in one deal, you'll have money forever. So I'd be inclined to give away more on the first deal and less on subsequent deals.

Spex, what kind of requirements or criteria do banks look for in a home equity line of credit? Is it very easy to borrow against it? Also, do they loan against FMV or what you've actually paid down in your mortgage? I have a rental that I bought for 72K as a primary residence right before I got married at 100% financing. I think we owe roughly 66K on it now and the homes in that neighborhood are now selling around $90-$95K. Basically what I'm asking is can I borrow $90K-$66K= $24K or just $72K-$66K= $6K.

Usually that'd be based on the borrower's credit and the overall LTV (on FMV) of the property. i'm not too sure what the banks will lend up to on the LTV right now. it used to be about 90%, but probably it has gone down. We'll assume that its still 90% for now.

In your case, you've got 66k/90k = 73% LTV. If you can refi up to 90% then you can have total debt of $81k. $81k-$66K = $15,000 available to cash out.

If your payment history with the bank is good and your credit score is decent, you can likely get this deal done, IMO.

my brother has bought 8 houses that were in foreclosure. some have mortgages, some are paid off. All of his mortgages are currently with BofA.

He had an offer of $140k recently accepted on another foreclosure. He wants to get $100k of financing from BofA. BofA had an appraisal done on the house and they say the roof is too old and shingles need to be replaced. Also, they said there are roof support studs in the attic that need to be replaced.

They told us to repair this stuff (which will cost $10k+) before we can do the closing. This seems real extreme and not fair at all. Is there any solution to convince BofA to give us the loan? Do other banks pull this crap? Our closing deadline is next week and we probably don't have time to start the mortgage process over with another lender.

B of A is going to be a lot less flexible than a smaller lender. I'd probably try to line up alternate financing with a local lender. I mean in a company like B of A, you're always talking to a drone that just recites company policy. Get in with a smaller bank that you can knock on the bank president's door to plead your case.

The bank probably believes that the house would not be appraised at a high enough value without those repairs being done, so before they will give you the loan, they need to see the work completed. This isnt very unusual nowadays. Any property purchase that requires work on the buyers part is often frowned upon, and they often will either not give you the loan, or give you very unfavorable financing if you take out a "construction loan".

Yeah, good point. You could maybe get a construction loan on a short term and get them to commit to long term financing on completion of the project. Maybe.

given today's lending climate would you change your answer particularly regarding buying a double wide and putting it on a foundation. It seems land/home packages have lost a lot of their appeal as banks generally won't lend on them and note buyers on these have gotten scarce.

yeah, good point. I'm sure there are still some banks around doing these loans. The key is likely to focus on small regional banks. I was developing a double wide subdivision for a while, but I stopped being able to liquidate and I had to roll over many of my lease/options to seller carried mortgages. That sucks for me because my yield is not quite what I'd like. Oh well. Hopefully I'll be able to sell off the notes once they're paid down to an acceptable level.

In any case, I would probably stay away from land/home deals right now unless you are happy just getting the cash flow from rents. Nothing wrong with that. I know several guys that make their living that way. I expect they'll be tough to finance.

The reality right now is that if you don't have cash you're kind of sunk. If you're starting w/ $5k today, I'd still start with mobile homes, and just churn as many as possible. Maybe try to find another cash cow type business like rooming houses.

Both of the buildings were under 5 year balloon loans amortized over 15. One expired Dec 09, and

the other expires May 10.

The bank who originally gave the financing has changed their restrictions since the crash, and are unwilling to refi. Credit score is higher now, never 1 minute late on a payment, but they dont care. As a business, it has not been preforming over the past 3 years. They dont really care about the fact that we had a crooked manager for the majority of that time, and they dont really care about the improvement over the past year.[/quote]

yeah, their solution to the problem they created is to accelerate off the cliff. Sounds like a bad business practice to me, but I don't know jack about banking.

I've been looking for other banks to refi through. Have had a couple meetings, but all request the 3-year rent rolls, and all will be "getting back after they run some numbers"

I'm ballparking most #s here...
Building 1 (8 units, 8 rentable):
+3200/month rented
122k loan
30k second

Building 2 (10 units, 7 rentable): 2950/month rented
124k loan

House: 650/month rented
50k loan

You left out the most important numbers to the banks. #1 what is the market value of the properties (i.e., what are the market cap rates)? #2 How much equity do you have?

Ideally, we'd also like to have a cash balance in case a good deal presents itself in the near future. I brought these properties from the depths of hell to fairly solid cashflow, and I think I could replicate the process.

I'm pretty sure that isn't going to happen right now. I'd say in your situation you want to make it easy for the bank to say yes. Pulling out cash isn't going to make it easy to say yes.

At one point, I asked them if they'd be open to a short-payoff, to which they responded "make us an offer when you can"
Do you have any suggestions for working with banks when properties do not have a strong 3-year history?

What I would do is put together a very strong proposal. Strong professional proposals make it easy to say yes. Get together all of the following information for the banks. The idea is to create a story. First, you tell the banker why you are the ****. Then you tell the banker why your property is the ****.

One page introduction - who you are & your business goals. Bankers want to hear that you plan to keep the property for about 10-15 years. Why? Take a look at your amortization table. 10 years is the tipping point and they'd love to cash out of the deal. Give a short history of the properties since you've owned them. Everyone loves a redemption story. Impress the banker w/ how you've turned a garbage property into a solid earner. Stress the former terribleness of the property, and stress how hard you worked to bring it around, and the results you're now experiencing. But do it quickly.
Requested loan terms.
1. Address of property
2. FMV
3. NOI
4. amount requested

5. debt coverage ratio
6. Interest rate requested
7. term of loan.
Copies of your driver's licenses and Social Security cards
Your financial info, including credit scores.
- DO NOT make the banker chase you for the information. Include all of the following:
1. Net worth statement.
2. Pay stubs for the last 3 months & income description
3. Most recent 1040
Description of the property
1. Addresses & pin numbers
2. Estimated fair market value.
2. Tax record information
2. Photos of the properties and of the inside of each unit
3. Aerial photography & maps (I use google maps for this)
Property income info*****
DO NOT just toss some numbers into excel. You MUST inclued the YOY numbers for the last three years to show the improvements. Make some graphs too if you can. The banker should be able to see in an instant that expenses are decreasing and income is increasing.
Schedule E for the last 3 years.
Appendix:
1. Copies of your charter, incorp docs, or llc registration info if applicable.
2. Copies of all leases

When you have everything together, EDIT it!!! HIRE someone if you need to. You're trying to get someone to give you a couple hundred thousand dollars. Show them that you're not some jerk off that just left his Carlton Sheets seminar and is now playing around. Act like a professional.

Make about 10-15 copies of your bank book. Put everything together in 3 ring binders. Separate the contents with tabs so your bankers can navigate quickly. Put in a table of contents and make a cover with your name on it and the bank's name. It doesn't have to be fancy, but it has to be organized.

Set up a time to meet w/ a loan officer. Wear a suit. Know what you're talking about. Basically, have your **** together. That is how you close loans.

[/QUOTE]
Between the repairs, wiping out the CC debt, squeezing the original bank out of some equity, and possibly doing a 20year amortization instead of 15, a refi would be a huge huge boost to the company. I am just not sure the conventional "apply to a bunch of banks and cross your fingers" approach is going to work.

Any tips would be greatly appreciated.[/QUOTE]

Go to local & regional banks. Look for banks that portfolio their loans. You have to get out of the mindset that loans are something that banks GIVE you. YOU are the one in control of the situation. When you get rejected, find out why. Then you can attack that issue. When you go to the next bank, address that issue and discuss what you've ALREADY DONE to resolve it.

It sounds like your current lender is willing to work with you to get the property off their books. But you're still in a rush. good luck.

Calculating Profitability

From what percentage does a property come "positive cash flow", renting yield 10+%?

You determine positive cash flow by taking the gross monthly rents, subtracing expenses, then subtracing debt service. Whatever is left is your cash flow.

Don't buy properties that are negative cash flow. Also, don't buy properties that are cash flow neutral. Buy properties that have a positive cash flow and you'll be fine.

What is a cap rate and how is it calculated?

Cap rate (capitalization rate) = NOI / purchase price
where NOI (Net Operating Income) = gross income - expenses before debt service

What rate of returns are you using for your residential properties?

The rate of return that I need depends on the property. My minimum criteria are 10% cap rate and 25% cash on cash return (ROI). Those criteria are not set in stone - I consider each deal on its own merits. For instance, I might accept a lower cap rate if my COCR is real high.

Are these all after tax numbers? In general, how much do taxes bite into your returns?

Those are before tax numbers. As I said in the OP, taxes are simply too hard to discuss here. My tax liability is irrelevant anyway because it would be very difficult to duplicate for someone starting in REI.

What do you guesstimate your long term returns have been through RE investing?

I dont' have a clue. Sorry, I guess that this would be something that you guys would want to know if your're starting off. But I jsut don't know how to calculate it. Its high.

How in the world does rent from tenants ever cover the mortgage costs of owning a single family home or duplex? You mentioned that most money is made collecting rent and letting the property appreciate.

The key is to buy the property for a price the will allow for rent less expenses less mortgage payment to allow you to make a positive monthly cash flow. If you know you can rent a property for $1000 per month, how much can you buy it for and make money? Most properties sell for prices that will NOT allow for positive cash flow. It is the job of a savvy RE investor to find the properties that WILL cash flow.

I think that you're confused on the appreciation issue. I'm not saying that appreciation is not important. Appreciation of my properties is very very important to me. However, I don't buy properties PRIMARILY for appreciation. Appreciation is like a bonus. I buy properties that will add to my monthly net income. The problem with appreciation is that the investor has NO controll whatsoever over whether a property will appreciate. Investors DO have control over cash flow. That is the difference.

Details
Built: 1978 - Inside renovated last year; outside appears to be in good shape
Rent: $550/$600 = $1150 - 100% Occ last 2 yrs
Taxes $2400/yr
Exp: ~$1200/yr (Total Guess) too high, too low, not enough info?

What price/financing would you look for here? Sorry if this is not enough information to make a judgment.

One nice thing about college towns is that they tend to have higher occupancy rates over time. The drawback is that usually property is real expensive in college towns. Anyhoo....

Your estimate of expenses is pretty low. As a ballpark, I would estimate closer to 45% expenses. That 45% includes professional management. You'll be tempted to leave that off since you're new to investing. I'm pretty sure that no matter what I say you won't include that 8% in your expense, so i'm not going to spend lots of time trying to convince you. When you buy bigger properties the bank will make you include that management fee in your expenses though, just so you know.

Ok, so you can get about $1100 in rents and your expenses are 45%, leaving you with $605. How much positive cash flow do you need? Lets say you want $50 per unit. Now we've got $505 left to pay the mortgage. If you've got a financial calculator, punch in the numbers. if you have to pay 6.75% interest, you can pay $77k. If you have to pay 7.5%, you can only pay about $71k. Or, another way to do it: at a 10% cap rate you could pay $72,600.

I assume that in your analysis of tj00's property you are using 100% financing. How would you go about the calculation accounting for a down payment?

First off, lets not get confused about down payments (I'm not saying you are, I just want to be clear for the benefit of the noobs). You don't make a large down payment in order to make a property cash flow. For example, I could buy a property for $1,000,000 and rent it out for $1,000, putting $950,000 down. I'll get a positive cash flow but it's still not a good deal because my cash on cash return would be nothing and I'd be gambling on appreciation in order to make any money with this 'investment'.

Having said that, I'll answer your question. You're right, the down payment will affect the price somewhat. Thats is because the more you put down the smaller your mortgage will be. However, you STILL determine a purchase price based on a cap rate - not on a COCR. COCR has to do with the amount of cash outlay it takes to acquire the property and get it running. cap rate has to do with the the total purchase price of the property. These two are not necessarily linked, but usually they are.

Lets consider a few scenarios with different down payments. We'll use the 10% cap rate number that I determined earlier - $76,200 purchase price. Bascially, to determine the COCR for each scenario we have to change the mortgage payment to reflect the lower amount. We then take that number and divide it by our down payment to determine the COCR (oversimplified, but you get the idea). Below PP= purchase price; CR = cap rate; DP = Down payment; M= mortgage; MP = mortgage payment (assuming 6.5%, 30 years). So we've got $1100 in rents less 45% expenses. Our NOI is $605/month or $7260 per year.

CR - 10%
PP - $76,200
DP - $22,860 (30%)
M - $53340
MP - $337
COCR - $605-337 = $268 positive cash flow. 268x12 = $3216. 3216/22860 is 14% COCR. at 14% it would take you over 7 years to get your $23k back out of this property from rents.

CR - 10%
PP - $76,200
DP - $15,240 (20%)
M - $60,960
MP - $385
COCR - $605-385 = $220 positive cash flow. 220x12 = $2640. 2640/15,240 is 17% COCR. at 17% it would take you 5.88 years to get your $15k back out of this property from rents.

CR - 10%

PP - $76,200
DP - $7,620 (10%)
M - $68,580
MP - $433
COCR - $605-433 = $172 positive cash flow. 172x12 = $2064. 2064/7620 is 27% COCR. at 27% it would take you 3.7 years to get your $7600 back out of this property from rents.

CR - 10%
PP - $76,200
DP - $3810 (5%)
M - $72,390
MP - $457
COCR - $605-457 = $148 positive cash flow. 148x12 = $1776. 1776/3810 is 47% COCR. at 47% it would take you 2.13 years to get your $23k back out of this property from rents.

Can you see the pattern here? The less money you put down the faster you recover that money and the higher your COCR is. You can also see why putting more cash into a down payment is not necessarily wise. The more cash you dump in the lower your cash ROI is.

Now, that does NOT mean that its smart to buy properties at the RETAIL price and put nothing down. Not unless you have cash reserves to wheather some difficult periods of high vacancy or other problems. But if you buy the property for the RIGHT price you can put little money down and still get a good deal in terms of your cash ROI and CR.

What would you say your average ROI is on properties you flip? What about residual % yield on stuff you are renting/owner financing? I'm still adding more hard money loans to my portfolio which due to the credit crunch are now yielding 14-16% vs the 12-13% I mentioned earlier in this thread and am wondering if anything/everything you are doing is beating that. I'm guessing it's a little of both.

I don't really flip properties - I'm a buy and hold investor. As for average ROI its really hard to say. As I've said, I look for distressed properties that can be bought for bargain prices and where I can add significant value. I've had properties where I doubled the value of the property in a year by fixing it up and renting it out. Most of the time I can add 20% to 30% of the value just by getting the places rented out. So thats the equity portion.

I don't invest at less than a 25% cash on cash return. That is the minimum standard. So I don't know maybe what my average ROI is, but its at least 25% on cash invested plus any equity gains.

I'm not knocking 14%-16% ROI on passive investments. I think that is fantastic considering that you're just sending a check.

Could you expand on the types of costs that make up to the 45% you use to evaluate a deal?

Advertising
management
cleaning & maintenance
repairs & improvements
trash & utilities
Insurance
taxes
landscaping & lawn care
miscellaneous - supplies, equipment, etc.

if you take a 200k house with 40k down, and a 30 yr fixed 6% rate, that makes payments a little

less then 1000. you could easily rent a 200k single family home for 11-1300 couldn't you?

1) I doubt that you'll get 6% fixed for an investment property
2) that $1000 pays your P&I only. You'll also have to pay into escrow for taxes and insurance each month
3) even beyond taxes and insurance you'll have other expenses to consider. Read through the posts in this thread and you'll see what i mean by other expenses.

Giddy thanks for the information - so what is being accounted for in the ".5" maintenance factor that I computed? Also, my original calculations only took into account a single months mortgage not a year. I have corrected the original post. Would you be willing to take a look at the new information and figure your COCR again? Because without the insurance, etc but with the ".5" factor I come up with a COCR of 44% with 10% down.
Also, how do you compute the Cap Rate?

I don't need to go through all the numbers to see that if you buy a house for $30k, put $3k down, and rent it for $800 per month, you're going to recover at least half of your $3k in one year, i.e., a 50%+ COCR. 44% is probably close.

Cap rate = NOI/PP
NOI = gross income minus all expenses OTHER than debt service (Prob around 45%)
COCR = cash flow divided by cash outlay

So your .45 factor includes things like insurance, landscaping, etc that Giddy was mentioning?

Yup. 45% is the national average. Actual expenses will vary somewhat, so get the real numbers from the seller.

Thanks for the thread. I often see you stating that taxes and insurance should be about 10%. Where do you get that figure, property taxes in CA run from 1-1.75% and insurance is about 0.5%, so how do you add up to 10%?

WHAT!? I don't live in CA, but I find this hard to believe. You're telling me that in CA taxes run 1.5% of gross rents? And insurance on investment property runs .5% of gross rents? So for every $1000 in rent you collect you have to pay out $20 of that to T&I? That is amazing.

In any case use the actual expenses. 45% expenses is a decent estimate. The actual expenses may be higher or lower.

Hey spex, I've got a first time homebuyer question:

(I'm buying my first house. I'm 23, making $32,000 a year and want to get something around $90,000-110,000. My credit is good (~730), I have no debts, and I have $22,000 in my bank accounts.)

I'm looking at two financing options, and wondering if I'm missing something:

Broker: Will take 3% down, will require PMI, closing costs will be $2,000-3,000, APY will be ~5.75.

Bank: Requires 5% down, requires no PMI, will pay closing costs, APY ~6.125.

Assuming I'm not planning on pouring money into equity, I don't see how the bank isn't a phenomenally better option. If the PMI is $40/month, it seems like the broker would have to offer a rate that was ~7/8 of a point less just to make up the difference in monthly payments.

Is there something I'm missing here? Is the bank simply the best way to finance, or are there other factors

that might make a broker a better option?
The bank's deal kills that brokers bull**** deal. No contest. Plus I'm pretty sure that you'll end up paying that broker 1% or so for finding the loan for you. So he'll be more expensive too.

My wife and I have our eyes on a single family house we'd like to make an offer on for our primary residence. Currently renting at $1300/month and can afford housing related costs (mortgage, insurance, taxes, utilities) of $4500/month. There is a house on the market asking price of $760K which we'd like to offer $700K, with $80K down. The taxes are $7K per year.

Can you please provide likely monthly payments if the offer is accepted? Also, with the remaining $100K, we are contemplating investing in RE via a multi-family in the same area. (We live in greater Boston, MA)

Any thoughts/reactions/guidance would be appreciated. We would love to live in this house if the admittedly low offer is accepted--we'd live there for 10+ years. I guess the crux of the question is if we can put $80K down and only have to ~4500/month for mortgage/taxes/insurance/utilities?

Thanks much!
Go to www.bankrate.com and you can get insurance info, mortgage payment calculators, interest rates for jumbos, and everything else. It looks like $560k (20% down) at 6.5% is going to cost you $3539 per month. Then you've got taxes, which will probably increase after the sale. Currently they're like $600/mo. Then you've got insurance, maintenance, etc.

I don't think that you can afford this property. Depending on your other expenses, I don't think that with $80k down you can afford any more than about $670k. I used this tool to determine that number http://www.bankrate.com/brm/calc/new...calculator.asp

Great thread. Learning a lot.

A pretty easy/novice question. I'm looking at buying a small block of apartments.

What sort of things should i ask the RE agent to enable me to evaluate the suitability of the property? Its not going to be easy for me to inspect the properties first, so i want to know the important things i can find out over the phone/through email.

Ask for the P&Ls and the rent rolls. Normally you'll get those upfront and get the property under contract. Then you start the due diligence and you can renegoiate the price based on what you find. It is very normal to get the property under contract for one price and then close at a much lower price based on issues you find during DD. So don't worry about that. Get it under contract for a number that works for you based on the information provided. Then start verifying everything.

Spex X and others,

Thanks for the great advice, this has been an extremely informative read. Do you use spreadsheets/programs to help you to determine all of the different variables (% of FMV, COCR, NOI etc)? If so, which ones? If they are spreadsheets that you've created, would you be willing to share them?

I just use my calculator. I know that excel can calculate all this stuff. There is also a free property analysis tool at www.biggerpockets.com. the only problem with that tool, IMO, is the pdf it creates doesn't tell you the expense figures that you've entered. I like to present the pro forma expenses to my bankers when doing a deal. Whatever though - it works for the most part.

For cash-flow investing, is it a good idea to have more equity in each property or more properties -- assuming each property is cash-flow positive after expenses and debt?

One way is not better than another. if you are considering pulling equity to do another deal, IMO, as long as the deal will improve your overall cashflow, then I'd say go ahead.

Like for instance, say you've got a property that cash flows $200/mo with $30k of available equity. If you pull that $30k to buy another property, you're cash flow on property 1 will go down to $100/mo. But if your cash flow on property 2 is $200/mo, overall, IMO, I'd want to have two properties with a $300 cash flow than one property with lots of equity and a $200 cash flow.

That is just my opinion. This issue is very much up to the individual investor.

Ive had both my properties for about 3 months now (just bought my second one, close in 1 week) On my first property I havent spent more than 5 hours a month on it.

Advertising - NOTHING
management - picking up check
cleaning & maintenance - done by tenants
repairs & improvements - changed a lightbulb in the laundryroom 5 min
trash & utilities - done by tenants
Insurance
taxes
landscaping & lawn care - done by tenants
miscellaneous - supplies, equipment, etc. - nothing so far....

It seems like you are saying that if the expenses stay where they are you'll make a 20% ROI. Unfortunately, the expenses won't stay where they are. They'll go up. 3 months is not enough time to really know your ROI.

what numbers did u use to calc ROI BEFORE you bought the property? That is the question.

Like I said, ive only had my two duplexs for 3 months now. After my first year I will see what my averages are. At the end of the year if I needed to fix something up - then I'd subrtract that from my ROI obviously...

I put away about $300 a month for an emergency - if the furnace blows etc.

It seems to me like you bought this property without knowing how it was going to perform. Normally what you would want to do is understand the profitability of a property before you buy it. I understand that over 3 months you've had very few expenses. What I want to know is how much you are planning to spend on maintenance, repairs, management, etc. over time.

Anyone can have a good three months. But if you make 20% ROI your first two years, then lose $50k in the third year when the foundation fails, that is NOT a 20% ROI over three years. So what numbers did you use to determine the expected ROI on this property BEFORE you bought it?

I'll reiterate that the issue of how to analyze properties has been discussed at length earlier in this thread. I know the thread is long. But it is important to respect my time and not ask me to repeat stuff that has already been covered. After you read it over, I encourage you to ask questions or for clarifications.

- Can you accurately plan for something like this? Whenever something happens, i.e.: foundation fails, roof needs to be re-done, furnace blows - just take care of it then?

Yes you can. Roofs last about 15 years. If it is going to cost you $5k to replace shingles in 10 years, then you need to save $41.67 per month in order to pay for the roof. It doesn't work to just pocket the extra $42 now and count that as positive cash flow. Sooner or later that money is going to come out of your pocket. IMO, each property needs to pay for itself. That means that the property should be paying for its own repairs. Whatever is left over after those repairs - even if the repairs are several years out- is positive cash flow.

Thats why you need to take 45% off the top of rents for expenses. Normally, you'll have about 8% for management, 10% for repairs and maintenance, 8% for vancancy, and 20% for taxes and insurance.

So I am starting to think that ROI has very very little to do when purchasing a property. (Sounds weird I know)

I can't imagine where you got this idea from. You couldn't be more wrong. ROI has everything to do with REI. You just don't know how to calculate your ROI. That is the problem.

I'll go over the numbers for you.

Purchase price: $196,000
Downpayment: $68,600

Mortgage paments: $447.67

Renting out the property: $2200 (upstairs $1300 - downtrairs $900) - All inclusive

Utitlies cost: approx $300/m
Property tax: $242/m
Insurance: $48/m

$2200 - $447.67 - $300 - $242 - $48 = $1162.33 (cashflow)

ROI: 20.3%

First of all, I'll point out that the mortgage you describe doesnt' make sense. You say above that your mortgage is $128k ($196k - $68k). $128k at 4.25% for 360 months would make your payment $625. If you got a 40 year mortgage, your payment would be 550. I'm not too sure where you got $447 from. If your payment is correct, then your mortgage is only $91k, not $127k, which means that you only paid abotu $140k and put down 35%.

In any case, I'll assume that your payment is $625 per month.

So you've got gross rents of $2200 less 45% expenses ($990/mo) = $1210 NOI. $1210 - $625 gives you $585 positive cash flow. $585*12 = $7020, which is roughly a 10.2% COCR on the $68k that you've got into the property. To figure your overall ROI, add the amount of the principle paydown and projected appreciation. You're probably somewhere in the realm of about 15% ROI overall. Personally, I would've passed on this deal. But different strokes I guess.

Hmmm - this is all such a shock for me... not sure in a good way or bad way...

I can see planning for a new roof - i guess - but if the foundation fails, or someone vandalizes the * out of your property and breaks all the windows - how would you plan for that? I mean there is only so much that you can....***

The repair expense is for replacing carpet, appliances, painting, scooping snow, fixing plumbing, replacing roofs, etc. Normal maintenace, repairs, and upkeep. If you get vandalized, you make an insurance claim. Your DD should have uncovered any potential foundation problems, that was just an example.

8% in managment - please elaborate, is this the time it takes you to do whatever needs to be done?

I use 8% because that is the market rate to hire a professional property manager in my area. If I'm doing all the management then I stick that 8% in my pocket. Even if I do stick it in my pocket, its still not positive cash flow though. Its compensation for labor provided. There is a big difference. Positive cash flow is passive whereas mangement fees are not passive.

20% for taxes and insurance - this is a big one, why wouldnt u just figure out your EXACT amount for this instead of assuming its 20% I know EXACTLY how much my tax and insurance is per month for the year and included it my calculations

You would use the exact numbers if you have them. 45% is a guideline that you can use to quickly analyze the strength of a property. You should be aware also that in most cases the tax rate will increase by quite a lot after you buy the property. Thats because for the most part - in my experience at least - county assessors don't raise valuations quite in line with actual market value. I've had tax rates increase by 20%+ after purchase.

That situation is likely to be quite variable by market though. What I do is just look up the county assessment and then figure the difference between assessment and PP. I then apply that ratio to the current tax rate to guess at the new rate.

Another issue is that you an actually have taxes lowered on a property if you buy a true fixer. You have to scream like hell to get it done, but I've done it a few times. Mostly its not worth it though, and I'd rather have a higher than fair tax rate upfront in order to get a lower than fair tax rate after I fix up the property. Drawing attention to the property doesn't help keep your taxes down after you make repairs. That is my experience at least.

$196,000 - $68,600 (35% DOWN) = $127,400 x 0.0425% = $5415.5 / 12 months = $451 pure principal mortgage payment - am I missing something? (I have a 5 year mortgage by the way - not sure how smart of an idea this was...)

I'm having a hard time following you. What is a 'pure principle' mortgage payment? I've never heard of such a thing. Don't you have to pay interest? And what is a 5 year mortgage? Do you mean its a 5 year ARM? Or do you have a 5 year balloon? Neither of those would be smart. I expect that the 5 year balloon is a default waiting to happen. If you have a 5 year balloon, you better start shopping for a refi now and dump the property if you can't get one.

Another question - why am I supposed to take "45%" of the gross rent? Please explain. Wouldnt it be better to subtract that from the positive cashflow at the end?

I'm not sure what the difference would be between those two. Can u elaborate using numbers?

lol - thats where you are wrong sir - thats saving TONS of money 101... basic stuff.

That is one way to look at it. Your notion seems to be 'why pay someone to do something that I can do myself? I'll save some cash if I just do this work myself." There is nothing wrong with doing things yourself to save money.

But there is a basic flaw with your logic. You are assuming that your time is free. Its not. You could be spending the time that it takes you to manage properties in other more lucrative pursuits where you have more expertise.

Personally, I'm an expert at buying income producing property in my market. I feel that my time is better spent looking for more properties so I can get richer. One more property will make me hundreds of thousands of dollars over time. Why would I want to waste time manageing property when I could spend that time making hundreds of thousands of dollars? Seems like a dumb way to spend the limited time I have. By your logic I should be spending my time managing my properties so that I can save a thou or two a month. But then I'd be spending all my time managing properties, and I wouldn't be able to grow my business. Not to mention that I'd constantly have to deal with tenants. That would suck.

hmmm - I guess you haven't been really reading my questions/posts/comments carefully cause you would clearly see I only have 2 properties. I highly doubt anyone would hire a mangement agency for this.

But when you have 5-6 or 100+ units like urself - lol -then it would be the obvious/smart/logical thing to do... not sure where you got the idea that doing everything yourself would be a good idea if you had 100+ units.

After reading this post I have half a mind to tell you to go **** yourself and figure it out on your own. I don't appreciate your sarcasm when I'm trying to help you. Lets not forget that I have other much more profitable things to do with my time then help you learn REI. I'm doing you a free service. From here on out you will speak to me respectfully or I won't help you any more.

For the record, I have been reading and understanding everything you've written here. If anyone has a reading comprehension problem, I'd suggest that it is you since 1) the topic of the financial analysis of RE has been has been covered at length earlier in this thread, and 2) the specific topic of reimbursement for the management of property has been discussed earlier in this thread, and 3) I've already repeated the earlier explanations for you.

However, I'll try again just in case I haven't been clear. Basically, if you pay a manager to manage your property, or if you do the management yourself, it amounts to the exact same thing on your income statement. Either way it is an expense. If you hire a manager, you have to pay him for his time. If you manage the property yourself, you pay yourself for the time. Either way, you'd put that expense down in your books as a management fee.

Your time is not free. If you make $20 per hour at your job and you take off time to manage the property, you gain the additional income from the property. But you lose the $20/hour that you would've made at your job.

Lets say that you could hire out the management for $10 per hour. Wouldn't it make more sense to hire out the management for $10/hour and spend the time you would've spent managing the property working at your job for $20/hour?

What it amounts to is that hiring out management to other people and spending your time on things that will make you a lot more money than managing property is smart. Spending your time managing property when you could be playing poker or finding more properties to buy is dumb.

On that note - when did you hire an agency to take care of your properties and what do they charge? I have briefly looked at one company (for the future) and thought it was expensive. They take the first month from a new tenant - and charge $120 per month after that $60/m for a second unit.

I dont' use an agency. On the first page of this thread I told you that I employ 3 managers. They are employees, not contracted workers. Normally management companies will charge between 5%-10% of gross rents depending on your area and the property.

Nuffgreed - You REALLY need to go back and reread some of this thread.

Pure Principle mortgage payment I just made up - lol - sorry - its jus the exact amount I need to

pay for my mortgage. My bank told me my mortgage payments would be around $650 I believe, but with some going towards the princial ($200).

Um, if you are paying $650 in mortgage payments, then your mortgage payment is $650. Why did you say earlier that the mortgage payment is only $450 or whatever?

My 5 year mortgage is an open variable mortgage (that I am going to lock up within 2 weeks - at 4.25%)

I was planning to pay off the properties within 5 years (on the optomostic side) but obviously thats not a very good idea at all I guess.

If you plan to pay off the mortgage in 5 years time, you'll have to make payments of $2353 per month. Did you know that? Am I confused about something?

Its not necessarily bad to have properties paid off. You can hire out the management and live on the income. Nothing wrong with that at all.

Looked at a house today. Owner is asking 89k, but hinted that he'd be willing to come down to 85k. There is a section 8 tenant in the house currently. Tenant pays $180, government pays $670 for a total of $850/month rent.

Taxes are low here. House is messy and ugly but seems structurally sound as best I can tell. I'm going to estimate expenses at 40% of rent.

NOI = $510 / month = $6120/year.

If I put down 30% and take a 30 yr morgage at 6.5%, I get a monthly payment of $376. So, I'd be looking at $134/month positive cash flow.

The cap rate would be 0.072. To get a 10% cap rate, I'd need to negotiate the price down to 60k. Owner says there's no way he could come down that low.

Here are my questions:

Do my calculations look right?

Do I just offer him 60k and walk away if he doesn't take it? Spex said earlier that he'd take any price if he could get the right financing. What sorts of financing options would you consider here?

Thanks for any help.

A 10 cap rate is what I look for. If a 7.2 works for you, great, go ahead and buy it. But yeah, basically, if I needed a property at price X and I couldn't get that price (or some combination of price/terms that is similar), then I'd walk.

I can't really tell you what kind of terms to ask for. It depends on what you're trying to acheive. What are your goals?
I just hit "last page" and saw this thread (no idea what you're responding too)

But i have "run the numbers" on probably 2K+ properties now..and I have NOT ONCE seen a 2%...I have not even seen a 1.5%...nor a 1.4%...the best I've EVER SEEN was a 1.3% that was a retarded seller/fluke (and I picked up less than 1 hour of it going on the market)

1% in an "ok neighborhood" is the sex/standard

I'm going to have to call BS on your 2%

p.s. if anyone brings me a 2%...pretty much in ANY market...and I will pay a HUGE finders fee/be ready to move on that property same day cash (aka 3 days ldo)

I'm pretty sure that all the properties I own produce at least 2% of the PP in rents. Its not an apples to apples comparison because I buy commercial properties. But I wonder how you are shopping for properties that you can't find deals like this. Obv you aren't going to find these deals on the MLS.

I dont' use 2% as a guide. I'd rather just use GRM, which is basically the same thing except that everyone knows what it means. But the obvious problem with either GRM or 2% is that they don't consider expenses. That is why, IMO, cap rate is a much better indicator of the strength of an investment property.

Obv getting 2% from a property that was built in 1909 that has been a rental for 45 years is not the same as getting 2% from a property that was built in 2002 and has never been a rental.

A lot has already been said in this thread. I suggest that anyone who wants to add something here spend the time to read through the entire thread first

Just wondering what everyone thinks of this property:

http://www.mls.ca/PropertyDetails.as...ertyID=7214649

It's a 1 bdm condo about 4 blocks from a local college and about 8 blocks from the downtown core. Mortgage would be $675 per month based on full asking price and condo fee about $170. I think I could get this for around 90K which would mean a mortgage of close to $600. I could sell existing investments and pay cash but I'd be losing the advantages of leverage and writing off the interest for tax purposes. The unit is currently renting at $700 per month. It might seem high for a smallish condo but an average home here (Edmonton) is pushing 450K. Vacancy rates in my city are about 3% which is up from last year when it was virtually zero
.
I'm curious what caught your eye with this. This is a obvious instapass unless you are getting at about 30% below market value, in which case you should probably buy it. Or maybe if the $700 rent is way below market or something. What did you see in this property that caught your attention?

The 2% rule is bogus, I agree with Rika, not really sure who/why came up with this. I have asked a couple times, and I'll do it again, someone show me a property where the gross rent is 2% of the purchase price. 1% is seems more realistic.

I want to see a 200K property bring in 4K rent... lol

About 3 months ago I bought a 10 unit apartment building that brings in $4100 per month. I paid $149,000 for it. I posted the deal in this forum before I closed. The building is in perfect condition and fully occupied with long term tenants.

Spex has also mentioned deducting 45% off the gross rent for 'expenses'. For his situation where he has 100+ properties and has people doing most of his work - its fine. But for the beginner - I disagree with this rule. It is a very broad estimate of expenses since property tax/insurance will be calculated dead on - maintance is taken care of tenants.. etc. I'd say putting away 20% of gross rent for misc. expenses is MORE than enough - but thats just me...

I strongly disagree with this opinion. 45% has proven to be accurate over a long period of time both in my own properties, and that of pretty much all the RE investors that I know. There have been studies done by landlords associations and property investment periodicals that pretty much all affirm 45% as an overall national average for expenses. 45% is the right number. If you calculate your expenses lower you will likely have serious cash flow problems down the road when you have a major repair to do.

In this town that is about as low as you can snatch up a rental property for and it is a very good location. Also the $700 rental is abit low - I'm sure $800 could be had. The 675 mtge payment was based on full asking, but the market is slow now and a guy might be able to snag this for 90K which would be about a $600 mortgage. It would still be cash flow negative by about $100 when you factor in property taxes. I didn't think it was a good property perse, but where I live you are looking at 250X purchase to rent multiples minimum. This is in the 160 range based on asking price.

This is a bad deal. Don't buy it. If you don't understand why, reread this thread very closely.

Oooh. Good question, I am not sure, will have to check the current assessed price. Does it usually match the sale price to the T?

In my experience, if you buy a property for 20% more than assessed value your taxes will jump about 20% the following year. It is something to consider when doing your pro forma. I've gotten pinched by this in the past.

There is one total economic falsehood that keeps getting repeated in this thread.

I was going to ignore it but cant let it lie anymore.

The whole concept of buying RE at "less than market value " is false.

The Price of RE is set at the margin.

If I am a non distressed seller trying to sell my house in my street, but there are several distressed sellers in my street who are willing to take 20% off of what I perceive to be "market value" then I have two choices.

1: Sell my house for the same price
2: Dont sell my house.

Either way, the result is exactly the same. The market is presenting RE at 20% of whatever was previously subjectively seen as the "market value" and this is now in fact the real or objective value of RE in that market.

So when you offer 20% of what ever you perceive to be market value and have it accepted, all you are really doing is setting the new level for RE in that market. You are paying exactly what it is worth.

The only off set to this is if there is a small amount of distressed sellers to buyers, which in current contexts is not the case in the majority of markets.

Market values in RE are based on comparable sales. In single family homes you comp the sales price per square foot (or some such measure) in a given area. In commerical you comp cap rates and GRMs (note that these are not always known values).

But market value is somewhat of a misnomer in RE. Obv a house is worth as much as a willing buyer is willing to pay and a willing seller is willing to sell for. But the willingness if buyers and sellers is variable given certain circumstances. Generally when we say that you can get a property for less than market value what we really mean is that we are able to find a seller that must sell very quickly and as a result is willing to take a price that is less than what he could likely get if the circumstances were not conspiring against him.

You forgot that RE is an illiquid invesment class. Most of the time it will take months to sell a single family home. But what does that really mean? Could you not sell a SFH in days? Yes, if you can find the right buyer. This would be a buyer like me - someone that has access to the capital right away, but wants a significant discount off of the price that similar homes in the area are selling for. If you have more time to wait for a buyer that is willing to pay more, then do it. If you need to sell right now you have to take a lower price.

What we mean by 'buying for less than FMV' is that we are buying for less than similar properties are selling for. Does that mean that we are setting a new low price on the market? No. Not if we can turn around and sell the property for FMV in the average time on market for similar properties.

Buying properties for under FMV means that you found a SELLER that for whatever reason cannot afford to hold the property for the average time on market, and has enough equity to take a low price in exchange for a quick sale.

Yes but any buyer who isnt a moron will be able to see that there are distressed sellers availaible.

Why will he pay your FMV when he can attain a similar discount. He will at the very least be able to negotiate downwards. This is even more true when sellers>>>>>>>>>>buyers which is the case in the present RE market. (using British RE market as a reference)

I am fairly sure that American inventory levels are increasing rapidly, thus every distressed sale acts a major downside pressure on the value of RE.

Its the law of economics, theres no escaping it.

Not really. The average buyer of RE (i.e., the person buying property for their own use rather than as a pure investment) does not know how to buy property for less than FMV. You don't find these deals on the MLS, and you don't call the local realtor to buy RE for less than FMV. The MLS is a tool to find properties. But RE investors are not looking for properties - they're looking for motivated sellers.

Just because a seller is distressed doesn't mean that you can get a good deal for the property. Currently there are lots of homes on the market where the seller has no equity and can't afford the keep the property. In that case, you are actually negotiating with the bank that holds that person's mortgage. That seller can't sell for less than the amount owed. So you have to go to the bank to negotiate a short sale. Sometimes the bank will take a significant discount, but most of the time they won't. So you have to work and work and dig to find the properties, then work on the banks to buy the property short. Most people don't know how to do that.

Just because the average buyer can see that there are distressed sellers available doesn't mean that the buyer knows how to buy property for less than FMV. But that doesn't matter anyway. Most people think that if you buy a property for less than the price of the property a year ago, you are getting a good deal. We agree that this is not true. The buyer is simply paying the new lower market price. But that isn't what I'm talking about when I talk about buying RE for less than FMV.

How does this deal look like:

Asking price 217K

Rents out for 2200 all inclusive

Calculations:
20% down of $43400

Mortgage: $176300
Paments: $8680 (25 year 5%) = $723.3

$2200 * 45% = $990 for expenses

$2200 - 990 - 723.3 = $486.7 positve cashflow

CAP RATE: 13.5%
ROI: 30% (inflation rate was calculated at 3%)

DEAL or NO-DEAL?

p.s. anyone have a templet for these kind of calculations?

It depends on what you mean by "all inclusive". Are you saying that you'll pay utilities? If so I think that your expenses will be somewhat higher than 45%.

This seems like a good deal though.

Spex- Do the 45% expenses that you recommend allocating include property taxes and estimated 10% vacancy?

yup.

Thanks to everyone who has contributed to this great thread (especially Spex!) Its been a great education tool for me. I think I may be on the verge of my first real estate deal, and I've enjoyed looking at the numbers of specific deals in this thread so much I figured I'd throw mine in here as well.

Please let me know what you guys think and if I'm forgetting or misunderstanding something...

First a little background:

Two-unit building being sold by an investor who has 50+ properties and is downsizing (getting ready for retirement) and selling his lower value properties. Advertised purchase price is $59,900.

Unit 1 is a 3br/1bth with long term section 8 tenants paying $670/month.
Unit 2 is a 1br/1bth with a long term tenant paying $325/month.

Advertised PP = $59,900
Target PP = $56,306 (94%)

Gross Rental Income = $995/mo
Property Tax (includes trash/sewer) = $80/mo
Insurance = $42/mo
Water = $51/mo
Maintenance (estimated) $125/mo
Management (already in place at 7% of GOI) = $70/mo
Total Expenses = $368/mo
Net Overall Income = $995-$368 = $627/mo and $7,528/yr

Seller Financing (10%) = $5,631
Terms = 8.25% for 5 yrs

My Cash Payment (10%) = $5,631
Estimated Repairs are minimal. New roof 2 years ago, new furnaces, new carpeting, etc.

Assuming 2% = $1,126
Closing Costs (3%) = $1,689

Total Down Payment (Seller Financing + My Cash Payment) = $11,261
My total Cash Investment (10% + 2% + 3%) = $8,446

Mortgage Amount (Target PP - Total Down Payment) = $48,639
Terms (assumptions) = 7.0% for 30 yrs

Monthly Payment to Seller = $115/mo
Mortgage Payment = $324/mo
Cash Flow (NOI - $115 - $324) = $188/mo and $2,260/yr

Cap Rate (NOI/PP) = $7,528/$56,306 = 13.4%
COCR (CF/CI) = $2,260/$8,446 = 26.8%

These numbers look pretty good to me and leave a little room for extra maintenance or repair costs if need be.

Questions/Comments? Thanks in advance!

This seems like a decent deal. I'd estimate closer to 45% expense though over time. Also, you would probably benefit from taking out a 15 year mortgage on a property this small. It won't really affect your cash flow that much and I don't think you're going to get a 30 year on $48k, but I could be wrong.

RE noob needs advice on this GoZone duplex. My dad's trying to get me to fund the down payment, cover the monthly expenses, and receive the monthly income. He wants me to do it not only because he wants his son to be a money man, but because it'll be bought under his name and therefore he'll get the nice tax breaks. I'd obv prefer to buy it myself, but I'd still have to convince a bank or somebody to give me a loan. Apparently being a long term winner at MS/HSNL isn't enough? In 10-13 years he signs it over to me.

price is 280k, 40k down, rent is v reliable, 2200/mo. Total recurring costs is 1700. They're claiming 8% appreciate lawl.

Like I said, Im a newb who's just putting this all together, but I have a ton info on the house, so if I'm missing any key facts lemme know. The padre's really pressuring me into this one, but man, 40k is a large chunk of my roll atm. Should I be worrying about buying my own house first instead? Or just jump right into the rent biz? Thanks in advance for any advice.

IMO you're overpaying for this property. A property that makes a $2200 gross should likely be a good deal at about $145k. I'd pass and look for a better deal. I've explained my reasons for this throughout this thread, so finish reading it.

I was looking at property in my area on craigslist and came across an ad that offered four properties for sale, asking $90,000 for the entire lot. Here's the jist of the ad:
....
Property 1: Vacant, approx. 1000 Sq. feet, 3/1
Property 2: Vacant, approx. 1100 Sq. feet, 3/1
Property 3: Rented $625, approx. 1100 Sq. feet, 3/1
Property 4: Rented $550, approx. 1500 Sq. feet, 4/2

Package Deal only, will consider all offers.
....

Assuming the two vacant properties would rent for $500 a month (the low end of what houses

seem to rent for around here), heck...assuming they would rent for $400...accounting for some vacancy...and assuming they are in reasonable shape already (i realize these might be lofty assumptions) how would this lot not be an autopurchase? If you were to purchase all the properties in cash today, the money would be recouped in 5 years right?

I can guarantee a few things. First, these are going to need extensive repairs. Second, they are going to be in terrible neighborhoods. There is nothing wrong with either of those two things. But I don't recommend a new investor making their first purchase with a package like this. IMO, look but probably don't buy unless the deal is outstanding (like a 20 cap, with little money in, or a huge equity gain with little money in).

Hi Spex,

What do you think about this deal?

A large apartment owner in a city I am looking to invest in is trying to get out of their smaller properties and focus more on the larger properties. They have 20-30 4 plexes for sale. They would sell the properties individually but had a preference for large packages. All the buildings are very well kept and I would need almost no cash for immediate remodeling.

I can not afford the most expensive ones but I went though all their rent rolls and found 5 properties that rent for 35050 average each (plus or minus 300 on each one).

I initially offered 165k a building and they were asking for 230k per building.

I offered this price based on a 7.5% interest rate 20% down and 25 year mortgage term. I wanted some negotiation room with the idea that I could potentially pay 180k. The properties were apprised for 160-170k each according to tax records. Also I used the 50% rule for fees ect.

My offer (verbal only and with conditions that I would need to verify everything) was quickly rejected and I was told that comps were selling for 220k as of a year ago.

I am in a very good market that never saw the outrages price appreciation and thus never saw the price depreciation in real estate. This is a college town and there continues to be building of multi family housing in the area.

I originally made the offer with a buyers agent thinking that I was talking to the sellers agent. The buyers agent kept on giving me all this crap about appreciation rates and cap rates ect. I finally told the realtor that I could not pay more than 180 as I needed the buildings to cashflow immediately and still prepare for maintenance, vacancy ect ect ect.

She told me she thought she could help me get a loan @ 7% interest for a 30 year term. Doing the cashflow analysis I was able to come up with a price of 200,000 per property based on those #s.

I have not submitted this offer even verbally yet as I am unsure if I should or if I am falling into some sort of trap?

Currently the properties are 100% rented and have been rented very fast in the past as this is a good location near campus and in a city that is growing even without the university.

What would you do in my situation?

The deal is probably not too good. If you pay $200k and put down 20% you're looking at an 16% COCR. Thats a $40k investment for $400 per month. I'd try to get the sellers to carry back something. What I'd like to see is the seller carrying $10k for 5 years at 10% interest. That would jack your COCR up to just over 26%. So that would be a 9.6% Cap rate and a 26% cocr. I'd probably do this deal if there was absolutely no fix up and the units were occupied.

Remember, you make a deal by negotiating price and terms. These sellers don't want to give you the price you want. Fine. Get the terms you want.

Hey Spex,

59,900
3 units
"potential" rents of 1375
not great neighborhood, but this is wisconsin (non milwaukee)
2300 sq ft lot
2550 sq ft building
4b /3ba (two units are one bd, one is 2)
near schools/busline
comps are all higher
seller will help finance.

What should I be leery of? Rezoning? Old house ready to fall apart?

Hire someone to do an inspection. You should be fine.

One other weird thing is it seems most of these places, the owner pays for heat in the winter.

Be careful here because this can throw your expenses for a loop. get accurate numbers on this for several years.

Also as far as seller willing to help finance: does this mean he's super motivated or looking to make more money off someone who cant get financing?

Most of the time it'll be a motivated seller, but sometimes this is because the property is unfinanceable for some reason.

I have good credit and the money for a down payment. What down payment would be required and is it tough to get banks/countrywide to do deals this small?

with good credit and a downpayment, anything is possible.

Zillow has it at 69k. If I could get it for 50k, could I get loan for over that to put 3k into repairs/improvements?

Yes, probably.

Now is there any limit to structural damage that will stop you from purchasing property?
And who does yr structural assesments/ construction admin/ etc?

Sure, there are limits. Sometimes a structure is so bad that it actually lowers the land value since it'll cost additional money to remove the structure and rebuild. Numbers are always the determining factor. If you buy and fix, you gotta have two things in then end: 1) ability to cash out your investment on refi, and 2) enough cash flow after refi that the future management of the property is worth your time. So its not the structural damage per se that you're looking at, rather its the COST of that structural damage vis a vis the projected operating budget of the property. Remember that every purchase must fit into your goals. Your goals are what its all about.

Well for example are there things you would avoid in general? For example although gas stations

can underperform a lot, sometimes ppl dont take stabs at putting something new on the site bc of contamination issues
.
Right, but its not the buyers that are afraid of contamination. Its the BANKS that are afraid. The banks will be the one taking the bulk of the risk. The bank won't loan on these properties because they know that if they end up owning the place, it'll be impossible to move it off their books.

This goes for every form of commercial RE. The LENDERS set the criteria for what is possible to do. So you're asking the right question, but for the wrong reason. I wouldn't be interested in gas station, but not because I don't think there is money to be made, and not because I'm worried about contamination per se. I wouldn't be interested because I'd never be able to close the deal because its too much risk for the lender. I'd end up on a wild goose chase trying to find a lender that'll do the deal. In commercial REI it is very important to have a grasp of what kinds of deals you can actually close, otherwise you'll waste a lot of time trying to chase a ghost deal.

Hi Spex,

Great thread! Not sure if you can answer this, but what better person to ask.

My mom has her own small little CPA firm. She's been renting for 16 years at her current office location and her monthly rent is $2700 for a 900 sq ft office suite. Her lease is ending at the end of August, so she found out there is a commercial building selling office suites 2 miles away.

The building is 3 floors, the first 2 floors are dedicated to medical related offices, there's even a pharmacy on the first floor. The 3rd floor has lawyers, CPAs, etc. She is looking at a 1400 sq ft office suite, for $290 per sq ft. The room is completely empty, so she would have to make her own tenant improvements for walls, ceiling, doors, etc.

My mom is contemplating buying the office with $500K cash ($406K for office and 94K for tenant improvements and other miscellaneous items).

Do you think it is worth it for her to purchase the office or continue renting at her current location at $2700 a month. (She doesn't plan on retiring for another 10 years minimum).

This is a big step for her, so I thought I'd ask you if there are items I need to tell my mom to look into so help her make her decision.

Thanks for reading!

I don't think its too smart to buy the property for cash, I'd want to finance it. She'd only buy it for cash if she could show that the cost of the mortgage would outpace what she could earn elsewhere. Even if she got a 7% mortgage, after tax deductions it'll only end up costing her maybe 5.5% or so. It doesn't make much sense to put $500k up to save 5.5% when you could put only $150k or so into the property and put the other $350k into mutual funds, etc making higher yields. Leveraging RE deals is almost always the best choice.

Looks like market rent is $36/sq. ft per year. At that rate it would cost her about $4200/mo to rent 1400 sq ft. If she paid $500k for the property, she's looking at putting $100k down and her mortgage would be only$3100/mo plus T&I. that same unit would rent at the market rate of $36 for $4200/mo. It is pretty clear that she is going to come out ahead on this. Based on what you've told, its a clear buy. Only financed rather than cash sale.

Really appreciate the advice spex! I'll definitely try to convince her to finance the purchase. I'll definitely update if it goes through =).

Just curious, how did you calculate the market rate of $36 per year and the rent of $4200/mo.

Thanks again!
<3

($2700*12)/900 sq. ft. = $36/sq. ft.

The ROI on buying vs. renting will also depend on the nets she's paying. Assuming she's renting for NNN, buying is a much better deal. Its a better deal either way though.

Mortgage plus T&I should cost her maybe $3500/mo where she'd rent the same unit PLUS likely have to spend a bunch on leasehold improvements anyway for $4200. So she's saving about $700/mo. That is a realized cash gain of 8400/year, which is an 8.5% return on the $100k PLUS probably appreciation over 10 years, PLUS principle paydown on the mortgage over 10 years. Very clear buy IMO, esp since she is using the space herself. Plus after she retires in 10 years she can refi the mortgage balance out over 20 years and rent the unit for a very good monthly cash flow.

With the numbers you've given me, there is just about no way that renting is a better choice.

Make the following assumptions:

1. Seller could sell the package now and net $8MM cash at the table.
2. Houses currently cash flow $55k per month NOI.
3. If they were sold one at a time, you wouldn't sell any for 3 months and then 5 apiece for the next 15 months, even.
4. If they were sold one at a time, your cash flow would stay the same for 3 months and then decline evenly over the next 15 months to zero when the last one was sold.
5. If they were sold one at a time, the total net proceeds of all sales would be $10MM.

Ignoring tax implications, what's the discount rate Seller would be taking by selling the package now instead of selling off one at a time? I know it's somewhere approaching 20%, but I can't figure it exactly.

(I was told there would be no math.)

I think you are confusing the term 'discount rate'. A discount rate is the safe rate you use to calculate the discounted current value of future cash flows. Lets assume that you use a safe rate of 10% - roughly your average stock market return. Or you can use a Tbill return if you want. Whatever you feel comfortable with. So what we're comparing is the difference between the cash flows of selling now and investing at 10% and selling over time and reinvesting each cash flow at 10%. Its important to understand that in an NPR calc the farther out a future cash flow is the less value it is going to have.

Ok, so here is how this is going to work. Scenario A is he takes $8M now, so NPV is the wrong calculation (no future cash flow to calc). If we assume that he can invest that $8M at 10%, after two years he'll have 9.68M for a 1.68M gain.

Now, rejecting $8M now in favor of scenario B - sell houses off individually - is the same as PAYING $8M for the properties now in hopes of making more in the future. So we'll use $8M as the cost of this deal. Basically, if he keeps the houses for 3 months, then sells them off 5 per month until sold, his cash flows will be
Cost: -8M
Year 1: 6.479M
Year 2: 4.044MM
NPV: 1.21M

The NPV of that stream of CF at 10% discount rate is a gain of 1.21M. Since the expected value of A (1.68M) is bigger, that is the best investment.

Spex, isn't the NPV of deal A 0 by the definitions used? You compared the NPV of scenario B with the future value of scenario A.

Should be I think.

Scenario A:
Year 0: $8mm

NPV = $8mm

Scenario B:
Year 0: $0mm
Year 1: $6.479mm
Year 2: $4.21mm

NPV = $9.121mm

Yup, you are completely right. I totally flubbed that calculation. For instructional purposes to everyone following this unwieldy thread:

I screwed the calc up for simply not thinking. the NPV calc assumes that the money can be invested at the discount rate. The calc shows you if you are going to make more or less than your desired ROI. So if you know you can get 10% on your investment elsewhere, NPV will factor in the opportunity cost of that 10% ROI, and figure out if the proposed income stream is beating that ROI. A negative NPV is NOT beating that ROI, and a positive NPV IS beating that ROI. If the NPV is 0, then the value of the future cash flows equal to the discount rate.

So the post above is correct. Scenario A NPV = 0 and B NPV = 1.121M. Scenario B is clearly the better choice.

This illustrates something else important too. I ALWAYS have other investors check my math before I do a deal. I tend to be too hasty at times with my calculations b/c I find it boring to recheck them after I do them once. It never hurts to have another set of eyes on the problem.

Thanks guys, that is great.

I may have misused the term "discount rate," so I guess my question is really return on investment:

What is the ROI of investing $8MM today and getting $10MM in 18 months, based on the staggered selloff I mentioned?

You gotta do an IRR calc in excel or open office. I'm too lazy to do it for you. Its easy to do though, particularly in open office.

uick Question:

The ARV is about $20k assuming it is just up to rental code. Market rent is about $650 per month. I am still unsure about repairs. I'm gonna be walking through the house today.

My strategy is to get it for as cheap as I possibly can. Tie it up with an option and flip it for a profit. The margins are pretty slim and it is in a bad neighborhood. But it's super cheap so I am gonna market it as a cheap deal that people can get into for minimal investment.

Specific Questions.

#***1. Should I consider something besides just a straight option.***

#***2. I figure knowing the guy is hard up for cash he probably won't be too eager for a zero down land contract.***

1. I doubt he goes for giving you an option that you can flip to another investor. Why would he?

2. Why not just buy the house for $6250, fix it, then rent it out? Everyone wins.

The property I am currently looking for advice on is a 8 unit property in a fairly poor area with a very motivated seller. The property is a mix of studios (3 of which share a common bathroom), 2/1 and 1/1.

It sounds like this is an old converted house. First thing I'd do is call the courthouse and find out what the zoning is. Then get a copy of the zoning ordinance to be sure you can have eight units like you describe. You don't want to end up in a fight with the city over this if a neighbor decides to complain.

It is currently bringing in $2950/mo in rental income with long term tenents. One studio is exchanged for landscaping services, similar ones are renting for $400/mo. The 2/1 unit is in the middle of a remodel and vacent. The current owner cannot even afford to pay the permit costs for the remodel so the project is on hold, however the plumbing and electrical work is done, along with new carpet. It will need flooring installed, cabinets, a counter, appliances and paint. I will be planning on doing most of that work myself. This unit should bring in a conservative $1000/mo additional when rented. I figured less then $4000 to get it in rental shape.

This is a great little upside, however, just be sure you're not overpaying for the upside when you buy.

The seller originally listed the property at $505,000 four months ago, and has no reduced the asking price to $365,000. I plan on offering $300,000 and seeing where things go from their.

So $2950 (45%) = 1327/mo NOI
20% down = $60,000
closing costs = $9,000
renovations = $4,000
total cash out of pocket = $73,000

$240k mortgage @ 6.5%, 20 yr = $1789/mo.

So you're looking at a negative cash flow of $462 per month. That isn't quite a 42% yield.

You probably got a deal at about $150k to 200k.

3. I've been searching online and came across this property posting in upstate NY

Three properties for sale in packaged deal
Total 21 units
Asking price: $305k
Target Price: $275,000
Yearly Rent: $101,604
Expenses: $49,123 (water, gas/electric, insurance, taxes, property managment, 6% vac. rate)
Repairs: $5,000?
NOI: $41,481
Mortgage: $16,320 (215k at 6.5% for 30 years)
Cap Rate: 14.8%
COCR: Am I calculating this right I get 57% using $41,481/ 72,000 (60k DP, 5k repairs, and 7k

broker fees)

This deal looks great on paper and as a kicker all tenants are government tenants DSS/S8. Here are my thoughts/concerns.

A. The city is in a decline, population wise they have lost 5% of their pop. from 1990-2000. I couldn't find current population trends but to me that seems like a red flag. Would you ever purchase properties with a declining pop.?

Pretty long-term decline trend. I would probably invest if I was satisfied that the economy of the town was stable.

B. The area is known for crime/unemployment the City University is actually the biggest employer. Real estate prices have stagnated for the past 10 years never really taking of during the boom years in RE. I'm not sure how much I should be concerned about this given the cash flow it generates.

I'd invest in it based on the cash flow.

C. Managing, although I calculated it in the expense its a big chunk 7.5k. I remember you saying that as S8 tennats the gov. just deposits the rent in your bank account, would I really need a manager then? Couldn't a local handyman take care of most issues.

Managing isn't just collecting rents. Its filing paperwork, doing evictions, showing units, fixing stuff, yard maintenance, taking tenant complaints, dealing with parking issues, and tons of other crap. Someone has to do all of that.

D. Mortgage, I have good credit and can put down 60k what are my chances of getting approved in current market conditions.

Dunno.

E. I'm not sure my target pp is 20% below MV. I'm finding it difficult to find similar properties to compare to. One of the properties for example is a 6 unit that has 4 studios, and the other two units are one bedrooms. Most purchases in the area have been 2 bedrooms, any suggestions/ideas here?

If you are getting a high cash flow I wouldn't worry about it too much. I'd be more worried about why you are getting those high cash flows in the first place.

F. From your posts I take it that you make an offer first and then do your DD, looking over the rent roll and expenses.

Well, you need something from the seller in order to even make an offer in the first place. So you'd normally get a rent roll and P&L.

Do you also look at their tax return? Is this something that a newbie can do the first time around or should I not take a chance and hire someone to look over the numbers.

Yes, I look at tax returns. They're pretty easy to figure out. It'd be a smarter use of your money to buy this book than hire someone to look at the numbers for you.

This comes out to $54,000 yearly gross. Expenses are the property tax (about $300/mo, mortgage is $3600/mo, insurance is about $100/mo). So the net income is $500/mo, which is $6,000/year.

No, its not. It might be this high for one or two years. Until you have a major repair to do. Then your net drops negative. Plus, you have nothing budgeted for management, lawn care, maintenance, or repairs. If you have questions about this issue, don't ask them. I've already covered this issue at length.

over time, this house WILL cash flow negative. It will. Absolutely.

But anyways, my question is -- do we sell the house? I feel like it's just not making enough. We have almost $300k in equity, so I feel like we're losing a lot in opportunity cost by keeping it.

yes, this is an insta-sell. You've been luck to not have lost money already. Find a greater fool.

My question is, do we try to sell to another investor (I'm thinking this is unlikely) or wait for the lease to expire and then try to sell it?

I think that anyone buying this is going to plan on renting it out, no? Isn't this a triplex?

So I am looking at buying a short sale for $131,000 here in Scottsdale near where I live. The house is still occupied and there was a previous failed sale where the occupant was going to continue to stay and pay $1200/mon in rent. It is 1800 sqft, 4 bedrooms. It is a 3 miles from ASU in an area where student renters are a possibility. Taxes are around $100/mon.

+$1200
- $150 taxes+insurance
- $250 maintenance
- $100 vacancy
- $100 mgmt

= $600 net
= 5.5% cap rate

Am I doing this right? This should cashflow right?

It depends on the interest rate you get. If you get a 5% rate, you might cash flow a few bucks. Then you have a rely on appreciation to make any money. For me, this deal would be too thin to put up the 20%. I agree w/ Fun160. There are better deals right now

I know the industry standard goes up to 45-50%, but a handful of ppl I know aren't in that range. For example, I know someone who has a few properties in Santa Monica, 4-8 unit buildings and his operating expenses + vacancy are in the 25% range. One item to note is they renovated the place about 5 yrs ago.

Spex you mind giving me an example of a higher than 33% expense type property?
Like where the costs went?

What are yr typical net rent % for a 3-4 unit property?

I guess that there might be some weird situations where the operating costs aren't that high. But I've never seen it. Check out this link to the the National Apartment Associaton reports on expense ratios. Granted these are apartment complexes. But with as with anything in scale, apartment complexes should show LOWER operating costs per unit than smaller buildings.

http://www.naahq.org/resources/data/IES/2009/Pages/default.aspx

FWIW, my properties roughly mirror these date OVER TIME. For example, I might go 10 years without spending anything on an SFH roof, then in the 10th year I spend all the free cash flow on replacing the roof.

Thats why I was wondering about your holding period. If you plan to resell the property in a relatively short period of time (like <3 years) you can be more liberal with your expense estimates. But BE SURE to hold SOME money in reserve to handle routine unexpected expenses like replacing a water heater, etc.

yeh but they did a pretty solid renovation job in 2005. Was a red tag and they fixed up everything.

Don't matter. You have to save cash each month to replace siding, roofs, fix pavement, paint, etc. It doesn't matter how long its been since you did it last. Well, that only matters when you first buy b/c you have to figure out how much to put into reserve up front. But in the course of normal operations, you just pay into reserve each month no matter when the last time you renovated.

With the SAFE Act looking to put moblile home owner financing on ice, I started looking into cheap single family homes. How does this look?

List price - $27k
Purchase price - $25k
20% down - $5k
p&i (20 yr, 6%) - $144
gross rent (actual) - $600
45% expenses - $270
monthly cash flow - $186

all that gives me

cap rate - 15.8%
COCR - 45%
2% rule - 2.4%

Seem solid?

Seems very solid. I'd guess this is either in the country or in the inner city for these numbers. Nothing wrong with that necessarily so long as you're comfortable.

You missed a few expenses. Usually closing costs will run you about 3% of the PP. Also, I'm not sure about getting $20k financed over 20 years. I bet you end up w/ a 10 or 15 year mortgage. so I'd alter the numbers as below (annual figures)

PP $25k
Cash of pocket $6k
income $7200
Expenses$3240
Mortgage $2664 (10 year)
Net income 1296

Cap Rate 15.84
COCR 32.4%

This is clearly a cash generator. I'd also guess that w/ the low property value you're going to have expenses below 45% b/c taxes and insurance will run low. If you can stomach the neighborhood and the house is sound, it looks like a deal to me.

Is this true for lower income rentals? I know that I have also seen a 1% rule. I believe the 2% applies to lower incomes and the 1% applies to mid-hi. This is due to the increased maintenance factor of lower income properties. I am a noob and have only read a lot of RE books and articles. Someone with more experience please elaborate on this.

The 2% and 1% "rules" are really more like general guidelines for sifting through properties quickly. if your gross rents are lower than about 2% of the purchase price then you're probably not within striking distance of a positive cash flow. I'd challenge anyone to find me a property that cash flows at 1% rent to PP ratio (with normal 70%-80% financing). I'm curious if that is possible. I doubt it.

Still, I wouldn't go so far as to call it a rule. It gives you a sense as a buyer of which properties are over priced at a glance. So like if you know 3/2 SFHs rent for $700, you know right away that most everything on the market over about $40k is a waste of time.

Think about it. If you get $700 in rents and pay out $315 in expenses per month, that only leaves $385 to cover the mortgage and make any cash flow. Even if you only paid the mortgage and operated at break even, you can only afford to pay $53k max. If you need $100 cash flow, you can only pay $39,800.

Books

Can you recommend some texts in each of the above areas or otherwise helpful resources to get a more in depth knowledge of the subject matter?

I recommend that new investors start with very general books that they get for free from the local library. If you're not sure where to start, check out the work of John Reed. Reed's website, www.johntreed.com has a recommended books page. I DO NOT recommend that you spend hundreds and thousands of dollars on bootcamps, mentoring programs, audiobook courses, etc. That is a waste of money for anyone first starting out.

The best way to learn about REI is by joining a local REI club. Most REI clubs have a library where you can get the use of a lot of free information. Plus, you can meet people that can give you a realistic perspective on REI and its discontents.

Are there any books or other resources out there that I could peruse that are geared specifically towards investments in apt complexes and the like? I'd love to start reading up..

Well, there are two parts to this. First is the property management side, and second is the financial analysis side. For property management, I recommend the book "landlording" by Leigh Robinson and John Reed's "How to manage residential RE for maximum cash flow..." For the analysis side, I recommend Ray Alcorn's "Dealmakers guide to commerical RE".

Spex,

I searched this thread but didnt find an answer - are there any books the novice RE investor should read?

Thanks for this thread.

There are a handful of books that I recommend. But understand that I mostly have invested in the rental housing arena and mobile home park arena. So it depends on what you want to do.

I suggest that you read the work of John Reed. The book Landlording by Leigh Robinson is good. I liked Property Mangement for Dummies. I liked Streetwise Guide to Investing in Rental Housing.

But before you go buy those, I'd recommend that you try to get your information from the library. Also, join an REI club. Many REI clubs have a library that you can borrow REI books and courses from. And you'll have the benefit of getting to know people that you can bounce ideas off. Its worth it.

I'm thinking about ordering "Houses for $300.00", what do you think?

I'm not familiar with the book. I'd guess that it is a book that teaches you how to buy tax liens and tax deeds. I don't invest in tax liens, so I haven't read up on it. Basically, if a book is reasonably price (i.e., $50 or less) I'd say that you should probably just go ahead and get it. But better than that is to start off at the local library - read what they have and use their inter-library loan system if they have one.

I don't think that its smart to buy books for more than $50 unless you know that the book will be useful. For instance, I've paid up to $200 for books in the past, but those books were highly recommended by competent investors. If its a shot in the dark, save your money - there are just too many bad RE books about

The first book you should read is "What Every Investor Needs to Know About Cash Flow and 36 Other Key Financial Measures". Learn how to apply the formulas

I am a fan of Reed's books too. He has a very no BS style of writing. He has many topics, not just the one on techniques for acquiring below market value. He talks about how to manage property as a landlord, how to evaluate and inspect that property. Some tax strategy books. The managing books are pretty detailed. Even in the techniques books there are some techniques that worked 5 years ago, some that probably work now and others that will work 5 years from now. He has an overview book that is cheaper and very general. It even talks about making sure you want to invest in RE for the right reasons or have the right expectations. If you happen to be in the San Jose area I would be happy to let you borrow one of my books. I think he even has a list on his site where he suggests a reading order. You could always just get the first one for like $25 or so and go from there.

His website also has a guru review somewhere. Its where he tells you the flaws with strategies like carleton sheets, etc. There are actually gurus whos strategies are pretty much illegal.

In this forum on this topic spex has to be the best authority I know of. Give the books a try.

I've got nothing really to add to this. I'll say though that I don't necessarily disagree with the review posted above. I've found Reed's books to be good. I'm not saying he is the only good REI writer. I'm not saying I agree with all of his perspectives. But I've found his books to be excellent overall. Plus, they're not a huge risk considering that in the sad state of REI literature you've got a ton of $20 books that are overpriced garbage, and a ton of $100-$1,000 educational courses that are overprice garbage. His books are like $20-$40 each and you can actually learn a lot from them. So meh, if you don't care for them, put them for sale on ebay.

spex, I have been reading some real estate books. But they both kinda seem useless and not really enough about cash flow, market indicators, all that typa stuff.

I have been recommended a book through reiclub.com "1 minute to property rental richness" (the title is supposed to be sarcastic because he says it takes time and hard work) by Michael Rossi (do you know of him), would you recommend others to really get me going?

What every investor needs to know about cash flow" is good

investing in real estate 5th edition by mclean and eldrid is good

Anything by john reed is good.

Wall street journal complete REI guidebook' is decent.

Spex,

Where did you learn about the landlord portion of RE? Got any book recomendations? Where did you get your forms? I know you have stressed to take care of problem tennant by the application process but if problem arise have you had experience with wage garnishing and reporting to credit beaurues?

How about renting out something that is unlicensed? I have an unlisenced place that a family member is going to be moving out of this summer would you be as stern with those tennants or would you fear then reporting the lack of a lisence(It is unlisencable)?

Landlording by Leigh Robinson. pretty much acknowledged by everyone in the world as being the best property management book for the small timer.

Licensing is community dependent. Try to get the license if you can. If not, make sure that you understand the penalties for not being licensed. In my experience the penalties are not severe if there even are any.

Hey Spex,

Thanks for this thread, I've read through its entirety.

I'm just wondering whether you have read John T Reed's "Succeeding".
If so, was it worth the read?

After reading some reviews of his stuff, its coming across to me like he is very self-righteous and narrowminded regarding people who are in circumstances that are different to his or a circumstance that he has not experienced. e.g. he thinks living in one spot for your whole life is the best thing because it is more "stable." (pfft)

Anyone else with anything to add about J T Reed's books, in particular, "Succeeding"?

I haven't read that particular book. So I can't comment. Reed just published a new book "Best Practices for the Intelligent RE Investor". I got it a few days ago and I'm about 100 pages in. I've found it to be hands down one of the best REI books I've read, even having only completed 100 pages. Maybe the best overall. So basically, the first 100 pages of this book are superior to about everything I've read in the field over the last 15 years. Scary. I don't agree with everything, and I feel that he goes off on some tangents that are only marginally helpful. But its still absolutely great. I don't know if anyone is still following this thread, but if you are, buy that book.

I'll also second Lumpr's opinion. Reed's work is substantive. It is opinionated. It tends at times to be arrogant. But what it NEVER is is a waste of money. You can learn something important from everything the man as written (that I've seen anyway). And in some areas, like RE tax avoidance, lease/options, buying below market, and others, his work stands head and shoulders above the rest. its also fairly priced and retains resale value via Amazon and Ebay. So you're not taking a huge risk.

Repairs

One more thing, when buying distressed properties I'd imagine the cost of repairs as a crucial factor in determining buying price. So how do you go about figuring out the * needed to get the building up to code?

Ask a contractor to go through the house with you and estimate repairs. Or make a detailed list of needed items and then have some contractors ball park it. At this point I can usually make a fairly close guess at repair costs. If I'm doing renovations, I expect to be paid well for that time so I usually factor that profit into my purchase price.

Spex,
How much do you hold to the budgets you set? I don't belive you have touched on coming up with a budget much and could probably shed some light to first timers.

I feel this is an area where people go wrong in renovating to flip or increase rents. I see people pull a number out of their arse and call it a budget. Then because they see the idiots talking about sticking to budget on TV shows they treat this number they pulled out of the arse as it is magical.

For example they say they got 20K for a property and they are sitting at 14K and realize they are gonna come in low and spring for nicer fixtures or increase landscaping to make it nicer and maybe increase rents a little bit and neglect the fundemental thinking of getting the best ROI. On the contrary, they set s ridiculusly low budget don't get an inspection and find something that cost them more money, have no back up plan and neglect to do some very basic things with huge ROI because it had to be taken out of the budget.

Right, good points. If you're not sure about how to set your budget, just get a contractor to help you out. Normally REI club newletter advertise contractors that specialize in flips. Otherwise, you can just make a general list of repairs. Take it to several guys and get some soft quotes. Use the highest as your basis for setting the budget. After some practice you'll get good at eyeballing stuff.

It is also helpful in your first several properties to use an inspector. Make sure and go through the house with him and ask tons of questions. When he's looking at joists, ask him what he's looking for. Ask tons of questions, and you'll start to get a good sense of what is what.

Why are some foreclosure properties completely gutted (no carpet, cabinets, electric outlet covers, light fixtures, etc...)? If I am interested in one of these, what do I need to be aware of besides the stuff I can see? Did someone vandalize the home?

Could be. More likely the home was bought as a fixer that never got completed. This situation is normally good for investors. It saves demo costs and uncovers some potential problems that you wouldn't see otherwise. I mean, if you're going to replace carpet anyway, why not get the home that already has the garbage carpet pulled out, right?

Managing Properties

in dealing with tenants, lets say i live 10 minutes from my rental house. is it most common to just drive over and collect rent checks every month? Couldnt they just mail it? also, i hear a lot about

how it takes so much time when your renting out a house and you will always have to be there dealing with tenants. when something goes wrong lets say dishwasher breaks, couldn't you just call the repair man over without you ever have to be there?

I guess its probably pretty common to just go over and collect rents. Thats not what I do though. Rents can either be mailed to my office or dropped off there during business hours. If mailed, tenants are responsible for getting the rent to me on time. The only problem with requiring rents mailed is that you can get caught in the 'its in the mail' trap.

So the tenant is late. You call up or drop off a letter saying, basically, "your rent is late. I'll be evicting you on date X unless you pay. If you want to stop the eviction process, pay up, including all late fees". Then the tenant calls back and swears that the check is in the mail. You'll be tempted to wait it out and not take any action - you want to see if that check comes. Don't do it. Never wait for a nonpay's money. The process is unstoppable: rent is due the 5th, late pays are served a pay or quit notice on the 6th and zapped w/ a 5% plus $5/day late charge, tenant pays by the pay or quit deadline, no problem. But until you get that money the process keeps rolling - $5/day late charge, on the tenth eviction is filed, etc. At any time a tenant can stop the process by paying up.

Just be sure that you enforce all your rules the same for everyone. If you let even one tenant slide on a late fee once you open a can of worms. Now all your tenants that are made to pay late fees can bring discrimintion suits against you claiming that you charge them fees only because they're Jewish or b/c they have kids or whatever.

I don't spend much time dealing with tenants. I've trained my managers to blame everything on me. Managers are to never fight or argue w/ tenants. Everything is MY fault, they're just the messenger. That tends to keep the peace. Tenancy problems are highly correlated to the strength of your screening abilities. I've said here a lot of times that I keep my properties really nice and I've got long waiting lists for all of them.

If you've only got a handful of units, I don't see how you'd spend more than like a few hours per month at a property. It depends on the property obviously. But yeah, like you said, if something is broken you can easily just call a repair man over to fix it. I've got a list of handymen that I call on to fix stuff all the time. I do some of my own renovations, but only b/c I like to. There is no reason that IF YOU BUY RIGHT you can't afford to hire out all the maintenance. I think that the problem w/ most landlords is that they just pay too much for their properties and so they simply can't afford to hire out that work.

Do you personally manage any of your properties? I mentioned in a thread before that I owned a duplex and couldn’t stand being a land lord. Every time my phone rang I hoped it wasn’t a tenant. I learned that I am not cut out for being a property manager.

Well, I kind of manage the mobile home parks. I dunno...there is some sick Jerry Springer part of me that is fascinated with the MHPs. I do have a part time live-in manager at each park, but mostly they just collect paperwork for me and do some landscaping and repairs and stuff. So I do the rest of the management myself on those out of a sick sense of fun.

We have one tenant that is section 8. I have been trying to find out if section 8 facilitates matching landlords and tenants; do you know anything about this? Are section 8 tenants a bad idea?

Are there other community programs that I should be aware of?

My current screening process is admittedly poor: I confirm employment primarily other than that it isn't very structured. That is why I am really looking for information and guidance.

I have a local guy that does my repairs and such, but he doesn't handle the property management part. He has been the source of a couple of placements that have largely worked out well.

I don't know how it is where you are, but where I live there is a 3 year (!) wait to get Section 8 money. Do you know what happens when a S8 tenants gets evicted? The get shoved to the bottom of the list! That means that S8 gives me a really strong control over my tenants.

The first thing that I do when tenants come to me is ask if they have any money. One month deposit and the first month's rent are required. I have a 13 page application that includes the previous 3 year's residency and job history. The application must be filled out in its entirety including all phone numbers. A tenant that isn't motivated to look up a phone number in the book is not going to take good care of my property. The tenant must list all criminal violations. They must also include all evictions. They must sign a waiver that allows me to check their credit history and verify all information. The non-refundable application fee is $30.

When I get an application I first do a reverse look up on whitepages.com to find out if the phone numbers given are registered to who the tenant says. Lots of tenants will give you fake information or put the phone number of a friend or relative rather than the former landlord. If I find discrepancies the application is rejected immediately. I note why the app was rejected and file the app for three years.

Now I run the credit report and criminal history. NOw, be aware that the federal gov't in their infinite wisdom has passed a new law requireing that small landlords jump through lots of hoops in order to do legal credit checks. YOu should prob look into those regs to protect yourself.

Anyway, I look for certain things on the credit report. All my tenants have bad credit. But I want to know WHY their credit is bad. Debt due to medical bills is really common. So is bad credit due to divorce. But mostly I'm looking for prior evictions or outstanding collections from past landlords. If there is outstanding debt to other landlords I require the tenant to clear the debt before I'll lease to them. Nobody has ever taken me up on it, but its my small way of trying to give back to other investors. I also verify that the addresses listed on the CR are the same as those reported by the tenant on app. If not, the app is rejected.

If the credit report jives w/ the app. I move onto criminal history. I reject anyone that has been convicted of and sex crimes or domestic abuse. I don't allow abusers in my properties. Tenants are required to disclose if they have ever been ARRESTED for domestic abuse. This is harder to verify. So often the abused person will not press charges. Either way, I don't accept them.

For S8 tenants I don't require income verification b/c S8 already has done that. But for non-S8 applicants I require the last two pay stubs w/ the ytd earnings.

If they pass the criminal check, its time to pick up the phone and start making calls. When you talk to employers, don't say "Does John make $9.50 per hour?" You say, "how much does John make?". Use lots of open ended questions. "how much was the rent?" and that kind of thing. You're trying to catch lies, so try not to give up too much info. Sometimes I've had HR departments that won't give me any info even after I fax in the release. If you get someone like that try a question like, "john said he makes about $9.50 per hour, is that correct". That'll usually get you the information you want.

THE NUMBER ONE RULE OF TENANT SCREENING IS ASSUME EVERYTHING IS A LIE.

After you make all the calls, you can approve the tenant.

Now, according to federal law you can't discriminate on the basis of race, sex, religion, ethnicity, or disability. If a disable person in a wheel chair wants to move in and needs a lift installed you say, "Yes, that is fine, however the lift and all installation of the lift will be at your expense and the removal of the lift will be at your expense at the end of your tenancy." Some states also have more discrimination codes like, sexual orientation, age, children, etc. Check your local laws.

Other than those though, all other discrimination is FAIR game. You CAN legally discriminate against sex offenders, cat owners, dog owners, people that drive purple cars, smokers, non-sex offenders, etc. Just be sure to write out your criteria in order to avoid legal problems. If you don't write down your criteria (dated) and note specifically why you rejected an applicant based on that criteria, you could be in trouble if an applicant makes a discrimination claim against you.

What do you do with disaster tenants? I have a couple flats in london (UK). In one of them, there's this dutch lawyer (note to self, never let a lawyer rent your flat, they know too much about how to piss you off). Anyway there was a building-wide boiler issue that resulted in like a week without hot water in november, and he hasnt paid rent for nov, dec, and so far jan. He;s gone awol in fact, neither I or the agency can get thru to him. So obv we're starting up legal proceedings against him but this takes * ages. If he runs to Holland with no intention of paying arrears theres not a lot we can do (tho we can get a court judgement against him which means that hes not working in the UK ever again with a good reputation).***

Do you have any good practical tips here to (legally) pursuade people to pay?

Jeez, I'd hate to have a lawyer for a tenant. I have no idea what the legal climate for landlords is in London. But the first thing that I would do is revisit my lease. If the lease says that a tenant must pay by date X, I would evict any tenant that did not pay by that date.

I've been in court several times for similar issues - a tenant withholding rent due to problems with the property. I evict them. However, first I try to come to some reasonable resolution. Like maybe offer them a $100 credit toward next month's rent. Any more than that is a tenant trying to muscle and intimidate you with legal action. Little do they know that I'm as much of an expert on my state's landlord/tenant law as any lawyer. But that doesnt' help you at all.

Just evict the guy and be done with him. If you've got a good lease, then normal maintenance should not give the tenant leave to not pay rent. If you made a resonable effort to get the problem fixed in a timely fashion, then your tenant shouldn't have a leg to stand on. If you're really worried about it, consult a lawyer about the situation. Don't be afraid of the guy just because he's a lawyer. Evict him.

How long does it take you to evict a tenant that stops paying the rent??

This is very jurisdictional and I've got properties in several jurisdictions. In some it takes over 90 days. In others it takes about 30 days. It depends on how backed up the courts are. I try to help my problem tenants by paying them to move out rather than evicting them. Much of the time less than $500 will persuade them and its a lot faster and cheaper than evicting. Plus it makes the tenant feel powerful and smart. I don't care about people thinking that I'm smart. I care about collecting rents.

spex, what were some of the instances you used a real estate attorney? were some of the times common occurrences, matter of course type things or unusual circumstances? also, about how much did you pay for their services?

I've pretty much only used an RE attorney to do delayed exchanges. There is too much specificity of the law in the delayed exchanges that I don't really feel comfortable without an attorney.

There have been a few other instances where I've used an attorney but not specifically an RE attorney. For instance, I usually get contracts from other investors and then have my attorney alter them as appropriate. Other times I've had my man read over some contracts before I sign if I feel that I'm not clear on some points in the contract. But normally I try to use my contracts rather than other people's stuff.

My RE attorney charges me $300 per hour. But he does exclusively RE law. He also sat on my state's legislature for many years and helped reformed several of the RE laws. So he is the best bang for the buck. I could find a cheaper lawyer, but then I'd probably have to pay him $100 per hour to learn the applicable RE laws. No thanks.

You mentioned that you haven't been sued and have been lucky a few times. What happened

those few times (if you don't mind)?

Well, I'm not really sure what the window is for someone to sue me. Since I don't know, I'd rather not divulge anything that could potentially be used against me if a tenant did decide to sue me. Not that its a huge risk, but still.

I can think of only three instances where I was probably at fault for something. In each case either I or one of my managers was negligent in some way and someone got hurt.

In other cases, people probably could've sued me even though the issue wasn't my fault - like the tenant used something on the property improperly and they got hurt. I'm sure that such things have happened a lot of times and I'm not aware of all of them.

I completely understand. How often have you heard about colleagues being sued? Is it pretty common? Are there usually thrown out or result in big fines?

In my experience its not that common at all. Most of the time when tenants sue they take you to small claims court for keeping security deposit, or other small issues. I'm not aware of anyone that has gotten sued by a tenant for liability, at least not recently. I carry a lot of liability insurance just in case. I figure that a tenant can go ahead and fight with my insurance company if they want to.

I've had tenants report me to the city for violating some city code or other. Generally, cities just want compliance from landlords. In my experience cities don't really care to impose fines or anything unless the landlord is incooperative. In each case that this has happened, the city official inspects the property and gives me a list of items to change. Normally I've got 30 days to make the improvements depending on the scope of work. Now, if there are any code violations in my properties, they are the result of simple ignorance on my part. Obv I can't be expected to know all the applicable codes. In my experience cities are relatively easy to work with. I've never been fined by anyone.

Right now though I'm hunkering down for a fight. I just got word from a friend that some of the neighbors of my rooming house are not too happy with having that property in their neighborhood. One guy in particular is pretty upset and he feels that his children might be in danger. That property has been operating like it is for a long time. I suspect that he has an issue with one of the tenants more so than the property as a whole. It sucks though because this guy is a well respected restraunteur in town and he knows everyone. I'd hate to have the guy as an enemy. I'm supposed to meet with him next week. Obv I'll do my best to address his concerns.

My Dad and I read a few of the major REI books 3 years ago. We basically got it into our heads that becoming an investor was easy if you have the $ and the balls to take a little risk. My Dad had a little experience flipping houses, and I was just 20 years old and eager to join in.

Over the course of about 6 months, we found 2 apartment buildings, with a total of 18 units between them. At the time, I believe 14 were rented, and there was always at least 1 who was not paying. We assumed we could just fix up a couple of the vacant units, increase the rents, and sell them. A local management company was taking care of them, and we continued to use them after we made the purchase.

Things went downhill very quickly. We made improvements to a couple units, but the management company was obviously screwing us over in a big way. Charging us 10$ to put a flier on a door, 10$ to send someone a notice of a late payment, etc. Less and less units were filled. Random repairs and expenses kept going up. They were basically taking us for as much as they could without putting any effort into renting our vacant units.

We found a different small-time local property manager, who obviously does not care very much about renting out the units, but does not screw us with random fees/charges. She has been in charge since then.

Fee-based management companies are notorious for this type of bull****. How are you paying your managers? Is it a percent of gross, or what? Normally, if the company is charging you a percent of gross you'd figure that they'd have an incentive to keep the place full. However, its also possible that the place is so bad that you CAN'T fill it without doing some signficiant work.

The loans we took out for these buildings were also secured to us personally, not just to our business, so we have been paying the difference out of pocket for at least 2.5 years now.

It is very obvious to us now that we were both in way over our heads - especially me. My Dad has basically been balancing the finances and determining how much we each need to contribute every month to keep the buildings afloat. This amount has increased dramatically over time. We currently have 6 occupied units out of 18.

We obviously cannot sell the buildings with such a terrible occupancy rate.

You can sell the buildings for something. The problem is that it might not be enough to cover your mortgages. That is a big problem, especially if you guys don't have the cash to cover the difference. Bankruptcy might be your only option in that case unless you can find some partner who is willing to do what is necessary to get the place in shape.

The buildings are in a bad part of town in Evansville, IN. Neither my dad or myself would feel comfortable or safe managing the properties ourselves.

You knew where the property was when you bought it, didn't you? If you guys are too scared to manage the property, how did you expect to do all the renovations and everything to get the place in rentable condition?

- We do not know any reputable or trustworthy managers in the city. Most of them manage their own buildings as well as others - which obviously works very badly for people like us when trying to get units filled. Quite frankly, they all seem like crooks.

What about offering free or reduced rent to a part time manager in exchange for management services? That works for many landlords. I wouldn't have the tenants give cash to the manager though. Instead, what you should do is set up a special bank account for the tenants to deposit the rents directly into the bank. In that case, you may consider making the rent amounts unique for each tenant. Like if the rent is $300 per month, apartment #1 would pay $300.01; #5 = $300.05; #14 = $300.14, etc. This way you can log into your bank acct and tell immediately who has paid. Also, there is nothign wrong with collecting rents via mail. The majority of my tenants mail in their rents.

What are the management duties that you guys really need done? Is it only showing apartments? Lawn care? Handyman services? What? Make a list of the duties that the manager is do to. I think that you'll find that you don't really need a management service at all. If you guys can handle calling repair men and deal with tenants complaints about pets and such, then I wonder if a part time live in guy to handle lawn care and simple maintenance and hanging fliers is all you guys really need.

I wish I could give you more details - but as I'm sure you could tell while reading this message, I am in way over my head.

I think about 75% of the problem is poor/apathetic management. They're happy to take 10% of whatever rent happens to be coming in. I've considered the idea of taking over the management myself, but quite frankly I would not feel safe even if I had a gun on me. I don't even want the occupants knowing my address to send me a check. My Dad and I are both fairly small people, and the buildings are in a very low-income part of town.

If you're worried about giving your address, then get a PO Box! If you are scared, hire a body guard! You guys gotta take control of this situation. You can't just sit around feeling sorry for yourselves and blaming bad mangement companies. Guess what. Mangement of rental properties is the responsibility of the owner, no one else. If you hire a bad managment company, that is your own fault.

Everyone makes mistakes. The important thing is to learn from those mistakes and move on.

When you guys originally bought the property, you had the plan to renovate the place and get it filled up, less the normal vacancy rate of about 8% or whatever is normal for your area. How much progress have you made here? Are all units renovated? How nice are they? The thing about dealing with low income people is that for the most part they've never been able to have anything nice. Put nice carpet in and new appliances. [I recommend that you don't put in dishwashers. If there is a dishwasher there, remove it]. If you can, include washer and dryers, or at least w/d facilites.

Paint the exterior of the property. Plant shrubs. Fertilize the grass. Coat the parking lots and repaint lines. Make the place look nice. If you do those things, I can guarantee that you'll fill the apartments. You'll have the nicest apartments in the neighborhood by far. These are simple, basic things that are will get you guys filled and keep you filled.

Another very important thing to consider too is that you need to get approved for Section 8. If you're not approved, you're at a huge disadvantage in the low income housing market place.

Here are your priorities:

1) contact your local Section 8 office and get a copy of the inspection list.

2) make sure that your apartments will pass inspection. I recommend that you try to keep you places as bare-bones as possible. You want the make the minimum standard for passing S8, and thats all. remove anything like garbage disposals, ceiling fans, extraneous screens on windows, storm doors, dishwashers, or anything else that is not on the inspection list. If there is, for instance, a dishwasher that is broken, you won't pass S8 inspection. Plus, its another thing to break that isn't necessary. Better to get rid of it now.

3) prioritize cosmetic renovations and develop a plan for execution. I recommend that you start with the interior - apts first, common space second. It'll make a huge difference if you paint and refloor the common space as needed. I recommend that you put cheap tile in your common space - its cheap and lasts forever. It looks nice too. As for apartments, I recommend that you replace all old, dingy appliances, put new countertops, paint cabinet doors in kitchen, paint walls, replace bathroom and kitchen floor linoleum. Lately I've been laying Pergo laminate flooring in some of my living rooms, and its a big hit. Its not every expensive either. There is nothing wrong with doing the renovations one apt at a time. Just renovate and rent and repeat.

After you are finished with interior renovations, you need to do the outside. First, you need to repaint. Repaint whatever can be repainted outside. Repaint the gutters too. Go to Sherwin-Williams and explain what you want to do. They'll help you get the correct paints for the job. I recommend that you use off-the-shelf paints. No special mixes. Off-the-shelf paints can be returned if they're not used. Specials are not refundable.

Cracked sidwalks on the property are a pain because they're very difficult to fix. If you've got old sidewalks that are all busted and ineven, I would probably just have the old sidewalks removed and new ones installed and be done with it. This spring, go to a local nursery (not a box store) and pick up some shrubs. Get all the proper info on planting the shrubs. Also, fertilize the grass and try to make it look decent.

Basically, what you should do is try to make the property look nice. Once you do that, I beleive that you'll find your low-income tenants. If your place looks like crap - like all the other places around the area - then you've got nothing to distingush your property from anyone elses.

I think that if you improve the cosmetic condition of the place and start accepting S8, you'll have a full property in a short time.

Also, try to join an REI club or landlord's association. You need help.

Are most of your apartments without fans/disposals/dishwashers?

Also, earlier you mentioned you added water meters for 15k and how it added x value. How do you figure out you need something added and calculate how much value it adds? Reminds me of flipping, when they add cabinets that cost far less than the value they add.

Yes, most of my apartments are without disposals, fans, and dishwashers. I allow tenants to install ceiling fans on their own dime, and the fan must be removed when the tenant moves out or i charge them to remove it.

The water meters were installed in a mobile home park. When I bought it, the park paid for all water, sewer, and trash for all the lots. The water bill was costing about $800-1200 per month if I remember correctly. Obv a tenant isn't going to be diligent about combating leaky faucets and runnging tiolets if I'm paying their water bill.

The cost of installing submeters was $375 per lot. I had 40 lots, so the cost was $15k. So how did I know that submetering was a smart investment? Well, I save a minimum of $800 per month, or $9600 per year. $9600/$15,000= .64. Thats a 64% ROI. I didn't have to consult with Warrent Buffet or any other financial genius to make the decision to install the submeters.

Now, for a different type of rental, I'd work it a bit different. If I need to spend $400 on a new refridgerator to get the place rented, its not going to bust my brain to figure out what to do. A tougher call is painting exteriors. If I can lower my vacancy rate by a few points and possibly raise rents by a few bucks, I'd likely go ahead and paint. Painting has to be done sooner or later anyway. Might was well be as soon as it looks crappy, IMO.

I'm not really sure if I'm answering your question or not, so please clarify if I haven't touched on what you're interested to know.

i understand why you wouldn't spend the money yourself on fans disposals or dishwashers.... but if you let your tenants install it on their own dime... if they wanted to just forget about it when they moved out.... why wouldn't you let them?

Since my properties are rountinely inspected by Section 8, I have to constantly consider how to easily pass the S8 inspections. If I had a ceiling fan in an apartment that didn't work, that unit would fail inspection, EVEN if the lights on the fan did work. Sooner or later that fan is going to break. I'm not going to pay to have it fixed. I'd rather remove it and install a regular light. Regular lights are really cheap and hardly ever break.

So eventually that fan is coming out anyway. If I allow the tenant to move out and leave the fan then when the time comes to remove that fan I'll have to pay a handyman out of my pocket to do the removal. It makes more sense for me to make a rule forcing tenants to remove fans when they move. That way I can pass the cost of removal along to the tenant moving out now rather than eating the cost later. Obviously the best case scenario is for the tenants to remove the fan themselves.

Don't misunderstand me. I'm not only saying that I wouldn't install a dishwasher, garbage disposal, or ceiling fan. I'm saying that if I bought a property that had those amenities, I would actively REMOVE them before renting the units. I also remove storm doors and most of the window screens. Those are all things that break often and will cost you a failed inspection. Its not the end of the world to fail an S8 inspection.

But fixing and dealing with those things will take up a lot of time even besides the additional inspections. The fewer mechanical items to fix, the better. Get rid of everything that is unnecessary. At least in low income housing thats true.

Do you allow tenants to keep dogs, cats, or other pets? Why/why not? What do you do if a tenant keeps a pet that is not allowed?

My philosophy is that tenants with pets are more stable than tenants without pets. Tenant turnover is one a major expense, so I want to minimize that as much as I can. So I do allow pets. Even if I can only get 1 month longer tenancy on average, that adds up a huge savings.

In the apts and MH parks I allow cats and dogs under 30 pounds. In the duplexes and single fams I allow all 'non-viscous' dogs b/c I've got fenced yards at all those properties. Allow aquariums less than 40 gallons (they're too heavy over 40 gallons), and all other pets. In all apts and houses I require a $200 non-refundable pet deposit.

If my rule is no pit bulls and I find out that a tenant has a pit bull, I give the tenant notice that the dog must be removed by date X or they will be evicted. Tenants get one warning. If they do not comply, they are evicted immediately. You can't play games with this kind of stuff. You have to have rules and its up to you to enforce them. You control your tenants or they will control you. If you show the smallest sign of weakness you're toast and the tenants will walk all over you. They're like little kids - always testing boundaries. Let them know that you move quickly and decisively.

I own a couple of student houses and find myself unabale to do basic upkeep (paint rooms and common areas, replace some carpet in hallways with tile etc...) because I rarely have any free months. I usually get my tenants to sign one year leases with an expiration date of Aug 30th, so either they or the next student can move in on Sept 1st.

Any suggestions on how I can get around this problem?

First, if you are easily getting tenants, perhaps this is a non-issue at this point. Personally, when I see the quality of applicants decline greatly I'd know that its time to make upgrades. If that were to happen, I'd just take a month off. Don't rent September.

Second, you need to leave yourself 1 or 2 days to do this work. Usually my leases end the about 2 days before the end of the month. That way I have time to get in. Most tenants can't get their stuff out by that time. I ask them to box everything up and move it into an area of the house where I won't be working. I'll let them store stuff in the unit, but not live in the unit for those days. I just toss some big tarps over their stuff and paint. Painting a 2 bedroom apartment is a 3 hour job if you've got an experienced crew. If you are using peel-and-stick tiles, that is a half day job. If you are tiling with ceramic or something, that is a 1.5 day job. So you should easily be able to fit everything in between tenants. But you gotta be organized and ready to go.

I sometimes get a student who wants to go home for the summer and sublet their place. I tell them it is their responsibility to find a sublet and that I would have to approve the person (reference check etc..) that replaces them. However, I have now been burned twice by a sublet as I rarely have my pick of applicants, and the quality of sublettors is much lower than that of people who plan on staying for the year.

My lease says no subletting allowed without landlords permission, should I just not allow it ever or is there a better way to do it?

It sounds like you need to screen the sublets much better. If the tenant can't come up with a sublet, thats not your problem. The rent is still on them.

Look, if you get a bad tenant that is nobody's fault but your own. You are the landlord and your primary job is to screen tenants. If the current tenant never finds a sublet to take over the lease, that isn't your problem. Just provide the tenant with your list of criteria and tell them that those criteria are set in stone. What I'm suggesting here is that perhaps the problem isn't the sublets. Perhaps the problem is your system for screening tenants.

How do I differentiate my place, with a good income stream from the (almost) same place down the street which is empty but asking $100k less than I would want?

You can't because there is no difference. Explain to me the difference between a duplex that is rented and a duplex that isn't. Its still just a duplex. Its only two units to rent.

I'm guessing most potential landlords (investors) would prefer to buy the $100k cheaper place, add the necessary improvements ($40k or so) and "save" their money. Their logic being that due to high (almost annual, maybe two years) turnover of tenants, past history of full tenancy does not indicate the same result next year, so they may as well start witha new place and fill it up themselves.

First, I have a seriously hard time beleiving that it would take a $40k investment to get a property up to a minimal rentable standard. Not unless it needed a full and complete cosmetic rehab - paint, carpet, fixtures, countertops, and likely that work could be done for much less. Minimal rentable condition is pretty minimal.

Vacancy is vacancy. Buildings do have some inherent value despite vacancy. Put yourself in a buyer's shoes. Say that you were looking at two properties: 1) $300k with low vacancy, or 2) $200k empty. Now assume that you have to sink another $20k into #2 to get the place rented. Which is the better deal? I dunno. But consider that either way you'll have $60k into the deal. Either $60k down on $300k or $40k down on $200k plus $20k rehab.

Now consider that if you buy the $200k property you can fix and rent, then cash out refinance up to 80% of $300k ($240,000). So now you've got all your $60k back PLUS $20k to do another deal. Since its a refi you take that $20k tax free.

IMO, deal #2 makes a lot more sense.

What I have started doing is writing an "Operations Manual" for the place - essentially putting to paper what it takes to be a successful lanlord in the student housing market in general and my area/houses in particular. Do you think this and a steady history of full tenancy (almost no vacancies coupled with market rents) will allow me to charge a premium? Any other suggestions on getting full value once I sell?

Once again, thx for the thread - it's really been an excellent read.

Well, you can't charge a premium, no. But your low vancancy should translate into more cash flow since your expenses are lower. So assuming that your buyer is using the income approach based on actual expenses, you could justify a higher PP. The problem is that the buyer is not likely going to use your numbers. He is going to use the numbers that correspond to his experience. Personally, I don't care what the rent rolls say about vacancy. I count 8% vacancy as an expense accross the board.

Consider a 9 unit property, where the heat is in the rent. What is the best way to move the cost of the heat (which can be significant up north) to the tenants rather than absorbing it myself? What kind of cost am I looking at to do this?

Is it better to just make better estimate of heating cost and pass it along in the rent? I have been burnt by this before when buying a house from an estate and didn't check heat usage. The place turned out to be very drafty and I ended up paying $800 / month heating bills for a two unit. I have

since done a bit of weather proofing to knock down the heating cost but it still isn't cheap.

You probably would need to have an additional meter installed. You'll also need to have another furnace, hot water heater, etc. installed. IMO, it'd be expensive.

How close are your rents to market? You should definitely be charging more than market rents and advertising "utilities included". A lot of low income people would rather pay a premium to have the landlord take care of all the bills. Fixed costs are important to them.

Unfortunately, there is no cheap solution to this problem.

Also, can anybody direct me how to get a better price on those "hot water on demand" appliances -- especially if I was going to be buying 10 - 15 of them in a group? Or are these a waste? I have heard they are much more efficient that standard hot water heats and they use electricity so that moves it to the tenant to be responsible.

As always please correct my ignorance when it shows.

If the gas bill is the problem, why not just move everthing to electric? That won't be cheap either though. You could get a regular electric hot water heater for about $350/unit. If you buy 15 of them, I bet you could get them installed cheap or free.

Spex. What is your "dream tenant"? I mean, what kind of tenant you are realistically looking for to get into your homes?

I care about two things: 1) don't destroy my property, and 2) pay the rent on time. The nice thing about S8 is that you never have to worry much about the rent. So my dream tenant has the self respect to keep the property clean. They call immediately with maintenance issues rather than waiting 6 weeks. They are quiet. Other than those few things, I don't really care who I rent to.

Maybe I should try to covert one of my properties into senior housing

This might be off topic but picking your brain is a great way to get valuable information.

How did you structure the deals in other businesses? And what kind of businesses? And how did you decide the investment would be a good deal?

Most of the time we've just formed corporations. That is the easiest way to do it, especially if you've got more than 2 or 3 different investors involved. I've got positions in 2 restaurants (franchised), a concrete company, a carnival company, and a company that provides urine tests/analysis for truckers. Right now I'm working on a deal on a RV park/campground. This one is a deal that I found and am trying to put together myself. We'll see what happens.

Other than the RV park, I don't look for these deals. But I know a lot of bankers, and those guys send people my way from time to time. My analysis consists of meeting the entrepreneur several times. Its their job to sell me the concept. IMO, if you can sell and investor, you can sell a customer. After we meet several times I read the business plan. By the time I read the business plan I should know everything about the business just from conversing with the entrepreur.

After I read the business plan, I determine what an acceptable position in the business would be for me. I decide if the plan make sense. I decide if the plan provides a needed service. I decide if the entrepreneur understands the industry. I pay particular interest to if the plan includes some way to systematize the business model. That ensures the possibility of growth. Bascially, I decide if the plan was compelling. If it was, I will decide to invest. If not, I don't.

I don't make loans, I only take positions. I also don't take all the risk. The entrepreneur has to have a substantial amount of money at risk too - at least 30%.

I assume that when a tenant is found, some sort of contract needs to be drawn up. For someone who is buying their first property, should they draft their own tenancy contract, or is this something that should be handled by a professional?

Yes, we call this a lease in real estate. Join an REI club and get a lease from another landlord. Then insert your name and take it to your lawyer. Have him read it and make suggestions for changes. Be very clear that it should take him no longer than 1 hour to do this job. Never give a lawyer a blank check.

What reason would you use in rejecting the application if everything else checked out fine?

You don't have to give a reason. Just tell them that they didn't pass the screening process. If they ask why just say that you don't give out that information.

What you need to do is sit down and type out your criteria for renting a property. Be sure to date it. If you decide to add a criterion, just add that to the list and date the updated copy. KEEP BOTH COPIES. Having a clear and concise definition for who will qualify will go a very long way if you get sued for discrimination.

It has happened - one of my tenants haven't paid their rent in 2 months now.

Long story short, they supposedly need to pay legals fees - but that is B.S. becase they are working and make good money - enough to pay their rent. They told me all last month that they'd pay me next week, all throughout the month, so I know they are jerking me around. They wont pay.

I filled a case with the Landlord and Tenant board and have hearing on the 10th of November. I put in an application just to "collect rent that is owing" where I should have put one in to also evict the tenant after...

Is there any other way to try and get my money? I called a collections agency and they told me the tenant has to be out of the house, after they get evicted they kick in. Iam not sure to familiar with liens, could I apply for one of those also??

What are some of your experiences and what is my best bet here?

Thanks

Don't bother trying to get your money. Tomorrow get up early, go down to the court house and file for eviction. I have no idea why you let these people get 2 months behind. If they can't pay by the DEADLINE, which should be in your lease, you should have filed for eviction. Forget getting the money, and stop listening to their excuses. Are legal fees more important than keeping a roof over their heads? Nope. But they know that you are a sucker that is willing to let them live for free. So they're going to go spend your money on something else. Screw that. Evict them immediately and NEVER EVER allow a tenant to get this far behind again

Spex x,

I was just wondering how did you find managers for your properties? It seems very difficult to find trustworthy people (especially those not connected to any big management companies). Also how much would you pay them? Is it a free room, percentage of gross rents, or a salary? Which option do you think is best?

I ran ads and conducted interviews. I've got one full time manager and two part-timers. Each of the part-timers live in the mobile home park that they're managing. The full-timer gets paid $12 per hour and manages the apartments. My managers are mostly just emergency contacts and rent collectors. He files notices, processes evictions, etc. Glorified secretary really. But the fact is that managing property just isn't all that hard.

As far as trustworthiness, I don't see a problem. What can they steal from you? If they don't show up for work, fire them. Whats the issue? All a manager needs to do is learn. There is no special skill set necessary besides common sense a reasonable ability to learn.

Why do you not like big management companies? I'm pretty sure one of my management companies gets higher rent and keeps costs lower because of economies of scale. Things like being able to list all of their properties on a website to cater to college students.

Explain what you mean by economies of scale. What economy of scale is there that a management company can capitalize on?

I'm closing on my first duplex in 2 weeks. I met with an insurance agent today and he told me that most people insure their properties for the replacement value rather than the purchase price. He calculated the replacement value to be 251,000, while the purchase price is only 125,000. The yearly premiums would be $1,163 and $745 respectively. I'm just wondering if it is standard to insure for the replacement value when purchasing an investment property.

I'm not sure that there is a standard on this issue, but personally I would just insure the purchase price. I'm not too worried about a house burning, and even if it did I wouldn't rebuild. I'd rather sell the lot and buy another house than keep the lot and build.

I meant like having enough properties that they can afford full time people to do maintenance, repairs etc... I have been able to have my management company do a lot of work for less then getting individual contractors to do it. I'm also investing long distance and can't do minor work myself.

Sure, but you could just as easily spend some time on the phone finding a reasonably priced handyman. 95% of the month to month work that you'll do on a rental property doesn't require a contractor - a handyman will do just fine.

Besides, generally all a management company does is just call a handyman anyway and then add their profit onto whatever the guy charges. If you can get a good guy for $20 per hour, IMO you'll be saving yourself a lot of cash. That management company is charging you probably 8% of gross rents plus an hourly rate on top of that for any time they actually spend doing anything on your property. There is no way that you are saving money by using a management company

So the tenant I was telling you guys about and in the process of evicting has filed bankruptcy.

I got a letter in the mail today telling me they went bankrupt... So much for wage garnishment. What are my options (if any) now.

They took all their stuff and left the property 2 days ago (downstairs tenant told me).

It doesn't look like you have any recourse. The main thing is to get the unit rerented

Be vary careful about refusing to rent to someone on the sole ground that they have previously sued a landlord.

This is an interesting point. For obvious reasons I make it a rule to automatically reject an applicant if they have sued a landlord in the past. I know that you're not giving legal advice here, but I'm curious as to the potential risks. I was under the impression that its just fine to reject any applicant for any reason other than the protected classes. On the basis of your comment above I'm going to have a conversation with my lawyer on this issue to be sure I'm doing everything i can to protect myself. But I'd still like to hear your reasoning.

Why did that tenant sue the prior landlord? If it was for discrimination against a protected class, you are just asking for a housing discrimination lawsuit.

But so long as I can show that i have an established criteria for screening tenants and includes rejecting tenants with a history of sueing landlords, I should be ok, right? Is it wrong for landlords to discriminate against Muslims? Yup. Is it legal for the Muslim to sue the landlord for discrimination? Yup. Is it right for the Muslim to sue the landlord? Probably. But still, for every action there is a consequence. you can do the right thing and still have to eat **** for it.

I really don't think that the prospective tenant suing a prior landlord should be a deal breaker. You even advocated for a poster in this thread to sue a prior landlord for return of deposit that was wrongfully withheld. That is a bit of a double standard, no?

Yeah, definitely a double standard. Still, if this guy rightfully sued to get his deposit back, I wouldn't rent to him later on. Most landlords wouldn't care, but I do. Also, I'm dealing with a low income population. In my experience these people are more prone to think that suing is their meal ticket than people from middle class backgrounds do. That is a total generalization based on anecdotal evidence. But its still what I think.

A part of me would be a terrible landlord. I'm a nice guy, way too compassionate, and non-confrontational which kinda just sounds like lol if I want to be successful here. Earlier in the thread you or somebody mentioned that these people will find any excuse not to pay their month's rent. Does this happen often? It seems like such a pain in the ass dealing with that and even more of a pain dealing with repossessing the home

Thanks so much for answering all these questions, infinitely valuable to the noob investor.

Yeah, nonpay is going to happen all the time. You don't have to be confrontational. all you do is get the tenant/buyer on the phone and explain to them what the process is for moving out. Tenants are not in a position to argue with you. They owe you money.

Is it a pain in the ass? depends on what you compare it to. compared to losing 40% of your stock portfolio in the last two years, I'd say its a walk in the park. compared to sitting on your butt watching reruns of Friends on TBS, its probably pretty hard.

What's the max percentage you'd pay a reputable professional management company? I assume going above 8% would be OK if you ran the numbers and it was still a good deal by your requirements, but what % is just "too high?" 10-12ish?

The max I'd pay is 0%. I wouldn't ever hire one. Markets vary. I'd recommend that you find out what the market rate is an resolve to not pay more than that.

Here you said most tenants in low income areas don't have bank accounts or cars, so you have to collect rent in person and in cash; but here you said you could have the tenants directly deposit rent into a special bank account and you also mentioned most of your tenants mail rent. I realize this varies, but which (collecting in person/in cash or collecting via mail/direct bank deposit) is more common in low income housing?

Yup, you could do either. I think the the most common way to do it is to collect in person. However, landlords have never been very smart about figuring out how to systematize their businesses. I'm starting to transition to ACH and deposit only accounts for collections, and trying to eliminate mailed and in person payments entirely. However, the problem is with late payers. I like to get the money in my hand

ASAP, so my manager goes and picks it up.

Spex...

What would you do, if anything, if you found out your live-in manager is in a relationship with one of your tenants?

I have a master carpenter that I let live for free in one of my properties. In exchange, he collects the rents and does maintenance work. Although he has no ownership interest in this property, to the tenants, he represents ownership. He and I are 50% partners in another property that he built, and I financed, if that matters.

He's divorced. Between alimony, child-support and trying to put some dough away for college, he is basically flat broke. Even though he's 52, the guy pulls a lot of women and calls it a "sport".

She is a 35 year old college professor, originally from Europe. From what I've learned, she is in loooove. Knowing him, this isn't going to end well.

I've been a landlord long enough to know that if she goes bat*e crazy when it ends, and lawyers get involved, who is at fault matters much less than who has the money (meaning me in this case).***

Would you feel exposed, liability wise, in this case or would you let these kids let their relationship run it's course?

I probably wouldn't make an issue out of it until it became an issue. But I think you should probably talk to him and ask him not to date your tenants in the future. I'm not sure there is much you can do at this point. Maybe ask your lawyer what your risk is. Maybe its huge, maybe its nothing. A lawyer is a better advisor in such circumstances

At the price point in debtvulture's deal, the clientele will certainly not be doctors and lawyers. Actually collecting the stated rents, and all the headaches that go along with that activity, may be one of the reasons why the current owner is selling...and why 10 updated units are being offered for $29k each.

My premise for RE investing, admittedly elementary, is: buying a rental property is an arithmetic problem, owning a rental property is a people problem. A year or two into owning, you've long forgotten about the thrill of buying.

Being a small landlord is not just cashing checks and spending the free cash flow, even in A+ locales. It's like being married, without the sex but all of the commitment. If you can foresee your people problems before you buy in a C or D neighborhood, no rosy cash flow scenario is worth the potential headaches.

I love this post, and I think you're exactly right. We have not spent much time in this thread discussing the people part of REI. That is because most of the readers haven't bought anything yet. So buying is the main concern of new investors.

My experience is that 10% of your tenants are going to be a pain. Most of them will pay the rent and you never hear from them. But the 10% that are bad are a major pain. I haven't been able to develop a screening process to filter that 10% out.

In any case, Section 8 is a huge help in that regard. You'll still have tenant problems, but you won't have to worry about rents being paid. If you are considering properties in any marginal area, you MUST get on the S8 rolls. Believe me, that is the only way to do it and survive.

"A ten-unit building as your first property is way too big. Yes, start much smaller. Get some experience and build up."

I disagree that an 8-10 unit building is too big for your first property. If you hire an effective property management team and make sure you base your purchase price on conservative figures, it does not matter if it's a duplex or 30-unit apartment complex. IMO, you should not be managing these properties yourself anyway, so a larger property will actually limit the temptation of self-management, which can be a real headache. As long as you are not personally managing the property (marketing units, handling maintenance issues, collecting rent) then what does it matter?

I totally disagree. I've never met any investor that is happy with their property management firm. I have a management team, however, they're direct employees of mine, not a separate business.

The fact is that property management is not hard. Its pretty easy. 99% of problems can be handled with a phone call. There is absolutely no value in paying the premium for a property management firm. Fraud and kickbacks are RAMPANT in the property management business. I strongly feel that property management companies are the worst of all management options.

Personally, I'd probably just have one of the 10 tenants do the management for a reduced rent. That is a very common practice.

Hiring a property management team does not remove the investor entirely from the operations of the property. In many ways you can learn a lot from your property management team (review budgets, receive quality contractor referrals, know how to handle various tenant issues, etc.) and be better equipped to handle problems in the future.

Even better is to get that info from other landlords at the apartment owners association or REIC. For free.

As someone with experience in property management I recognize how beneficial this knowledge can be when investing in real estate, but I cannot imagine diving headfirst into investing without support. You don't think it would be extremely beneficial to have an experienced, professional, insured, and accesible property management group in your corner as you encounter unforseen tenant and maintenance issues?

I jumped in without support. Most people do. I think that you are way overselling the difficulty of property management. Its easy. Most communities have a landlords & tenants association for you to get advice from. Most communities have REIC or other landlord organizations. Beyond that, most info you need can be readily attained in books such as Landlording by Leigh Robinson. This isn't rocket science.

I assume these posters are not looking to make this a full time job. When you go at it alone, you are on call 24-7 and essentially handcuffing yourself to the property. I know that if I invest in a property in hopes of cash-flowing $XXXXX a year, I do not want to be woken up in the middle of the night because of a leak, or have to call my lawyer to evict a tenant for not paying rent. Budgeting for management fees = much better sleep at night.

In 15 years of professional investing, I have NEVER received a middle of the night call from a tenant. Not one. I teach my tenants how to shut off the water at the valve. And that is pretty much the only middle of the night call I can imagine getting. They can shut it off and call in the morning.

My lawyer charges me $200 for a eviction. But only when I need an eviction. management companies charge the same $200 (we all use the same lawyer), plus their profit, and since the eviction is priced into the management fee, you gotta pay it whether you evict or not. Which makes more sense?

I can definitely see where you're coming from (you want to learn the business from the ground up) but I feel it is kind of an irrational argument. Would you invest in a technology startup where the

CEO said "I don't know anything about computers so I am just going to wing it" You don't want to hire a management team because you don't know anything about property management?

this is hardly the same thing. A tech start-up is very hard to pull off. Successfully operating a rental property is very easy to pull off. I fail to see the parallel.

A point I was trying to make was that both in this thread and on other sources I have found on the web don't like management companies because they have different goals than you do, and if you are not aware of what the managing a building entails, then you open yourself up to be ripped off and driven into the ground by a sub-par management company that you have to put blind faith into.

Well put.

That being said, I feel your comments about property management are actually a disservice to your readers and potentially future RE investors. Of course there will always be some crappy property management firms, but there will also be some great ones who bring a lot of value to the table.

The problem is that I'm not sure what, if any, value property management firms bring to the table. Give me some examples.

Yes, having an in-house property management team or hiring a reliable tenant can also do the trick, but what I'm saying is that from experience, it's usually not worth the cash flow to manage your own properties ON YOUR OWN.

I'm not so sure how you can make this argument. I manage my properties on my own. Actually, I employ property managers to do it. The typical PM firm in my area charges about 8% of gross rents. All together I pay my managers in the realm of 2%. I can't see what they provide for that extra expense.

I cannot believe you'd disagree with me.

I'm surprised that you're surprised. I've made my disdain for PM firms well known.

I can only assume that wherever you live/work/invest is very different from where my partners and I do.

Maybe. Probably not. I know professional investors all over the country. I'm not aware of any that use PM firms. Everyone I know has their own employees manage the properties or they do it themselves.

In some cases (single tenant commercial buildings, smaller apartments) it may be ok to self-manage.

Meh. I've owned pretty much all classes of RE. I've always done the management in-house. Never used a PM firm, nor ever had any problem.

However, the majority of the time, it makes more sense to bring in outside help. Ask any of my real estate friends in CA/NY (many of whom are published authors and/or have net worths of over $50M) and they will tell you that it's not worth it to manage yourself.

Just because its not worth it to manage yourself doesn't mean its not worth it to hire a PM firm.

I also have friends. My friends don't use PM firms. so I'm not sure what that proves.

I'd like to think they know what they are talking about as they have had far more success than

both you or I.

Depends a lot on how you measure success. I work about 10 hours per week right now. I dont' have assets worth $50M. But I've got more than I could ever reasonably spend. So the fact that your buddies have lots more money then me doesn't sway my opinion much. If I worked 50 hour weeks for the next 10 years i could probably have $50M too. Meh. its not for me.

Also, when you are buying large $10M projects, you have to consider management in a much different way. Obv the buyer of such a property isn't going to manage it himself. That would be obsurd. On the other hand, I know a guy in Tampa that owns a $15M mobile home park and he operates it himself.

It really comes down to opportunity cost and evaluating the reasons you entered the real estate market in the first place. I made the mistake of self-managing one of my properties, and now my lawyer and I are dealing with a crazy tenant of mine nearly once a day who is threatening me and causing major headaches.

Sounds more like a testament to your bad management than the efficacy of PM firms. And guess what. People can still sue you if you use a PM firm. Its possible that using a PM firm might actually INCREASE your chances of getting sued since there is another defendant for your tenants to litigate. Doubles the chances of a settlement.

If 2 investors buy similar properties (1 self managing, 1 outside help), I GUARANTEE the investor with outside help will be less-stressed and move to purchasing his next property sooner than his counterpart. That's a win in my book.

How can you make this claim? It would take the exact same amount of time to purchase and renovate the property no matter if you hire a PM firm. The fact is that the stuff that takes time - purchase and renovation - is all done before the property is rented. You act like a single family home or small rental would take up tons of much management time. They don't. Even a 10-20 unit building can easily be managed by a tenant. I'm not sure why you're so in love with the PM firms.

Readers: Spex may have some good things to say now and then but take his words with a grain of salt. There are sometimes more than one answer.

I agree. take my words with a grain of salt. I have one opinion based on my experience and what has worked for me. I've never claimed that things can only be done one way, or even that my way is the best way to do REI.

He may be an expert on small, low-income apartments in small cities and submarkets, but when you need advice on "big city" or real $ properties, you should look elsewhere.

I'm not sure how to take this. I have investments in several cities with populations of 2k, 50k, 80k, 120k, 250k, and 3M. My current portfolio includes apartment complexes in the "big city" as well as mobile home parks in the country. i've got experience in many markets. They are all about the same overall. You find a deal, negotiate the purchase, get financing, close, fix, rent, manage. If you invest in a market that somehow makes transactions more difficult than that, I'd say you should reconsider your strategy.

Also, I think we're getting confused here. When I started this thread there was literally NO good REI info on this forum. Smart people talked about stocks and some small business chatter. But nothing about REI. The reason: there are very few RE investors here. Even now, there are only a handful. The people reading this thread are beginners. All the advice is intended to be for beginners. Beginners buy single family homes and small rentals. In my opinion, that is all they SHOULD be buying.

Small rentals and SFHs don't demand professional management firms. Period. You are wasting money paying a PM firm to manage your duplex or quad. Now, if you have 20 quads to manage, you should get some help. We agree there. However, I would probably hire an employee rather than go to a PM firm.

Managing is not how RE investors make money. At the same time, I think it is foolish and irresponsible to tell beginners "no problem, buy the property, turn it over to a PM firm, and sit back to count the money". That isn't the reality of the business. PM firms offer little for the premium they're paid. I challenge you to prove me wrong by showing me how they can get me a better price and/or save me time in a way that makes up for their cost.

His points about kickbacks being rampant, reading a book to gain all the knowledge you need, and that operating a rental property is "very easy to pull off" are laughable and should not be taken seriously.

Ok, I'll take the kickbacks comment off the table. But the fact is that you CAN read books to get all the info you need to manage properties. I find it odd that you disagree to the point of calling the statement laughable. You act like PM firms have some special inside knowledge. They don't. And the fact is that for a beginner, buying a small rental or SFH, the PM firm brings almost nothing to the table.

Operating a rental property IS very easy to pull off. It is not hard. I'm confused as to why you think it is so hard. Like, give me some examples of what is hard about managing rental property, and I'll respond by telling you why that hard problem is actually simple to solve.

Whether that means a tenant in exchange for a rent reduction, in house property management, or a management team is up to you. I did not specifically mean a property management FIRM, although I often use them for my larger properties, I just meant anyone who can help ease the strain on the investor. It appears that you employ property managers yourself, so you are in agreement with me. There is no denying that a property management company/person/tenant frees up your time, allowing you to focus on other items and improve cash flow.

Alright, it seems that we do agree after all. Maybe something that I didn't make clear (both here and throughout this thread) is my feeling that growing an RE portfolio DEMANDS that sooner or later you have to get management help. We are in total agreement about that. Nobody makes money managing properties. We make money by putting smart deals together. Making deals is a way more productive use of time than dealing with management. So I guess we're on the same page. I'm also willing to concede that maybe I don't own any properties that are large enough where using a PM firm makes sense. I don't know. I can see that maybe there is some critical mass where using a firm works for a particular property. But I think its a long way from what pretty much any of the readers of this thread are doing.

Honestly your post above is offensive in how you spin my words and take things out of context.

Not intended to offend at all. On the contrary, I enjoy being challenged in my views. My word isn't gospel here, but there aren't a lot of people to argue with me. At times I get overzealous defending my positions. I've always been that way. Sorry about any misunderstanding regarding that.

Remind me where I say "no problem, buy the property, turn it over to a PM firm, and sit back to count the money"?

You never did, but that is what you implied in your response to whoever asked about buying a 10 unit building for his first property. I was intentionally taking it to an extreme.

That's exactly what you are saying when you say buying, renovating and managing a property is a kiddie game. I'd love to see the condition of your properties and IRRs. When it comes down to it, real estate appears to be very simple: purchase, get financing, close, fix, rent, manage.

The skill in REI comes from buying & renovating. That is where money is made. Managing is a kiddie game. I work with the worst tenants you can imagine - poor, unsteady income, uneducated, hard to evict, poor credit. I don't have a lot of problems with them. Mostly, that is because my product is significantly better than my competition, and my customers know it. My properties are meticulously kept and we respond to problems immediately. My tenants know that I don't take any **** and I'll evict them in a heartbeat if they step out of line. I've got a long list to S8 tenants ready to fill my vacancies.

However this is exactly what gets the investor into trouble and limits his upside. Perhaps this is why you haven't made it to the next level.

This seems more than a little pejorative. I've made it to the the exact level that I intended to. I've made it clear that I'm not in this game to make hundreds of millions. I don't care about having a big pile of money. My goal has always been to have enough income producing assets that I'm not obligated to work.

The deals I make now are for fun more than money. I like my work and I'm not interested in trying to move to the "next level". Is there something wrong with that?

This thread is intended to get people started by exploring basic concepts. I've had some success and some failure, and I've only ever claimed to be a mid-stakes player. I am that by choice, not circumstance.

The intricacies can make or break a deal and the process should never be dumbed down the way you dumb it down. If you truly think that is all that goes into commercial real estate then you are either A) missing opportunities B) in a different world than the rest of us.

Look, I call it like I see it. Those are the basic steps, not a comprehensive study of REI. I never intended the comment to be taken that literally. There are things to learn about each one of those steps, and some demand more expertise than others. With your obvious knowledge and based on what I've written throughout this thread, you shouldn't need to be told that that is what I think. I've been the first one to advise caution over hype in every step of the process, and I've intentionally focused this whole thread on diligent hard work and prudent study. You shouldn't pull out one comment like this an spin it into my entire investment philosophy.

IMO, the easiest is property management, which this conversation is supposed to be about. According to Indeed.com, the US average salary for a property manager is $44k per year. In my area the average is only $34k. How much expertise do you really need to get a $34k/year job for christ's sake? How hard can it possibly be for that salary?

And of course I don't think you need any type of management assistance for a SFH or a duplex, so there's no need for you to rebute arguments I never made in the first place.

You never claimed that at all. The point I was trying to make is simply that for a beginner, which the audience here is made up of primarily, it makes no sense. I think we're more or less on the same page - small operators don't need management help, but later on you have to spend your time on growing your business and should hire management help. Fundamentally, we agree.

There is one problem though - unlike spex I don't have the knowledge necessary to teach someone to be a property manager. For example I don't know how to do section 8 paperwork, I don't have any contacts for maintenance issues (though I can come up with some easily), I don't have any experience advertising units for rent, etc.

Buy Landlording by Leigh Robinson & How to Manage Residential Property for Max Cash Flow and Resale by John Reed. Read them closely. copy relevant chapters and make an instruction book for your staff to follow. Add to the manual as situations arise and you figure out how to handle them.

That is pretty much what I did. Honestly, green or not, you're going to likely have to do some amount of training. The best people usually end up being retired. You want someone that has another source of income b/c 13 properties are definitely part time work.

Get a retired individual (or couple) and find someone else to do the handyman work. I'd probably advertise in the community areas of Sun City and the other retirement areas. Surely you'll find someone whose retirement income needs some supplement since the financial crisis.

If I'm being honest, I'll say that I have had great luck w/ my management team. They've all been with me a long time. So I haven't had to hire anyone for a while.

What does your management team do exactly? I mean I know the obvious tasks tongni mentioned like taking phone calls and screening tenants, but that doesn't seem like it'd keep them busy unless they were managing a couple hundred units minimum. IIRC you said you do the books yourself and hire lawn care/cleaning companies, so what is left for them to do?

Well, my 'management team' consists of one full time person and two part-timers. The part-timers are people that lived in my mobile home parks when I bought them,, (one in each). I give them free lot rent, and they do some simple tasks. Picking up around the dumpsters, collecting trash, giving notices to tenants when they step out of line in some way. They do a lot of notice delivery. They collect rents when necessary. REally part time stuff.

My full time guy does a lot of small repairs. Pretty much all the small plumbing work, simple drywall stuff, unclogging toilets, etc. He does all that. He also does some lawn care, but not much. Otherwise, he takes phone calls, talks to people's Section 8 reps a lot, delivers notices, enforces rules, runs errands like going to Home Depot or the Post Office, deals with appliances, etc.

He also does tenant screenings, move in/out inspections, and a bunch of other crap that I can't even name. He changes the oil in my personal vehicles and cuts my grass for me too.

He has plenty to do. When things get slow, I send him home or make him do landscaping work. i don't have enough office work for him to spend all his time on paperwork. So he is kind of a jack of all trades. Any serious repairs and pretty much all electrical work goes to handymen or contractors. And there are times of the year, particularly July/August, where there is way too much work for one person to do.

My father recently bought a property in a very sketchy part of town (Philly) with the intentions of fixing it up and selling it (basic flip i guess). Of course the first night we leave it alone, the house is broken into and about $1k worth of materials was stolen. My question is what is the best way to secure a house like this without destroying our profit margin? The windows and doors are already all boarded up/locked. We feel that someone is going to be able to get in if they really want to, b/c the neighbors do not seem like they are willing to do anything about it...

Thanks in advance for any responses.

1. replace the door w/ steel security doors (about $130/ea at home depot)
2. Install deadbolt.
3. Cover all lower-story windows with plywood.
4. Don't leave anything in the property.

Finding/Buying Properties

One of the points you list being open to discussion is “Buying property for 20% under fair market value.” You discuss negotiating and participating in RE investment clubs. What are other tactics you use?

Well, its kinda hard to say given the property types that I buy. I don't really use tactics at all. Actually, my properties tend to find me - I hear about a motivated seller from other investors and I move on it. A few times bankers have approached me and OFFERED me properties at whatever the value of the loan is. But I buy bigger properties, so its kind of another ball of wax.

If you're buying single family homes or smaller multis, you can do several things. When someone goes into foreclosure the process if first registered at the county courthouse. If you watch the pre-foreclosure filings you can cherry-pick good deals and negotiate short sales with banks. A lot of people advertise and I'm sure you've seen the 'WE BUY HOUSES' signs everywhere. Those guys are trying to find motivated sellers that have equity in their homes. Another thing that you can do is mail campaigns to pre-foreclosure candidates.

Also watch for properties that have been listed for a long time and haven't sold. Expired listings are sometimes worth pursuing.

I mean, honestly, I don't really go after this market too much. I more or less just hang out w/ a lot of RE people and the deals seem to find me.

How many hours on average do you spend looking for and completing a deal?

Good question. I check all of the local MLS listings and Loopnet several times per week. I don't often buy properties from these venues, but I like to keep abreast of whats on the market. I go to lots of REI club meetings and I share a meal with other investors, bankers, RE brokers, etc, a few times a week. I don't know if all of that amounts to looking for properties or not, but thats how I find them.

The time it takes to make a deal depends more on the seller. If he needs to close really really fast, the property is higher risk, and thus, the price will be much lower. But normally the whole process takes about 6 to 8 weeks all told. Not that much time is actually needed to review documents and such. What takes time is conflicting schedules - inspectors, lawyers, city officials, etc. I dunno, it depends on the deal.

so if a house had an asking price of $200,000 which is a reasonable asking price and the owner owed $150,000 you'd recommend making an offer of $127,000? i just even see how a seller would begin the negotiating w/ an offer so freakin low. im sure you'll say that most wont negotiate but is it reasonable to think that 1 out the 4/5 offers would?

If they aren't willing to negotiate then they are not motivated. Remember, REI is not about finding properties. Its about finding motivated sellers. In your situation you're obv not hoping to buy a property off the MLS for $127k - you already know that the seller owes $150k! Plus that seller is going to have to pay the costs associated with selling the property on top of that debt. But also remember that at $150k that property is costing them $1000 per month or more plus maintannce and utilities. The average middle class family can't afford to pay out an extra $1200 per month to hold a property. And if $127k is the only offer they've had in months, well, they'll surely counter with something. Also, I'd bet that sellers are really freaked out right now. That fear works to your advantage.

Another thing - seller's initial reaction might be very negative and they might get really mad. Its the realtor's job to talk some sense into the seller. The realtor will be in there saying, 'look, this is just a starting point, maybe we should counter and see where it goes.'

If you know that a seller owes $150k and they're asking $200k, you already know that the seller has $50k to play with. Its your job to get as much of that $50k as possible. Good luck.

How do you find out how much the owner owes on the place? Is this info available online? Or do you just have to ask the seller?

All liens on real estate are recorded at the county courthouse. Call them up and they can tell you the amount of the mortgage on the property at the time the lien was recorded. Then you can guesstimate a reasonable interest rate - maybe 6.5% or so and make an amortization table to find out how much is still owed given the amount of time that has passed.

Also, look at the tax history on the property (usually available online). The years that you see a major increase are the years that the property has sold. If you know the tax rates for those years (inquire at the courthouse) you can guesstimate at the amount the property sold for when it was bought all those years ago.

you mention a few times that you refinance your properties after you fix them up. what is your goal? are you pulling cash out or are doing it to get a better rate?

It really depends - the answer is both. Most of the time my properties are seen by the bank as a less than desireable risk. So I have to agree to pay a higher interest rate up front and hope that when I get the property up and running properly a bank will refi me to a better deal. This is somewhat risky for me because there is certainly no guarantee that any bank will be interested when it is time to refi, and beyond that, there is no guarantee that I'll be able to get a better rate later on. So I plan to refi, but I assume that its not going to work out. So I have to be sure that at the current terms I can service my debt and still be okay cashflow wise and still make the kind of ROI that I want - those three are like differnent arms of a mobile and they have to stay in balance in order to work.

What I normally do now is get the property and pay most or all of the fix up out of my pocket rather than relying on the banks. I then refi to get my money for renovations back out. I don't normally refi out any more money until I need it. I don't normally refi my down payments back out, although I know some investors that do.

Something too that you should be aware of is that the vast majority of the time I get a check at closing when I'm buying a property. I get the prorated rents for the month in which I'm buying.

You have to be smart about when you're going to close. Like, if I were to buy a 15 unit building that rents for $450 per unit and we close on the 1st, I should get a check for $6,750. If we close on the 15th, I should get a check for $3375. If the seller is smart then he'll ask you to pay the portion of the mortgage payment for that month - its only fair since he already paid for that month and you're taking part of the rents. That is fine. See, the principle portion of a mortgage payment is made in advance - so you should pay a prorated portion of the prinicple. However, the interest portion is paid in AREARS. There is no reason why you should pay him for any obligations before you took posession of the property.

Another thing. Before you schedule the closing date, find out from your bank when the first payment will be due. If you close on the 25th of January, maybe your first payment will be due on March 1. But if you push the closing to February 4th, your first payment might not be due until April 1. You see the difference? In the first scenario you get to collect prorated rents for a few days of Jan, and full rents for Feb before you've got a payment. In the second scenario you get prorated rents for almost of Feb, and all of March. In a 15 units property that is a differnce of several thousand dollars in your pocket. This is money that you can use to fix up the property.

Ok, so I said all of that to make a more general point. I don't consider the money that I use for fix up in my COCR calcs. That is because I'm planning to refi out all of that money within one year. If it so happens that I can't refi the money out, well, I still make a decent return on my capital, but nowhere near the 25% COCR that I want to get. So I do decent instead of great.

One thing to be aware of too is that when I first started doing this it was a constant struggle to get the banks to work with me. They always wanted 2 years of financials on the property. Obviously I'd just filled the place, so I didn't have those kind of numbers. It helped though that I was still only cashing out a small portion of the value of the property, so the LTV was still somewhat low given the new valuation.

Anyway, basically, if you buy the property right up front that gives you so much more wiggle room to deal with lenders because it limits their risk.

Would you ever contact the seller directly here and try to setup an owner financing deal even though he is listing with an agent?

No. Even if the seller could legally go around his agent (which he can't) it'd be incredibly rude and you'd make no friends. This business is, IMO, very much about friends.

What's the (rough estimate plz) average single family residence sale price in the areas where you own investment property? What's the typical monthly rent you would or could charge for these properties?

The price of a SFH depends on a lot of factors. Location mostly, but features are a close second. Ok, I'll assume that we're talking about renting normal ranch-style with garage 3 bedroom 1 bath houses, maybe about 1100-1400 square feet, built circa 1970. That is a typical rental house in my area. That house would retail for about $125,000 to $145,000 depending on location and condition. That house would rent for between $750-$900 depending, again on location, condition, and amenities.

Let me know if you want me to go over the numbers. But just glancing at these numbers you can tell that you won't get anywhere close to a positive cash flow. Even if you paid the bottom of the range ($125k) and rented at the top of the range ($900/mo), you're still negative cash flow on this property.

If you're strategy is to look on realtor.com to find a rental property, you need to reconsider that strategy. Nowhere can you buy property off of the MLS and rent it for a positive cash flow.

Hi,

Thanks for all the quality replies. A quick question -- if we can't find positive cash flow rentals in this way, where should we be looking? I know you've touched on it a bit already, but if you could maybe elaborate.

The best way that I know to find decent properties that cash flow is to join and REI club. Like I've already said in this thread, at my local REI club the first 10 minutes is devoted solely to people announcing deals that they have to sell. If you're looking for single family homes, you can find lots of bargains that way. Even if you're looking for duplexes and fourplexes you can find decent deals. It is important that you get to know other investors. They will bring you deals, refer you deals, refer you to motivated sellers, help you when you make mistakes, help you to avoid making mistakes, etc. Plus, its nice to make friends. Join an REI club.

I find it kind of odd that at a meeting of experts you can find great deals. It's almost like playing the 2+2 poker tables and finding passive fish, no? What factors make the most savvy RE investors sell at bargain prices?

First, I want to clarify that not all investors at REI clubs are savvy.

there are lots of ways to make money in RE. Some people have businesses wholesaling properties to other investors. That is, they find motivated sellers with equity, get the property under contract, and resell the contract to other investors, taking a small commission for themselves. Other times a small flipper will find a deal but not be able to take advantage and so he flips the property to other investors. Other times someone flips a house but can't sell it fast enough and is willing to take a hit on the purchase price - taking a small profit over a big loss. Other times an investor is retiring and just wants to get rid of properties - these people can offer great terms. Sometimes experienced investors will take new people under their wing and show them how to flip properties for a piece of the upside after finding a deal - that happens quite a bit.

Like take me for instance. Say that I somehow found or was referred to a great bargain that is below my radar - maybe a single family home or something. I dont' want to fool with single family homes. So I'd flip that deal to another investor. No big deal. Or say that I just bought a property and i'm trying to make something out of it. I don't have time or money right then to chase another deal even if I wanted to. i'd pass that deal along to other investors.

Another thing that is common is that people THINK that they want to be RE investors, but the reality is too much for them. this is really common. People just want to get rid of properties and be done with the tenant problems. If you've got 3 or 4 properties sitting empty or with tenants that don't pay rent and you can't evict, and those properties are costing you $1500 per month each to hold, how motivated are you after a few months? Pretty motivated. I see that happen pretty often, and its the primary reason that I decided to start this thread.

This stuff is very very common. Join an REI club. you'll see. Besides, what's the downside? $100 membership fee and a few hours of your time.

The reason I was bringing this up had to do with my question. The formula you use it is almost impossible to find a deal.

Nope, not impossible. Just difficult. Thats what makes it a 'deal' instead of a regular purchase. If it were easy everyone would be rich.

Forget MLS, FSBO, SFH's, almost all duplexes, etc. These numbers just don't seem to work.

Forget MLS and FSBO. To find bargains you have to hunt. The MLS is a tool for finding properties. We're not looking for properties. We're looking for motivated sellers. Find the motivated sellers and there are your deals.

Now I realize, that your cap rate should be higher because, afterall, managing multi-unit mobile home sites is a lot more hands on and risky thany managing a duplex.

Funny, I see a duplex as far more risky and more hands on than a mobile home park. Its interesting how different investors can have different perceptions on these issues. Kind of like my aversion to retail property.

However, does there come a time when you just have to buy even though you cannot get the cap rate, and COCR you want. I even tried using your formula with an 8% cap rate and these numbers seem to be off also. What would you suggest to do in a situation like this?

Look somewhere else.

This gutted home is approx 3400 sq ft living. It was damaged by a hurricane 2 years ago. It was bought up, along with 50 other properties by an out of state doctor/investor who is now getting rid of his last 3 homes (this being the best deal of the 3). It has a new roof/partially finished 2 car attached garage. Its recently put on the market for 110k. It is unable to be financed in its current (gutted) condiition.

Ok, stop right there! First, how does the price for the gutted property comp to other sales of gutted properties in the area? Thats your first question. This might be a bargain price, or it might be a sort of normal price for such a property.

Now another thing. A property without a bank is like a bird without wings. mmm...I dunno, maybe not, but you understand what I'm getting at? Does this seller expect a buyer to have $200k in cash to buy and fix the property? Of course not. Since he's an investor, he maybe expects the buyer to try to find a hard money lender to finance this deal. The problem is that if you borrowed the cash from a HML, this deal would be too thin. And he must know that if he's rehabbed a package of 50 houses. So that would indicate to me that the $110k price is a blind shot rather than a realistic expectation. Maybe not though, but thats what my gut says.

Ok, now, the way I'd probably go about this deal is make him like 2offers (after you determine the value - but lets assume that $110k is the true market value). First, you offer him like $50k cash, close in seven days. Second, offer him like $70k, $15k down, and he finances the balance at 10% with a one year balloon. You'll have to crunch the numbers to figure out the bests ways to match price and terms to your benefit. But if you make him carry the a note you'll be into this property for much less risk and you can juice your ROI by...well...a lot.

RE agent says estimates of 70k for turn key given in its current state (obv, we'd get other opinions). Now, this property is very much like its surrounding properties in both size, yard, etc. Comps ppsqft range from 70-90 in this area. If we could get thisi thing fixed up for under 200k it appears to be a reasonable deal for ~ a years worth of work (est. 6mo for repairs, 6mo to sell it). 3400sqft @ say $75 sqft = ~ $255k selling price for a possible 55k profit in one year.

Lets assume these numbers are correct. You're leaving out all the transaction costs for both buying and selling. They're significant, so you've got to include them. I mean, just the realtor's commission for selling is 6% - that knocks your $55k profit down to $40k. Now you're looking at an ROI of 20%. Personally, I wouldn't do this deal for 20% despite the fact that $40k is a lot of money. I know LOTS of experienced people that would do this deal though. Also, how quickly is the market moving in this area? You might be stuck with the property for a while. That'll lower your ROI even further.

Relating this to the first question, is this a good example of how having cash can be a plus for a RE investor? It would involve possibly tying <sp?> up ~200k for a year's time, with a projected 25%+ COCR..., however having the ability to front this kind of money (since one cannot get a traditional loan for it), means the market of potential buyers is much smaller (this is my guess at least). Does this seem like a reasonable type of niche to pursue? What types of questions do we need to be asking to protect ourselves here? What might we not be thinking of.

Yes, you are thinking exactly right. Cash gives you the ability to move quickly and take advantage of deals that other people miss. Also, the seller that MUST sell for cash and has an unfinancable property is in a tough spot because the pool of buyers is really small. But with your assets I wouldn't recommend flipping houses. Flipping builds capital, but it won't make you wealthy because it can't produce any residual income. IMO, you'd be smarter to try to focus on larger income properties. You can flip those too, but you make a lot more for doing it. Plus you've got the additional benefit of creating long-term income and additional net worth as your tenants pay for the property.

That's just my opinion though.

Good question. I'm not sure how one would come up with comps for gutted property. This isnt exactly the most populous area of the country. Greater area has ~100-125k people and the hurricanes are long gone... I guess we could dig around a bit and see what pops up though.

I guess you don't really need comps for the gutted property so much as you need good comps for what the final product will be like. I wonder what accounts for the range of $70-$90/sq ft. I assume its amenities, but pay attention to the distance from the subject property too.

Now the RE agent told us the owner had turned down offers of 95 and 97k and wouldnt take < 100k (this was maybe 10-12 days ago, property listed for possibly 3 weeks now). However, I just spoke to my partner and he told me the property is now listed for 100k. This makes me suspicious of what the RE agent is telling us... I mean, the guy drops to 100k and didnt take 97k before? I just find it hard to swallow... could the RE agent be BSing us?

This story doesn't really add up to me. I don't know though, in the GO Zone there has been a lot of money made over the last few years, so maybe a cash offer is reasonable for this guy to expect. But asking $110k and turns down $100k...I'm having a hard time buying that considering the situation. Even at $100k it seems likely that the guy is making a profit. But who knows? I've had realtors exaggerate other offers before. Normally, I just tell the realtor to give me a call if and when there is less competition for the property. Like I've said, I'm looking for motivated sellers. Someone that has multiple offers for his property probably isn't too motivated.

I'm not sure how we'd pull it off that quickly, though I guess we could simply stroke a check..? Though I'm not sure I/we could coordinate all of the appropriate inspections and whatnot in time... hmm.

Well, it doesn't have to be exactly that. Be creative - there is lots of room here for you guys to come up with something. This is a deal that is wide open to every kind of crazy scenario. You're limited only by your imagination.

Well, I don't think either me or my potential partner want to finance anything. We both have plenty of dormant cash... in fact, that is the entire reason he's even looking at something like this. Normally he does large land deals, but the market is soft atm locally so we thought we might cut our teeth on something residential assuming we could find a situation where there wasn't much potential downside and at least 3x the return we could get in stable corp bonds, blah blah. .

Fair enough. Consider too that this won't be passive. At the minimum you'll be scrambling to get your contractor hired and started on the project in the beginning. AFter that its basically up to you to keep your man working on schedule. I'm somewhat of a nag to contractors. I pay well though so they indulge me.

Well, we had no intention of paying >100k for the property, and now, I wouldnt even pay that given its listed at said price. The rehab work was quoted at 70k turn key, and I factored in an extra 30k just because I'm a pessimist. Now, that 200k figure gave us an extra 30k for all of the wtf growing pains and things we may overlook... is this a reasonable buffer for our inexperience? I don't know... 15% wiggle room was something I pulled out of my ass, but it seemed reasonable..

I mean, its obv hard to say given that I haven't seen the property. Best case is $80k profit less transaction costs, worst likely case is $55k profit less transaction costs. If that works for you, I say move forward. I think that having a 15-20% buffer should be plenty. Honestly, this seems like a pretty low risk scenario to me no matter how you cut it. So maybe the absoute worst case is that you make a tiny profit or break even. I can't imagine a situation where you lose money on this deal unless the place burns down or another hurricane wipes it out.

Well, while I'm not entirely sure of the 250k range, I do know the 350-500k range of homes has about a 9 month absorbtion rate right now, that is to say, a 9 month backlog. I budgeted 6 months to move the home for ~$75per sqft when the comps are showing 70-90 per sqft... is this an unreasonable estimate? Having the cash tied up another couple months wont hurt either of us, though I understand it will lower the rate of return. I can ask a friend of mine who is an agent about the abs. rate of the 250k range and get a more precise figure though....

Your analysis seems conservative enough to have me convinced. It seems reasonable for sure.

Also agree. I would love to own an apt complex or ten. However, its not something I/we have done before. I think starting out with 1m+ RE investments probably isnt the wisest move for a couple of rookies. I do wish we had gotten on the ball sooner though as we live in the "Go Zone" and this is the last year to take advantage of very lovely 50% first year depreciation that is possible in such territories. .

I've made lots of mistakes in my investing career. IMO, the biggest mistake by far was not buying up choice properties immediately after Katrina. Second biggest mistake was not buying GO Zone properties immediately after the announced all those juicy tax incentives...sigh....

I do agree that maybe you should take it slow getting into REI. I wasn't intending to say that you should jump into large properties, and obv I wasn't expressing myself clearly. I think that this particular deal seems fine on the surface. I just wanted to confirm that you are intending to move into some more substantial investments rather than continuing to buy and flip. I'm glad to hear that you are going to do that.

I ***know you have gone over this before so forgive me. But where exactly should I be hunting? I am a member of my local real estate club, I have cold called, I have made business cards with "we buy houses" and passed them out (not as much as I should have, and I have slacked off lately, but have passed out a few hundreds) and I have scouted neighborhoods extensively, although admittedly they were probably not the best neighborhoods for rental properties. Any other strategies that you can think of? I have the time and energy to hunt for deals.***

Are you attending auctions? Also, if you want to find properties that cash flow you've GOT to stay out of middle class neighborhoods. You can't find deals there and you'll be spinning your wheels.

Another thing you could try is research at the court house. Pick a handful of smaller apartment buildings and research who owns them, what liens there are, etc. When you find one that has been owned by the same guy for 20 years, contact him and find out when and if he wants to sell.

Have some patience. The deals will come.

The point I was trying to make here is you cannot expect the same return for different types of investments. A duplex in an upper middle class neighborhood will invariably have a lower cap rate, because the tenant risk is much lower than a 16 unit apartment complex in a low income neighborhood. I guess what I was trying to say was I sholdn't be so fixated on a 10% cap rate because I am looking at different kinds of properties than you?

I disagree. The way I would do it is figure out what kind of return on my investment I want and then seek out properties that will give me that kind of return. It seems backwards to chose what kind of property I want to buy and then live with the returns for that property. Doesnt' make sense.

First you need to know what your goal is. After you have that, you can consider what kind of investments will get you to that goal. Do you think that my goal is to own low income housing? Of course it isn't. My goals are financial. I don't allow properties to dictate my goals. I determine my goals then find investments that will get me there.

But let try and use an example to explain what I am talking about. Say you have the oppurtunity to buy a property for $500,000. All you have to put down is 2% or $10,000. Would you every buy the property and play it for appreciation if you could get it to break even or just barely cash flow?

Well, we have to define this scenario more. First, 99% of the time if you can get your hands on a property for 2% down that property is going to need significant work, which means significantly more capital investment. Second, transaction costs will ding you for another 3% or so for buying. So already this scenario is unrealistic. But I'll play ball anyway so as to not ruin your example.

Here is what I mean. Say the Gross Rent for the property is $48,000. Net opertating income is Gross Rent-(50% Expenses)= NOI=$24,000. So you can pay roughly $2,000 month in mortage payments. And say the seller offered you owner financing at 4.75% interest only. Your monthly payment comes out to $1,939.58. Would/Should you ever consider something like this and play it for appreciation?

Ok, hold on. Let me get your scenario straight in my mind. So what you're saying is that you found a seller that is willing to carry 98% of the PP on a perfect property, already rented, and at 4.75% interest only payments? The chances of you putting together a deal like this are miniscule.

Say 3% annual appreciation, (afterall most landlords structure 5% rent increases each year, and as you know rental properties value is tied to it's income stream; so IMO this is reasonable) your return on the year for appreciation is 150%.

Well, there would be transaction costs for selling the property, so your ROI would be much lower than 150%. Second, we don't know that the property will appreciate. It might stay the same. It might be worth less. We don't really know what will happen.

You have to consider that if next year banks are lending at 12% interest, your property will be worth significanly LESS than it is this year. Or say that the county government decides on a 10 mill tax hike. Guess what happens to your appreciation. Or say that the federal government decides that landlords have it too good, and to change the rules for deductions on income properties. Guess what happens to your appreciation. Or say that after you buy the house the neighborhood association decides to go on a crusade against rentals in that area. If they get restrictive covenants in place w/ the city that will affect any future owner, guess what happens to you appreciation. Or say that the house next door sells to a guy that moves several junk cars into the yard and paints the house blaze orange in tribute to deer season. Guess what happens to your appreciation. You get my point?

Not to mention the fact that properties don't manage themselves. Any time that you spend on this deal, including bookkeeping, etc, are hours of FREE labor. PLUS, what if something goes wrong in that first year. What if some drunk jerk runs into your house with his car? What if a tree falls on the roof and makes a hole? What if the furnace or A/C dies? You've got no extra income to fall back on. That is even more captial investment...

I am having trouble finding properties that meet your criterias for cash flow returns and this is an investment strategy I am considering taking a look at and would love to get more knowledgeable opinions. Also, thinking about doing something similar (barely breaking even cash flow wise) but buying properties with equity.

Who said that your properties have to meet my criteria? They don't. It sounds to me like you need to sit down and figure out what your goals are and then go from there. Your goals don't have to be the same as mine. Good luck.

Would home builders be considered "motivated" sellers in general now (maybe in certian areas)? I believe I remember hearing about a large inventory surplus in california.

It depends on the seller. There are motivated sellers in every market. Most sellers are not very motivated in any market. Really, most sellers don't understand the reality of the RE market that they're in.

What are your thoughts on Loopnet.com? Have you ever used it or ever heard of it? What are the odds of finding below market deals on it?

I spend a lot of time on loopnet. I think that its a good resource. I've never found a deal on loopnet, but I like to keep abreast of what is on the market and what has recently sold. I think that there is potential to find deals on loopnet if you can find properties that have been listed forever or if you are looking for redevelopment projects. But loopnet is mainly retail priced properties. Don't hold your breath on finding a good bargain on that site.

spex -

I haven't finished the thread yet so I'm sorry if this has been covered.

My question is simply what are some good ways of finding commerical properties that are up for sale?

1) REI club
2) direct mailings. I don't use this method, but I have an acquaintance that has a lot of success with it.
3) loopnet.com
4) MLS

Spex,

I asked this in a pm but I think other people could benefit. When giving my first offer should I spell out my numbers and cap rate I am looking for? Or give a more ambiguous "low ball" offer and wait for a counter to bring out my hard numbers?
~Justin

When you're negotiating you need to determine three numbers - an opening offer, a target price, and a bottom line. If your target is $100k, what I'd do is offer $88k, then $94k, then $97k, then $98.5, etc. Start out with a big concession and make progressively smaller ones. That makes your counterpart feel that they are really squeezing every dollar from you.

You don't need to really justify an offer. for the most part when you're buying commercial property the seller will understand that different people have different investing criteria. So just put out an offer and see what happens.

Once you start to get closer together, you can start trading price and terms. One way to do it is to offer a cash price and a much higher price with seller carryback. Present two offers simultaneously. this is what I do the most frequently.

Sprex,

I know you normally only invest in areas close to home, but do you know of any good resources to give you figures about population, employment etc, to gather some info about particular cites?
www.citydata.com

Its just repackaged Census Bureau info, but easier to navigate than the CB site

Ok, aside from the math side of things, how is this hammered out into writing and completed? As you've already mentioned, lawyers are a necessary evil of REI, so I'm assuming you'd have your lawyer write up a legally binding document and everyone would sign? Is this type of document templated, or is something like this written from scratch each time. I know you work on larger, more complicated deals, but would you say a large part of your expenses and cut into profit margins the fees you have to pay to lawyers? Like, on any single deal, do you pay (pulling out of thin air) 10 hours in lawyer fees?

Yup, you have a lawyer write up mortgage agreement. Generally, lawyers use templates. You can get good mortgage docs from other people and have your lawyer alter it as appropriate. Once you have a good contract it doesn't take long for your lawyer to plug in the numbers and go over everything. I'd guess that I pay less than 5 hours of lawyer fees per deal. Many deals I don't use a lawyer at all because there isn't anything that he can add.

Going back to 15% note at 9% ... what is this, like a loan the seller takes out from you and you collect 9% interest? Or the other way around, the seller maintains 15% of the selling cost and you pay him 9% interest ... either way, how is that worked out for payments ... like someone draws up an ammortization schedule and is just sending the other a check each month?

Yeah, the second one. The seller is making you a loan, you pay him. You just draw up an amortization schedule based on the terms that you negotiated.

And finally, does the feeling of overwhelmingness go away after a while? Like after you've done a few deals and you become more comfortable with the lingo & a general feel for what the numbers need to be to make it work ... not saying I'd be in this situation anytime soon, but I feel if I tried to put a deal together with the aforementioned terms, I'd be stammering & stumbling & come off like an (rightly so) amateur if I tried to talk about the deal with a potential seller / buyer ... it'd be like an NL25 guy trying to talk 25th level poker topics with CTS ...

Yes, after like two deals you'll feel like a pro. Don't worry.

Do you feel in control of each deal you? And are you so comfortable with the topic & problem space that it's a pretty easy game at this point and you just sit & wait for the numbers to line up then you make the deals?

Thanks

Controlling your deals is a very important part of REI. I'm experienced enough now that I'm good at controlling the deals. I'm sure that everyone knows what is happening, the timelines, who is responsible for what, etc. There is a lot to do when you're doing a deal, so you gotta be sure that everything is on track. It is up to you to manage and control the deals. A lot of people rely on realtors for that. I don't like to use realtors because I want to have control of the deal myself.

At this point I've got a reputation, so i'm not really out hustling deals. I talk to a lot of people and let them know what I'm looking for. Like everyone knows that I buy mobile home parks. I get calls from time to time from someone or other that heard about me. A big part of success is networking. get out there and let people know what you're looking for.

I have a quick question about having the seller hold part of the sale. Conceivably, if you had a seller hold 20% could that be counted as the 20% down to the bank? I know this is an extreme example but I am thinking of offering on a property with the seller holding 10% if I put 10% down. Didnt know if that would constitute the 20% generally needed by banks.

Yes, absolutely. The idea of having the seller carry a part of the PP is to avoid having to come out of your pocket with it. That will juice up your ROI on the deal. The bank doesn't care too much where the down payment comes from. Ever since the housing collapse, banks are requiring you to count the payments on any second mortgages as part of your cash flow analysis. They should've been doing that the whole time, but for the last several years they weren't.

Most of the time the bank will want you to have at least 10% of your own cash in the game. But if the bank requires 30% down the seller can certainly put up the other 20%.

Today I found a duplex that I am possibly interested in purchasing. In the listing it says the home is being "short sold". I looked up the definition of short selling and it seems to me that this will only affect the bank that currently owns the mortgage. Am I correct in thinking that this will have no effect on me besides maybe affecting my negotiating power?

Thanks,
-Ross

Yeah, this doesnt' really have anything to do with you other than the bank will be the one accepting offers rather than the actual owner of the property. You should definitely find out how much is owed on the property though.

The reason I am concerned is that I waived the financing condition on the purchase contract. I waived it as soon as the lender told me I could. So there was a contingent but, there isn't now. I don't want to sue the seller, I just don't want to be sued in the event I can't convince the lender to advance the funds today. The seller is willing to move the closing date forward however is complaining about costs associated on their end for holding the property. I'm in this mess because I took their word for the zoning in the first place, and agreed to close quickly for them. What would you do?

You made a mistake by waiving the financing contingency. Really, the only liability that you'll face is loss of the earnest money. They can't come after you for anything more. Hopefully you didn't put much down. REI 101: put as little as you can as an earnest deposit. Lesson 2: As a buyer you don't ever ever agree to waive the financing contingency on a contract. Never do that again.

If I were in your spot I'd take the contract that I signed to a RE lawyer and have him tell me what my options are. Of course, that assumes that you have a significant amount into your earnest deposit. It might be that you have to just let the deposit go and call it an expensive lesson.

Are saying you expect to keep the loan contingency the entire length of escrow? That seems an unreasonable expectation by the buyer. I know that if I was selling a property and I got an offer with a 30 day escrow and a 30 day loan contingency I would counter to something more reasonable. Ie 7-14 days or something. At some point the seller needs to make changes that will cost money if the buyer backs out and needs to have that earnest money to cover any damages.

This issue would be a bottom-line deal killer for me. Basically, the earnest deposit is intented to show that the buyer is serious. I would never put up earnest money if I didn't intent to close. I would never sign a purchase agreement if I wasn't sure that I wanted to close.

The only way that a deal that I signed a contract on wouldn't close is if 1) the property was misrepresented in some way, or 2) the bank wouldn't give the money. Those are two things that are entirely out of my hands. I wouldn't accept a contract where I was penalized for stuff that is not in my control.

In sum, I expect that any time I can't get the money - be it the day I sign the contract, or the day of the closing - I'll get my earnest money back. I would accept nothing less.

The tax assessed value as of Jan 2, 2007 on the county website is total market 217k, total limited 199k. What's the difference in these values?

This is an irrelevant question. if you buy anything, be sure to request a reappraisal. Its possible that the county will lower your taxes on this home. You'll have to scream like hell to get it, but you can get it done.

The property rents for $1085 downstairs (3bedrooms, currently has section 8 tenant who is 3 months behind in rent - approximately $1000 that she owes), upstairs rents for $750 (2 bedroom, currently occupied with good paying tenant).

Tenants pay fuel and electric.

Based on these rents, I'd pay around $100k at most. I might be a little off here, but I'm too lazy to run the numbers. So sue me.

The property has a field stone basement and it is apparently always damp and musty smelling. This musty smell is also in the lower unit of the duplex. One of the furnaces (which also includes an AC unit - not sure how this works as I am a noob) will most likely need replacement - my friend had it bid at 5-6k replacement cost.

Musty smell are the result of only one thing - mold. Mold grows where there is water. Get rid of the water, you get rid of the mold. People freak out about mold because 20/20 ran a story about how 'black mold' killed a 3 year old somewhere. There are literally thousands of varieties of mold. Very few types are in any way harmful. Mold is literally all around us all the time - in the air, on the ground, in our food, etc. If you want more information, get the mold pamphlet published by HUD (www.hud.gov).

It sounds like the place has a heat pump system. Basically, a heat pump is an air conditioner run in reverse. When you cool a house with an AC unit, the unit creates heat. You can use the same AC unit to heat the house. To the best of my knowledge, this is the most efficient way to heat a house so long as the external temp is above 30 degrees. Once it gets below 30 a forced air natural gas unit is more efficient.

In any case, you might get some quotes on installing a forced air system. It might be cheaper than replacing the AC/heat pump. I don't know that for sure though.

When I run the numbers with 140k purchase price, 10% downpayment, 6% interest, 45% expenses, I get cap rate = 8.7% and COCR = 21.8%.

yeah, but I doubt you are going to get a 10% deal put together. I bet you're looking at 20%-35% down. So that is a min of 28k down - at a 20% COCR you're looking at a minimum of $470 positive cash flow per month at the $140k purchase price. I think that you're going to have to get the price down quite a bit, but like I say, I'm a little too lazy right now to crunch all the numbers.

Should I expect the expense ratio to be lower than 45% since tenants pay fuel?

you should use the actual expenses that the seller provides. Just make sure that they include everything - don't forget the long-term expenses.

Do you think it would be possible to negotiate downwards from 140k?

yes, everything is negotiable. The bank might not be willing to take less right now, but you don't let the seller determine your offers. Make an offer based on the numbers YOU need.

According to my mortgage broker, the state I live in, New York, is now requiring 20% down on all non-primary residence purchases ... if I was looking to buy multiple rental properties in the coming months / years, would putting 20% down on each place and then immediately take out a 10-15% of home value HELOC and applying it to the next purchase down payment be a viable strategy?

Is this standard for the industry to preserve capital?

Thanks

No, that plan is not at all what you want to do. It will put WAY too much risk on you. Don't do it.

What you want to do is find homes that you can increase the value of in a short amount of time and refinance cash out of. So say you buy a fixer for $55k that you can rent out for $800 if it were in good shape. Lets say you spend $10k on fixing it. The value of the property increased because you added value. So you refinance up to 80% of the new value. If you do this right two very important things will happen:
1) you'll still show a positive cash flow on the refinanced amount
2) you'll be able to cash out refi a least the amount of cash you've got in the property (including down payment). Rinse, repeat.

Thank you spex for answering my mobile home park questions. Looks like I might be headed in that direction for my first RE investment. Altho im also looking at some apartments.

I have a question about the timing of making an offer. When in the buying process should I usually make the offer? Say I have an income/expense statement from the seller and the returns fit my needs. Do I make the offer right then and do all the homework in the next 30 days, or should I verify everything first? Like I will need their Schedule C tax returns, call the utility companies, interview the management, interview tenants, and verify the property tax assessment. Should I be doing all that before the offer, or during the due dilligence period?

No, you make the offer first, negotiate the price, then you get the paperwork. You make the offer under the assumption that everything you're being told is true. When you find out the numbers are not true, which you typically will, then you renegotiate. 30 days is probably pushing it on a commercial deal of any size though.

When you're making the offer it helps a lot to have as much info as you can reasonably get. The county courthouse is a wealth of info that you can get before you make the offer. Generally you can figure out generally how much is owed on the property, tax assessments, a decent guess at how much the property was purchased for by the seller

How do you feel about purchasing rentals just using your name as the owner?

Do you feel it would be best to buy under an LLC?

The reason I am asking is I happened to find a decent deal but havn't formed an LLC yet. Being in this position what would be my best way to accomplish the deal?

Details of deal:
3-Plex 1-5br 2-3br seperate utilities except water and sewer.
65K, Approx. 15K in renovations.
Approx gross rent 2100-2400.(Not so sure on 5br., haven't seen any listed in the area for rent 3br range from 700-800 per month).

No problem buying w/o an LLC. Just get liability insurance and you're fine.

OK here goes -

1 - Is 160K too high for the first offer?

Not necessarily. negotiations are similar to a NLHE hand - you gotta plan it out from the beginning. Sit down and figure out where you want to open, considering that you have a target price and a bottom line figure. Then plan out your negotiations. You have to know what points you'd be willing to concede and what you want to ask the seller for. Basically you're guessing on a lot of this, and knowing your opponent's motivation helps a lot for figuring your moves.

You gotta plan it out so that every incremental move up is smaller than the last move. example, you gt $50, $65, $70, $71, not $50, $60, $70, $75. That makes your opponent feel that he's squeezing the last dollar out.

2 - What is the best way to model in the rent ramp up and factor it into the valuation? 3 - What else could I do to get a sense of what the rental value is?

Guess. That is the only way if you don't know the market too well. Maybe the local REI club might have some info on time on market, etc.

4 - I have solid contractor who thinks he can easily finish the rehab in 30 days (assuming I'm ready to drop dime on day 1). He really is a good contractor and a solid guy, but like most contractors he over promises sometimes (to date he hasn't dropped the ball on anything major) . Is 30 days realistic?

Depends largely on the repairs. If its all paint, carpet, countertops, 30 days easy if your guy is moderately SLOW. I'd expect to have 4 units repainted & carpeted in a week tops. Thats 2 days painting, and one day per unit carpeting. But I've already got relationships with people to do that work.

5 - Property taxes were approximately $8,200 last year (based on an est MV of 472K). Is my 45% operating expense estimate too low given the property tax will be 1/2 of that?

Nope, b/c you can't tell how realistic it would be to win an appeal. Besides, high expenses HELP you when you're buying and HURT when you're selling.

6 - He wants proof of pre-qual with any written offer. Since this place is vacant, I assume any lender is just going to treat this like I'm buying a second home. Correct?

not sure what you mean by that exactly. The lender will want to see that you have enough income to foot the bill on the building during rehab and lease-up.

7 - Are my financing assumptions in the ball park? What about closing costs?

Like I said any thoughts are appreciated.

I'd probably plan for a 7% mortgage to be safe. And maybe 3% on closing costs. Otherwise, fine.

Spex,

When you say "I buy properties that nobody wants" do you mean because they are so run down or undesirable? Or do you mean because you are finding places nobody else has knowledge of, so you're the only person putting in an offer of any kind.

Mostly they're run down or have high vacancy or both. Sometimes I become aware of deals other people aren't. And most of the time I'm the only one putting in and offer. The easiest deals to find are run down properties.

Spex, when you put in offers then I am assuming you are approching sellers directly. Do you approach them with a hard sell technique where you tell them you are aware of the vacency problems, ect or do you not tip your hand early in the offer? Are you making it seem like you are helping them out of a tough situation or do you play dumb and use that information later in the negotiations? Thanks for all the input.

I just take the sellers numbers and use them to put together an offer. I dont' think too much about whether the offer is too high or low because the income from the property either fits into my criteria or it doesn't. I don't try to sell anything. If they don't like my offer they either counter or they don't. Sometimes sellers ask me to justify my offers which I'm happy to do by explaining my calculations any my repair estimates. I also inform them of my experience if they don't already know.

I don't play any games like trying to 'help' them or anything. First off, everyone knows what is going on. Everyone is trying to make money. Sellers are not idiots. Second, I can't imagine how games of this type would help you close a deal. I mean, the seller already knows how low he'll sell for and you already know how much you'll pay. So long as those numbers overlap you'll make a deal. If not, then you can't possibly make a deal.

I'm thinking about putting in a cash offer for a house. How much lower can I shade my bid, considering the greater ease of the transaction for the seller?

The ease of the transaction is equal for the seller either way. Unless, of course, you are going to put all the cash into escrow as earnest money (i.e., put it all at risk up front).

I mean, almost all of the time for a seller all offers are cash offers. So I guess you're suggesting that a seller somehow benefits from you bringing all cash to the table. But what is the benefit? Unless its a distressed transaction where speed is a huge factor, then I'd say having cash won't make much difference. Certainly the seller wouldn't be willing to sell for below FMV (unless they're dumb)

The reality is that having a preapproval from a bank almost always makes it a done deal. Not every time, but almost every time.

This is not true in my experience. Some relatively high percentage, say 10-15%, of pre-approved borrowers do not survive the final underwriting review process unscathed

What I said is that preapproval is almost always a done deal. IMO, 85-90% of the time is 'almost always'.

Either way, 1) a seller would be stupid to accept less than full FMV just for a no banks offer, and 2) a giving a concession for a no banks offer will likely open any agents/brokers involved in the transaction to complaints of malpractice (rightly so).

That is true unless you're making an offer in a distressed situation or an REO or something.

When you are looking to buy a house, how much does the appraised value vs. the selling price matter?

For example, there is a house that is appraised at 994k that is selling for 599k. Does this mean that there is inherent value in the selling price?

Also, is the appraised value of a house a good price to initially offer, even if it is well below the asking price?

Most likely this is an old appraisal. Probably circa 2005 or 2006. Appraisers' job is to figure out the current market value for a property. The market value is the highest price you can sell a property for. If you can sell it for $1M and you are selling it for $600k, that doesn't really add up, does it?

There are bargain purchases in the world. But they aren't listed on the MLS. They aren't advertised at all actually. And you can't usually get for a $400k profit.

Well, it says it is 2009 market value (my county has a database that you can search)?

This is the valuation that county estimates in order to determine the tax rate. In the best of times the tax value of the property is below fair market. In times such as these, it is anyones guess how close the valuation is. There are a few things you can do though. The best way is to just hire an appraiser for about $300 to appraise the property. Or you could pay a broker about $150 to give you a price opinion. Or you could use a Realtor to get comps on recent sales in the neighborhood. Any of those is better then the county appraisal.

I guess I just don't understand how something could be valued at close to a million by someone and then sold for $600k. I understand that the market sets the price, but obviously it has the characteristics of a 1mm house at least to someone in a better market. No? I just see the house being an $800k house in 2.5 years and a pretty simple investment. Comparables are very tough in this neighborhood btw.

This has a lot to do with banking regulations. I'm no financier, however, my understanding is that if the bank has a $1M defaulted loan they have to hold some multiple of that money in reserve. I think its 3x the amount owed. So if they are owed $800k on the house they'd have to hold $2.4M in reserve until the property moves off the books. I further understand that banks are able to leverage their cash up to 10x or more from the US Central Bank. So $2.4M in cash means that they are missing out on writing $24M in mortgages.

This is some crap I picked up from trying to understand RE finance and I have no idea really how accurate it is. So don't 'take to the bank' as it were. I guess the rules are probably something like this. In any case, its bad for banks to have a lot of defaulted debt on their books. I'm sure that the egghead finance people on the forum are going to crap and call me an idiot after they read this post....sigh...

Also, as an aside, I am having a hard time coming to grips with how much house I will be able to afford. Should we be avoiding 30 year mortgages if at all possible and going with cheaper houses, or if you find the money house just go for it? Is the CNN house calculator retarded? (I'm sorry I'm new at all of this).

Meh, this is more of a personal finance question than an REI question. Do a search, this topic has been discusssed a lot in BFI.

Ok, this whole thread has gotten me to seriously consider RE as a way to diversify my portfolio. I was looking at loopnet and one fo the first things I see is this 10 unit building in a major city in CT offered at $290k. 100% occupied with net rents at $74.5k (5% discount for something, mgmt fee?) and expenses at $39.5k. Says was rehabbed 3 years ago (says complete rehab with windows and new electric). That results in a NOI of $35k. Assuming all that is accurate and I put down 25% (no issues with downpayment for me). With a 6% mortgage rate for a 30 year fixed (shouldn't I be able to do better than this?), P&I would be $15.6k/year and then if I add in $4.5k for property taxes (this seems high but I am just guessing conservatively, uness property taxes are included in the expenses mentioned) I would collect about $15k/year, resulting in a cash-on-cash return of 20.6%.

I remember people in this thread saying that deals can't be had in loopnet, but this seems like a decent deals if the numbers are accurate (NOI of 12%, COC return of 20%). What can I be missing?

Edit: RE taxes included in the $39.5k expenses so COC would be 30%.

That property sounds like a deal. One thing you gotta remember about this thread is that it started in 2007. Bubble years. Loopnet was dead to deals then. From what I've seen it has gotten significantly better for finding deals since the crash.

Property Repair

Say one were improving a property, any advice on dealing with contracted workers? Finding a reputable one, keeping them to their estimate, everything. Seems like everyone I know has had had poor experiences with a high % of the contractors they try, whether its paint or construction, or overbilling after lowballing the estimate to get the job or whatever. Thanks! Great idea for a thread btw, appreciate it.

Well, where I live there are a handful of reliable guys that just about every investor uses. They are really busy and cost a bit more. They rarely have the lowest bid, but you know that the bid will be very close.

Here is what I recommend. First, get in touch with other investors to find out who they use. I'd bet dollars to doughnuts that you'll start to hear the same names mentioned over and over again. Second, if you don't have access to other investors, you want to tend to do business with companies that have been in business as the SAME BUSINESS ENTITY for a long time - over ten years preferably. Lots of ****ty contractors do ****ty work, get sued, and just abandon the LLC and form a new one.

Third, to keep your guys on schedule I've found its best to bribe them. A lot of people have attitude that they'll penalize a contractor for going over schedule. That doesn't work b/c the contractors just come up w/ a list of reasons why the delays aren't their fault, and they'll be right. What I do is offer the guy an extra $500 or $1000 (or more depending on the size of the project) for getting the thing done on time and on budget.

Fourth, be sure that your guys know that lowball quotes up front and high bills later will absolutely not be tolerated. Make sure that they know to inflate the quote a bit to control for potential problems - particularly on old properties where construction methods and materials are very different than today's.

Fifth, be sure to get multiple quotes on each job. And compare the quotes to one another. I woulnd't consider a quote that is real vague. I want to see a detailed description of the scope of the work, materials, etc. Then compare the quotes to see if the lowest seems to be leaving anything off.

Thats all I can think of right now.

Commercial/Larger Properties

What sort of Cap rate and potential to increase rents would you be looking for in multi tenant commercial properties?

By commerical, I assuming that you're meaning primarily retail space? I'll start my response by saying that I don't really like to invest in retail space. There isn't anything wrong with it or anything, I just never really took to it that much. It probably has something to do with the fact that I haven't ever been able to find any really good deals on retail properties. I haven't owned any in some time. At this point I doubt that I'd consider branching into that market even if I did find a good deal because I'm already trying to move my investment into more passive instruments like notes and mobile home parks and maybe storage if I can ever find a bargain.

Anyway, in general I wouldn't consider a property that couldn't offer a minimum 10% cap rate and a 25% cash on cash return. I'm sure that these criteria are the primary reason that I haven't gotten much into the retail arena. But those criteria would be the same for multi tenant warehouses and storage.

If a commercial tenant was paying on time on a month to month basis and his business could not handle a mark to market rent increase, would you raise the rent anyway or start marketing the space while he operates at below market rent?
Personally, I'd probably allow him to operate while I market. I dont' know that there is a clear right answer though and I think it depends a lot on the preference of the investor, his/her money investors, the business owner, and more importantly the market.

Quote:

If you were to put together a Limited Partnership and act as General Partner for a 50 unit commercial project what compensation in terms of percentages of cash flow and gain on sale do you think would be fair?
Well, first, I wouldn't do a deal in a limited partnership. Thats probably why I've only got 50 units after 15 years rather than 150 units. I don't work with partners at all. For some stuff I've got investors that take a lien position on the property.

Sorry I can't be of more help to you.

You mentioned you were involved in development, and commercial re. Warehouses, strip malls, office space, etc. What are you opinions about returns in these categories, and are you in them still? What would it take me to get started in these areas

I've found it to be more difficult to find great deals in commerical properties than in apartment buildings. I'm not currently into any retail, office or warehouses, however, I'm actively looking for storage. It does take a lot, both in terms of experience and money to get into the commerical arena. I'd recommend that you start much smaller and build slowly. Remember too that you don't have to hit a home run every time - doubles and singles are what wins games.

It takes a lot of time to get rich in REI. Anyone that tells you different is just wrong.

Earlier in the thread, you mentioned some experience in development. Could you talk a little bit about how that process works and how you got involved?

Thanks for a tremendous thread

I have limited development experience. My experience is pretty much in developing a manufactured home subdivision, which I'm in the process of doing very slowly right now. Since these are manufactured homes, the development is really easy - its mostly a matter of building a cinder block foundation and setting the home on top of it with a crane. The homes are manufactured to HUD standards already.

The city/county government is your best friend when you're developing. They can tell you just about everything that you'll need to do on their end and honestly, dealing with all the regulations is the hardest part, IMO. with the manufactured homes I still have to get all the building permits and pay all kinds of fees, and I have to get the house inspected when I"m finished.

I'm not sure what you specifically want to know...

I am beginning to think about expanding into the buy-hold area of real estate. I wanted to know, is buying in today's post hot market at 70% LTV as well as positive cashflowing 50-100$ / unit enough to waddle through the real estate slump?

The last thing I want to do is start buying a bunch of "steals" today and then find out my bargains that I invested money to buy today end up becoming break even properties 2-4 years from now.

The last thing I want to do is buy something at 70% of market value today, and 3-4 years from now see the markets depreciate 15-20% over that time span and I'm in my properties for 85-95% LTV.

What do you suggest I should do in a post hot market in terms of buy and hold?

Man, that is a really hard question to answer. You are looking for 8+ unit properties. So my first point is that, as you know, commercial property swings to a tune that is unrelated to residential property. What will have the largest impact on our property values in commercial is the ability to find financing. The financing portion is the wild card. When financing is expensive, we get less for our properties. When financing is hard to get, we have a smaller pool of buyers. If there is any collapse in commerical RE prices in the next several years it will, IMO, be caused by the financing side.

IMO an 8 unit property that is cash flowing only $100 per month is pretty slim. I mean, I don't know your market. But if you have to buy 30% under market to get $100 per month, then maybe you should try to buy out of area or find a different investment strategy in REI. Those prices are just plain crazy. My guess is that a lot of these properties are being bought by developers or would-be developers that want to try for a condo conversion in the hot market. Thats just a guess. But obv something is going on because these properties just can't work as a rental at the kind of prices you're talking about.

Sorry man, but I gotta say that in your shoes I'd maybe hold off buying until things cool down a little. To me those numbers just don't work. Not unless there is a significant upside potential to the deal anyway.

Spex - awesome thread. I really appreciate all the time you've put in and i've definately learnt a lot. Thanks.

I live in the UK and have a good chunk of excess cash (£120k ish; thanks poker!) lying around that I would like to start investing a bit more actively. I totally buy in to what you say about successful real estate investing depending on buying well and focusing on cashflow and a good yield. Inspired by this thread I've decided to start developing my knowledge and maybe build up some contacts in anticipation of being able to react to an impending slowdown (crash?) in the UK property market. So I thought I would go along to an auction in a couple of weeks to get a feel for

how they work. I don't know about the US but here only about 15% of property is sold at auction, much of it being distressed sellers looking for a quick sale.

Anyway, this particular lot caught my eye at the forthcoming auction: http://www.wilsonsauctions.com/prope...w.asp?id=12991

(background: It is in a small village on a tourist route around Loch Ness in the Scottish Highlands. Its about 3 hours from where i live)

It seems to me that this could be a good buy at up to £175k on the basis of the existing shop & flat lease to 2015 yielding £17.2k? Plus opportunities to get a small rental amount on the refurbished 3rd flat. I'd be very interested to hear what kinds of thought processes you would go through and factors you would consider on an investment such as this. I'm not a complete noob as I do have 1 apartment i rent out, but I'd really appreciate an insight to the things an experienced real estate mind would be thinking about that I might not be.

Also - Any scottish 2+2ers reading this and might be interested in trying to learn a bit more together, shoot me a pm.

My first main concern would be the viability of the lease for the retail space. It is important that you go visit the space and speak with the owner of the store. Obv I dont' know this area at all. But my sense is that this is a relatively smallish town. If that is the case then I'd be concerned that if the current retail tenant decides to move or closes, you'll be stuck for finding a quality tenant.

Along those lines, it is very important to examine the current leases before you purchase the property. In the US a buyer must honor leases that are current at the time of sale. You'll likely be stuck with the lease until 2015. So you want to know what it says. Particularly, you're interested in how common area maintenance is handled. Who is responsible for snow removal and trash pick up? Who pays for maintaining the parking areas? Basically there is no real 'standard' lease in retail space like there is a sort of standard-type of lease in residential rentals. So it would be important to know what the current leases say.

It is supremely important that you know the traffic flow past this location. Ultimately the value of this, or any other retail property, lies in the number of people who see it. In the U.S. you can normally call the county or city zoning/planning department to find out the number of cars passing.

Parking is important for any retail space. This might be more true in the states because Americans don't walk. But still, I feel that the parking layout will be a huge factor in the future rentability of the space.

You need to find out what the zoning designation is for this property. That will guide you in terms of what kinds of businesses can be put in this spot in the future. You probably don't want to buy the place if the zoning designation highly restricts the types of business that can exist there. At the same time, if you've got a grandfathered zoning designation - we call it a nonconforming use - then that might be a good thing. That is because if you can guarantee a tenant that there will be no competition within X distance it might make your property more marketable. But it depends on the business.

Another thing to consider is that at least one of the apartments is rented for $55 per week. Weekly rentals are fine in and of themselves. However, tenant turnover is a major expense. Having weekly rentals will ensure that your tenant base is transient. In the U.S. weekly rentals are relagated to the world of seedy motels. So another thing to consider is that you have some responsibility to protect your retail tenant from having a lot of shady people hanging around his store. There is only so much control that you have over that point, but renting by the week is probably not going to give you a great tenant base. At least that is how it is in the US.

Another thing on those weekly rentals is that the $55/week rent is probably a premium rent that people pay to rent weekly. If rent weekly maybe you can bring in $220 per month. If you rent yearly, maybe you can only bring in $195 per month. I assume that the landlord is paying all utilities at the property. In my experience, utilities will cost about 15% of gross rents - that is for gas, electric, water, sewer, trash. Something to consider.

Finally, exits from the property are extremely important. Depending on the factors above, this property could be very difficult to sell later on. This property is most likley up for auction for one of two reasons: either the seller MUST sell ASAP or the seller CAN'T sell any other way. If its the latter, you should probably avoid.

Its hard to say what a good price would be because we don't know what the expenses are. And we don't know the value of the extra land or the FMV of the property itself. So that is something that you'll have to find out. But I can tell you right now that with the info given, and in terms of pure cash flow, if the property grosses 17k per year, I probably wouldn't be interested unless the price was around $85k. If you have other plans - like developing the extra land or something, then maybe you'd pay more.

Spex. I figured I could give another question a shot, seeing that you might have reasonable experience with this.

If you have good land (like, not full of trees and rocks and *), and would like to develop that land into a trailer park, how much would you approximate the cost to be to pull water and electricity to 50 trailer lots (with those measuring machines for electricity).. If you think my question is far to wide, and cannot be answered, where do you suggest I look to get an answer?***

It depends quite a bit on the cost of construction in your area and on the site itself. If the site is in the country you'll probably need well and septic would would be big bucks to install for a 50 unit park. Plus you'd need quite a lot of land in order to have an adequate leach field. You might even need a water purification system. We're talking big money. You can get that info from your local health department.

Another factor to consider is that properties with septic are much less marketable than properties on city water/sewer. The sewer lines are the big thing. If you had a well but were on city sewer, that'd be ok.

Also if you're in the country you've got to pay the utility company to run their service out to you. The companies in my area charge by the foot. I can't remember what the cost is, but its significant.

another major problem is that there is an enormous amount of red tape involved in developing a MHP. The plain fact is that communities do not want more trailer parks. The city cannot stop you from building a trailer park so long as you can get the zoning that you need (which you can't without a fight and likely a lawsuit). However they can make your life so miserable and your park so unprofitable that you'll give up. Part of the reason that MHP investing is so attractive is that you've pretty much go a monopoly when you buy a park. Cities just don't want more trailer parks.

All told, IMO, depending on your area and specifics, I'd estimate development to run $20,000-$30,000 per lot and about 3 to 5 years. That is start to finish. So developing 50 lots would cost about $1M and 3 years of your time minimum.

Then you'll have an empty mobile home park. There was a time when you could count on people to pay to bring in their own mobile homes. Those days are gone. Very few banks finance mobile homes any more. These days park owners have to pay to bring homes into the park and finance people to buy those homes. You can get repos from the few banks that still finance MHs. Many cities require that homes brought into the city be 10 years or newer. You can get a decent 1998 repo, torn down, hauled, and set for around $14k. Of course, you can sell that home for maybe $20k on a note. Some MH manufacturers offer short term financing to MHP communities to retail homes, too. But you've got to get buyers that can get a loan for the MH, which is hard to do.

So you're looking at putting out $1.4 million do develop 50 units. And that's if you can ever get approval from the powers that be - which you won't. Basically, this long response is to tell you that its too expensive and difficult to develop MHPs.

spex, I have a commercial RE question, mostly just out of curiosity. there are several storefronts in my neighborhood (brooklyn, nyc) that have been vacant what seems to be a long time (in one case, 4+ years).

what's going on with places like this? I just don't understand how stuff like this doesn't drive down storefront rents in the area over time, and moreover who is actually taking the hit on these vacant spaces. is the hit worth it if it keeps prices propped up?

Honestly, I can't imagine a scenario where a landlord would NOT want to rent his property. But there is probably something going on that isn't apparent to the man on the street. Maybe its a tax benefit. Maybe the spaces are odd shaped. Maybe the property has been caught up in a lawsuit. Maybe the spaces aren't really on the market for whatever reason. Maybe the spaces are rented but not by a retail business. Maybe the landlord is too stubborn on his price or lease terms.

The vacancies could hurt rental rates, but only if the spaces are actually up for rent. If they're not up for rent for whatever reason, then they are just off the market and don't increase supply.

Spex,

I apologize, my communications skills just aren't what they used to be. I was not conveying my thoughts well. My understanding of real estate investing through my father is that you can profit in 3 areas- a) have tenants pay down the mortgage/positive cash flow; b) property values appreciate; c) rents go up. From what I see you are only tangentially concerned with B and C when you make a decision, and primarily focus on A. My father's emphasis, however, has been skewed towards the latter 2 profit sources, primarily B.

Yeah, you're right. One point that I'll make is that when we're talking about commerical income property A, B, and C are just about all the same thing. Commerical property is valued based on the income that the property can produce. So it doesn't make much sense to say that cash flow is different than appreciation. Cash flow determines appreciation. When rents go up, there is your appreication. But you can also create appreciation by decreasing expenses. Same difference. So while your dad's logic might account for buying and holding semi-rural farmland or buying single family homes, it won't necessarily translate well into buying commerical property.

I would describe this theory of investing as such: Buy properties that you're not losing on in the short run, and that you feel are in a location poised for future growth. I guess you can call it a "gamble" of sorts. You can mitigate the risk by buying multiple properties in different markets. I think the key is, if you get a good deal on the purchase price, good financing and are thus able to get a positive cash flow on the building then the appreciation is really more of a "freeroll" than a true gamble. I feel that if I can learn your approach: the ability to source deals, emphasis on cash flow, and methods of getting extreme value on the prices you pay for properties, and combine it with my father's understanding of local markets and prospects for growth then I think our venture can be quite successful. Anyway I hope that clears it up a bit.

I see what you're saying. But the reality of REI is just not that simple. First off, there are a LOT of smart people in REI. There are huge investment firms that ONLY invest in development land. They buy, rezone, divide, resell. That is all they do. In fact, one of the oldest and largest companies in the world that invests in this way is heavily invested in Toronto, Alberta, and BC. What makes you guys think that you are going to make the money on deals that these guys have already passed on?

Besides the big companies, there are lots of developers that buy up land for redevelopment. Besides them, there are a bunch of commerical RE companies. Besides them there are a lot of smaller local developers and investors that speculate on land. Basically, ANY piece of land or any building that you see just about anywhere that has some potential future value has probably been dogged by several other people already. Why do you think that you can beat those guys?

I remember one time I was considering buying a piece of land for a commerical development. I went to a buddy that is more involved in that sort of thing and he said that he dogged that property TWICE - the first time was over 8 years ago! He also knew several other people that dogged the property. Here I was thinking I was so smart for recognizing an opportunity that other missed. Turns out I was the inexperienced would-be developer that could've lost my shirt.

I'm not saying that you can't get rich speculating on RE. Obviously you can get rich that way. A lot of people have. The problem is that in order to REALLY invest in speculative RE, you really have to swing for the fences. You gotta hit a home run. These deals are long shots. That is the problem.

If you are serious about speculating, there are much safer and smarter ways to do it than buying, holding at a loss, hoping and praying, waiting years and years, and finally selling. For instance, you could buy large chunks of rural/semirural land and whack them up into smallish parcels. A lot of city folk would love to have a 5 or 10 acre spread within a half hour of the city. But those people wouldnt' buy a 200 acre parcel. So you go in, buy the 200 acres, whack it up into 10 acre lots, and sell those lots at a 20-30% mark up. That gets all your money back out within 2 or 3 years and is much lower risk.

All,

So one of the things I see documented the most as a good way to improve cash flow at a multi-unit property is to install washers and dryers but I have never seen any real numbers quoted. So if anybody here has any experience in doing this I would love to hear from you; in particular the questions I have now are:

1) How many people do you tend to need in the property to make the washer/dryers pay off?

2) What kind of return do you get?

3) Best source to purchase the machines?

4) General cost for installation?

I am looking at 7-unit property with a bunch of 1br 1ba units with a downstairs retail area that could easily be a full laundromat as far as space goes.

I wouldn't recommend that you buy your own machines. There are companies that will bring in machines and service those machines for you. You get half the money (or whatever the market commands in your area), but they do all the work associated with the machines. This is a good deal for everyone.

IMO laundry machines are not worth the hassle if you own them. They constantly break, they're expensive, they get vandalized, etc. Hire a contractor to deal with them. Ask around at the REI club meeting to find out what company others are using and what kind of deal they get.

What do you all think about apartment complexes vs duplexes? Should the properties be evaluated differently?

For the past few months I have been reading and researching and seeking properties.

I am currently looking at the following property:

Listing Price $975,000

32 units 2bd/1 bath. Papers claim 96.6% occupancy over last 4 years.
Monthly rent for all units: $14390

Some of the things I am worried about with this property is that it was built in 1969. Meaning it will most likely need more maintinance. Right?
Also there is a pool. Will insurance premiums increase dramatically because of this?

Owner pays the following things:

Cable, Gas, Lawn, Sewage, and Water

Based these numbers I get the following analysis.

$195,000 Down
20 year mortgage
7.5% interest

$179160 per year in rents collected (based on 100% occupancy I discount this later)
$75405 per year in payments

50% of rent reserved for management, repairs, vacancy (is 50% good here? I saw 45% mentioned earlier, but have read 50% other places. Also I don't know what management costs are on complexes are)

This leaves a positive cash flow of 7010 per year. This is not enough for me.

If I were able to get the property for $840k the cash flow would be ~ 17k a year with around $170k down payment.

Would you all go after a property like this?

These numbers don't really work for me. 10% cash on cash return for all the headaches and bull**** that goes along with being a landlord? No thanks. And that is IF the numbers above are accurate. You bet your ass that the pool is going to jack up insurance costs. And the building is old. I'd look for a better opportunity.

Im looking to buy some commercial real estate,, prob gonna put down an offer really soon on a property.. what do i do to buy this property for the lowest price possible..........

You have to negotiate. I made a post about this a long time ago in this thread. I think its on the first couple of pages. Fool proof way to figure out the seller's bottom = low ball. If he accepts, then you haven't reached it. If he rejects, then you can start bargaining. Pretty straight forward stuff.

Anyway to talk to Agent and split the commision with him since hes gonna make a 20-ball without doing anything,,,,,

Doubtful. Those commercial brokers might only sell 3 or 4 properties a year. Typical commercial broker gets 3% of PP.

My overall opinion based on your post: pass on whatever deal you're looking at. If the agent is making $20k on the deal then its probably too big for a guy that doesn't know the basics of how to negotiate an RE deal. Buy something smaller and study.

Mobile Homes

Problem: Analysis Paralysis!!!! Should I just start in 1 area and go from there, or..? In my experience residential has been a pain for the money. I've heard commercial offers the best opportunity for HUGE returns, is this true? Thanks man! Jonathan

Well, thats kind of what I like about the mobile homes. They're very very low risk if you buy them right. If you buy a MH for $1000 that will retail for $4000 easily, how hard will it be to get your $1k back out of it in a pinch? Not too hard.

Any commercial RE is NOT FOR BEGINNERS!! DO NOT ATTEMPT TO BUY COMMERCIAL PROPERTY WITHOUT PROPER EXPERIENCE. If you've got analysis paralysis now, why do you think that making a much huger investment would help that? Start out slow, gain experience and money, and build your confidence. The best way to start is to just start.

I understand and completely agree about starting small and then proceeding from there. How do you find mobile home parks for sale, and what "system" do you use for analyzing there value(and upside potential.) I have a good chunk of change for a down payment, 40 to 45K, I'm just not sure which way has the most room for "seed growth".
Isn't there certain codes for old mobile homes that is a standard, etc?
Do you post on any other REI forums? biggerpockets, thecreativeinvestor...

The best way to find good MHPs for sale is to drive around and ask park managers if the park is for sale. Right now is a great time to buy MHPs. It seems to me that a lot of the guys that made MHP investments when MH living as in its prime (late 70s through 80s) are ready to sell off and retire. A lot of the time these guys are willing to sell but not actively pursuing buyers. That is what I've done and now that people know I buy them I get referrals to other parks to buy.

With $45k I'd start by financing mobile homes. Once you've got 100k, you can take a chunk and buy a small multifamily while your MH money continues to work. Then repeat. IMO, the only problem with financing MHs is that they don't appreciate. What I could see happening is that you get into a cycle where your notes are constantly paying off and all new acquisitions just replace the notes that are paying off, i.e., no growth. But if you got 20 MH notes paying you $250 per month it won't take long for you to generate significant capital for investment into other venues. Plus you've got that $45k spread out over lots of small deals which limits your risk a lot more than buying one property

I visit creonline.com quite a bit and have read a lot of the mobile home investing ideas. I think this might be the avenue I would actually be intersted in buying property. I met a guy playing live poker last week that does mobile home investing as a career. What he described was just what I've read on creonline. He buys cheap from desperate sellers, does some repairs, and quickly resells the property for a big profit. He also holds the note at up to 23% interest. All of that certainly makes sense to me, as the people living in mhp's are probably not the smartest people on earth with finances. It seems to me they would be the easiest mark possible. Just give them a payment they can afford.

So that's me... the lazy REI wannabee

Well, MH investing isn't exactly hands off. You're probably going to have to chase your payments from time to time. What you could do though is buy the notes from MH investors after they're created. You could buy partial notes too. Partials are nice b/c you can make the other investor service the note. I bet you could make yourself a minimum 20% yield on passive MH notes

I'm intrigued by this mobile home wholesale idea. There are several mobile home parks nearby. I imagine they have largely been ignored by the huge property boom here in Phoenix. How do these

things typically work? Does the park own all the homes or just lease the underlying spot to the MH owner? How would you go about finding people who want to get rid of their MH? Once you find a MH and buy it cheap, where is the best place to advertise that its for sale? This seems like a cheap way to get started. I just don't know how people typically find mobile homes for sale.

Max
It depends. A lot of MHP owners have realized that renting MHs is a great cashflow generator. So more park owners are going that direction. Still though, the vast majority of MHPs are land rent situations where the actual MHs are owned by the tenant.

If I were looking for motivated MH sellers I'd first talk to the park manager. the manager will know immediately when somone is moving out of the park. Also, it probably doesnt' hurt to just drive around and look for signs.

Spex, Ty for this informational thread.

where do you find mobile homes to fix up?
Do you have a supplier of repo or ones traded in?

I don't fix up mobile homes. If I were going to try to find MHs to fix, I'd probably talk to park managers first. Get the book "deals on Wheels" by Lonnie Scruggs if you're interested in MHs. That book will tell you everything that you need to know about flipping MHs and carrying MH paper

I don't understand how $10k is really going to mature into enough money to do bigger deals doing these deals though.

Lonnie Scruggs advocates taking low down payments and holding a note on the balance. With $10,000 we wouldn't be able to do very many Lonnie deals, maybe 3 max.

Are you referring to flipping these Mobile Homes and NOT holding notes and instead looking for deals that will give us cash right away? Or are you saying to actually hold notes on $10k for X amount of years to generate this capital.

Is three not enough? If you spend $3,333 on each home and collect $250 in payments per month, you can buy one each in Jan, Feb, March. If you take $700 down on each and 3 notes paying $250 each per month in April you've got $2600. In May you've got $3350 and u can buy another MH. In June you've got $1700 and in August you've got $3700 and can buy another home. In September you've got $1950 and in October you'll have $3200 to buy another home. In November and December you'll have jsut about enought to buy a home each month.

So with $10k you can create up to 8 notes paying you $250 each for at least the next 24 months. $250x8x24= $48,000 in 3 years out of a $10k investment. And thats if you stop churning your $10k after one year.

Another thing that you can do is create the notes and then sell them for cash. I know several guys that would buy a package of 8 notes if you can offer them a 35% yield on the high risk notes. Lets say that you've got a note for $7,000, 12%, 36 months, paying $232 per month. Your investment is $3,333 less $700 downpayment, so your investment is $2633. If you sell it at a 35% yield, you could get $5193 for it. Thats a profit of $2560 so you doubled your money.

If you put together a package of 10 such notes, you might be able to find a HSNL on this site player that is interested in buying a partial interest in your package for a 20% yield. In this case, you would split the monthly payments but you would be responsible for servicing the note (i.e., making collections, etc.). So you've got $2600 in the note. If you sell half the cash flow at a 20% yield, you'd get $3121 cash for it. You just profitted $521 PLUS you get to keep $116 per month in cash flow. Its a good deal for him and you. For him, he gets 20% on his money on a passive investment and u take care of the problems. For you....well, its obvious.

Over 3 years, how many deals can you put together like this? Answer: a lot. Over 3 years, how much time will it take you to operate this business? Answer: not very much.

What are the details of creating a note? Are there any examples online you can point me to? In MH deals, are any other documents required. I just don't want to learn the hard way when I fill a foreclosure that I didn't have all the required documents.

For us starting out in MHs... how do we learn how to evaluate a MH's worth. Never living in one myself I have no idea what fair market value is?

Do you suggest putting ads on craigslist saying "we buy mobile homes for cash" which would seem to pull in motivated/desperate sellers. Then once you negotiate a deal with the buyer follow it up with another ad saying "Mobile Home For Sale, Low Down Payment, Owner Finance, No Banks!!!" ????

Get the book 'Deals on Wheels' by Lonnie Scruggs. Everything you need to know about that MHs is in that book. I couldn't improve on Lonnie's method, so I'm not going to repeat everything here that he talks about in the book. Everything is in that book.

do you have any experience with his other books "How to Make Money With Mobile Homes" or "Taking The Mystery Out Of Money"

Yup, I've read all of this books. the Money w/ Mobile Homes book is more of the same thing you see in Deals on Wheels. Taking the Mystery Out of Money is some pretty basic time value stuff. Lonnie is obsessed with compound interest. I think that his idea was to right a book for blue collar types starting out in investing. I works for what it is, and I'm sure it wouldn't hurt to read it. But IMO its some pretty basic stuff.

If you're serious about pursuing MH notes, I'd recommed reading all three. I learned a lot from Lonnie's stuff, and his ideas have made me a lot of money over the last few years even though I don't focus on single wide deals.

Spex x,
I was wondering if you could elaborate on the mobile home deals. When you say you spend $3333 on each one, what are you buying?
Is this a downpayment + repairs or are you buying a MH outright for 3k+. The $250 a month is that postive cash flow with debt service or net cash flow since you own the MH outright? I don't really know anything about the MH business but its cash flow opportunity sparks my interest. Im used to low end single family in the ghettos so this is right up my ally tenent wise.

In my parks you can buy a decent, clean mid-1980s MH for about $2500-$3000 cash at a WHOLESALE price. You could sell that home for between $6k and $10k depending on condition. When I say 'sell' the home, I mean that you're taking a down payment and a note for the balance. The note is secured by the MH. I've done a handful of such deals when I first got into the MH parks, but now I refer them to another investor that wants to fool with them.

Basically all you're doing is buying the MH at wholesale and selling at retail by carrying a note. Obv you'd also charge interest on the retail price. If you spend a little time with your financial calc you'll see how fast small amounts of money turn into large amounts of money.

Follow up question in advance- If your buying it outright I'm sure its like any other home. Finding motivated MH sellers and hitting them low? 3k seems like a very low amount for a MH even if you find a motivated seller. What do new MH's go for? What do average retail deals of used MH's go for?

New single wide MHs go for $25k+ and probably average around $35k or so. The problem for MH sellers is that banks won't finance MHs that are over 10 years old. So if the seller is moving and needs the cash in order to get where they're going, then they don't have a lot of options. Most people that will live in a 15 year old MH aren't going to have $10k cash. They're not going to have $5k cash. Maybe they have $1k or $2k tops.

So you can swoop in and buy the place for $5k from the seller that has to have the cash. Then you can sell it to the buyer for $1k or $2k down and carry the difference.

the retail price of a MH depends a lot on the area. In my parks, an average 1970s home will wholesale for between $100-$2500 and retail between $1000 and $6000. A good 1980s home with vaulted ceilings and 3 bedrooms and a clean average interior would retail between $7k and $10k. A 1990s home can retail as high as $20k if you sell it on a note.

One thing about buying these things though is that the MH community is small. Everyone knows each other and has relatives in every park in the area. So your reputation travels really fast in this business. If you treat people fairly then, in my experience, you'll have as much business as you can handle.

When you go to buy, just explain that you are a MH dealer and that you have to buy at wholesale prices in order to make a living. Tell them that you are the last person that they want to sell to unless they have to. But you can bring cash today if you can come to an agreement. Try to suggest some other ways for them to get the best price. Tell them that you'll give them the paperwork so that they can carry a note and get the full value from their home. In short, this is pretty much the same as buying RE from motivated sellers. But if hese people feel that they're getting taken advantage of it'll kill your business. Just be very upfront with them.

My 80 lots produce about one deal every month for the guy that works my parks. I think that he works 3 other parks besides mine. But all told, i'm sure that he's working less than 700 lots total. And he works full time on MHs. So the deals are there - especially in Florida where you are.

I also like the MH thing. So let me get this right: you (your friend in this case) buys the mobile home from a motivated seller for a nice price. You fix it up a bit and sell it to some other lower class guy (nofi) for a nice markup. But you don't sell it for cash but you give him a loan for ridiculous interest numbers? Sounds pretty sweet, especially because the risk is so small, so it's perfect for a novice to start things going.

Sometimes I wish I lived in the United States. I would definitely put some money into this.

Yup, thats about it. Its a simple system that you can start with little money and little experience. And since the MH is securing your note and since you bought it MH cheap to begin with, its very low risk. Worst case you sell it for the same price you bought it for. Its a powerful way to get started. I'd say that its probably the best way for someone with little capital to get started in REI

You have your own parks so it makes things easier. But what if you don't. Do you pay the ground it's on too? Or do you buy the lease of the ground?

The guy that works my parks - I give him one month of free lot rent to get his places sold. I do that because I know that he's making the homes nicer and bringing good people into the park. Plus he gives me another layer of control over the tenants. After one month he pays lot rent to me.

How do you get your customers to accept the crappy terms on their loan? I've seen percentages of about 12%. That seems a little steep, there must be easier ways to get a few K (remember, I'm in Europe so my perspective might be a little different).

It seems steep to you, sure. But you're not the one that a) wants to live in an old mobile home in a MH park, and b) has crappy credit and can't get a loan from anyone else, and c) whose other option is to keep renting which gets you nowhere.

Try to put yourself in the buyer's shoes. You grew up in a trailer park. You have no education or real job skills. Your total annual household income is around $25k. You've got 2 kids. You've got bad credit from medical bills b/c you've never had health insurance. You've rented every place you've ever lived in. NOBODY has EVER offered you any credit to buy anything. Now comes along a guy that will extend you credit for a mobile home that you can own free and clear in 3 or 4 years.

In that position, how hard would it be for you to pay 12% interest? Not too hard. Plus, if someone thinks the interest is too high, I'm sure that there are 10 or 20 people that would snatch up that deal.

What I'm saying is that these people don't take a lot of convincing. They intuitively know that you're offering them the best deal they can hope for. And you can rest assured that you are providing a much needed service by giving people a chance to own their own home. Even if its not the home or the deal that YOU would take.

I've been driving around to different mobile home parks in my area but no one has for sales signs up (i've been to at least 200 homes)

Should I talk to managers at the parks? It seems awkward to say "hey i want to make money by buying people's homes to resell higher, can you tell me when people are selling?"

Is this normal? How can I not come off as a vulture (or whatever word would be accurate)

Go to the manager and explain that you're a MH dealer and you're interested to work in his park. Explain that you act just like a bank - you don't rent the homes. And explain that you pay lot rent until you get the home sold. Tell him that you'll be sure the park approves any and all buyers before you approve the buyer. Thats how you do it.

does anyone feel like checking my math on this sample mobile home "problem"

Find MH listed at $4500
Negotiate to buy for $4000 cash.
Lot rent is $200/mo.
Place ad/find seller for $5250 with financing.
Buyer can afford up to $200/mo (plus lot rent) with a $500 down payment.
Using loan calculator, the loan amount would be $4750, 14% interest rate, for 30 months.
This produces a monthly payment of $188.57
Profit is the difference of sale price and investment price plus interest paid ($906.98)
Gross profit on this deal would be $2156.98 over 30 months.

Buyer pays title fee and taxes ($10+3.5%*$4000) = $150
Assume it takes one month to sell, lot rent = $200
two week newspaper ad = $60
Total expenses = $410

Total profit = $2156.98 - $410 = $1746.98

So I'd pay roughly $4400 to get this sold, receive $500 right away and a montly cashflow of $188.57 with $1746.98 total profit.

So I use $3900 cash to receive a 45% return realized over 30 months. (18% yearly)

Here is how you do it using your financial calculator. You are selling for $5250 on a note, less $500 down. So the note terms will be $4750, $200, 28 months, 14%. You get 28 months by plugging in the other numbers and computing N.

Ok, if you want to determine your yield, first you determine your basis. The title fee and taxes will be reimbursed to you at the closing, so those are not part of your basis. Your basis is $4000+$200+$60 = $4260 LESS the downpayment that you took. So your total basis is $3760.

Now, grab your calculator again. If you plug in $200/mo for 28 months (the terms of your note), $3760, and compute %, you'll get your yield. In this case, your yield is 35.81%.

I can buy passive MH notes at 30%, so there is NO WAY I'd do a hands on MH deal for only 36%. You have to get that MH for about $2500 tops for it to be worth your time. Take 25 $100 bills with you. Lay about 20 of them out on the counter. I bet they take it.

I'm trying to write a business plan for mobile home investing. One issue I'm being challenged on through a professor helping me is worst case scenarios.

In Lonnie's book he says defaults can be a great thing. But they cost money and time. Every extra day a defaulted buyer is still on the property costs me money. I'm generally not going to be able to collect from these people and what if they cause damage to the home? How do I analyze these risks and costs?

You can't analyze them. But what is your real risk? Say you buy a $10,000 MH for $3500. Then you collect $500 down and 6 payments of $250. So you've got $1500 left invested in this deal. Now the buyer defaults and tears up the place. So you have to make $1000 worth of repairs (which is a lot for a MH). Now your basis is $2500.

So you take another $500 down payment and sell it again and your basis is back down to $2k. Play around with your financial calc and see what happens in different scenarios. IMO the absolute worst case is the MH burns down and the buyer didn't have insurance. That is the only realistic scenario where you lose money. In just about every other instance you can resell that MH for $3500 cash in a pinch. You can do that because you bought it right to begin with. If you pay too much you won't have that option.

Let's say I find a MH and negotiate a cash price with the seller, who has the clean title in hand. Can we do this deal ourselves and the title is just signed over to me by the seller?

I don't understand this question. Normally you pay the seller and the seller signs the title over to you. You then have to go get the changes to the title recorded at the county courthouse. I don't understand your question.

Along those same lines, when I sell the MH and take back the note, I keep the title untill the note is paid off. Is the lien info recorded on the title and the buyer's name put on the title? Or is the title unchanged until the note is paid off, then signed over to the buyer?

Thanks!

Yes, keep the title. In my state, the Secretary of State holds the title until they get a letter from the lien holder releasing the lien. But if they don't do that in your state, just hold the title until the debt is paid. Under no circumstance should you give the buyer the title.

I just finished reading Deals on Wheels and one thing concerned me while reading it was Lonnie always assumes you can sale the house in 1 month and don't pay any lot rent or only one month if you do. With lot rents in my area between $320-$360 and using his general profit margin from the book of around $2000-$3000, that can get eaten up really quick if you can't sell the house fast. Were you generally able to sell that quick or did you have to sit on the houses longer? I know it's dependent on local markets but he seems to indicate you should be able to sell within a month and that makes me a little nervous.

I came upon Lonnie late in my career. I've really only used his system in the parks that I own. And that only because I had lots that needed filled. I hauled and set the homes and sold them on notes. i've got a young lonnie dealer that does all the deals in my park. The kid is honest and hard working. Most importantly, he improves the exterior condition of the homes, which is really important when you own the park.

My suggestion is to factor projected holding costs into your offer. How I woudl probably do it is set some criteria and work backwards. Say you found a home that will retail for $8000 and is in decent saleable condition. How much should you pay? If you assume that you can get payments of $300, 12.75%, 32 months, and you want all your money back out in 12 months minimum, then you can pay maximum of $3600. Now subtract from $3600 your advertising - say $150 - and your lot rent - say $660. You can pay a max of $2790.

Maybe if the home is nicer and newer you'd accept a lower yield and a longer payback period. Maybe up to 24 months or soemthing. that is up to you.

In this case, I'd offer maybe $2000. Then go up to $2500. Then to $2650. Then to $2750. In the worst case, $2800. When negoiating, you want to make a big concession then consecutively smaller ones. That makes your counterpart feel that they're ringing every dollar out. That is how they should feel.

Also have you had any success listing your MHs on craigslist? I'm thinking I'm just going to post that I have a house when I actually don't, generate a list of potential buyers ask what they're looking for and then try and find something that could meet their criteria. Do you think this is a good way to go about it?

I've only advertised in the local paper. I also use a big vinyl sign that we hang on the roadside fence. I think that a test ad is a great way for you to feel out your market. Post one on craigslist. Just tell people that you already sold it, that the homes move really fast, but you'll put them on the list for when you get a home that will suit them. Great idea.

It seems that mobile home resale and financing offers some pretty sick returns. If you were looking to put less than $500k to work, why would you want to mess around with anything else? ie SFHs

IMO, it'd be hard to keep $500k working in MH notes. The notes just pay off to quickly. Besides that, I don't think that you could realistically keep that many notes in the air at once without giving up a large chuck of your profit - i.e., hiring a lot of staff.

If I wanted to invest $500k into MHs I'd find MHP owners to partner with. The problem in the MH world right now is that there are almost no banks that will finance buyers. This poses a major problem for MHP owners. The useful life-span of a MH is only about 20 years on average. Just about anything over 20 years old will end up abandoned on the lot and the owner will end up with an empty space. Since there are no banks, there are no buyers to bring new homes in. The situation is such that modern MHP owners must take it upon themselves to haul home in a resell them.

If I had $500k that I wanted to make a 30% ROI on, I'd work with MHP owners to fill empty lots. You will find and buy the homes and pay to haul and set them. The park will fix, show, advertise, and run credit checks on buyers. You decide if you want to fund the buyer. If you did it like that, I feel that you could easily be in a home for about $10k that will retail between $15k to $20k, and collect payments of $250-$350/month for several years.

There is a huge demand for this type of chattel financing amond MHP owners. Check out www.mobilehomeuniversity.com and you'll find plenty to do with your money.

Spex,

In your opinion, what is the most difficult part of buying/financing mobile homes? I would assume its either finding the right deals or finding someone to buy?

I don't buy Mhs for resale. So I dont know the answer. However, I'd assume that the biggest problem is dealing with deadbeat buyers

Maybe its time for a trip report?

This is in a 55+ community. Space is $318/mo in a nice part of town (ugly but old farts live there and really nobody else, plus golf). New laminated floors, new electrical panel with 2 extra 20 amp circuits, concrete and awnings on both sides. Includes stove, refrigerator, microwave, dishes, pots and pans, silverware, linen, couch, dinette with 4 chairs, desk, various small tables and shelves, patio furniture, bbq, etc. Park has shuffleboard, pool, hot tub, club house, yadda yadda yadda They are asking $2500 and need to sell so Im thinking $2k cash. What do you think?

The home looks very nice compared to what I've seen in my parks. My first question is how much can you sell this MH for? That number will determine your offer more than anything else, so its important to know.

Second, I'm concerned that you'll have problems from the park. Have you spoken to the manager yet? They may not allow you to buy the home unless you are 55+.

Third, I'm concerned that the 55+ restriction will cause you to hold the home longer, which means that you'll have higher holding costs. The park does sound pretty nice though. This must be in AZ or FL, no?

Fourth, from the pics, this looks like a 12x60 or so. Its a smallish type of home. Most people - even if they live alone - like to have two bedrooms. So if its a one BR you might have even longer holding costs.

I'm not saying that its not a deal, I just want to be sure you've thought through all that the angles

The 55+ thing has me worried too, Im going to speak with the management on Monday. I posted an ad on Craigslist last night for $7000 and woke up to four emails asking what the payments would be, if I had pictures, etc. I dont know how many beds or baths yet, Im going to find out soon. I think if the management will let me buy it Im going to. Yes its in Arizona, there are tons of 55+ communities here.

If you advertised for one day and got 4 responses, then I'd say buy it. Just be sure the manager knows that you are just like a bank. You won't be living in the home

What's the market like in your area? How much is the home worth after repair? How much will the repairs cost you to do? Do you know how to repair MHs? How much is the lot rent? How long will it take you to sell? Etc.

As for the appliances, you can get moderately inexpensive ones at Ikea, but remember that buying them yourself is more cash out of pocket. Check with your park, though, cause some of them have coin laundry facilities, and the W/D will not be a dealbreaker.

IMO you can get a decent used stove & fridge for about $100 each. I wouldn't add an washer and dryer to sell a MH. Many people have washer and dryer anyway.

What I'd probably do is take the home for $3100, show it without appliances, and tell the buyers that you'll buy them a $100 used stove and $150 used fridge (they have to pick the appliances up though) OR I'd offer them $300 off the purchase price if they get their own stuff.

Have some questions for spex et al about "Lonnie" mobile home deals.

Situation:

Found a guy that writes
"i paid 69000 one year ago its like new inside i want 8000 cash and take over my payments i owe 36000 36000 plus 8000 is 44000 im losing 25000 but i need to move please call me its a1999 model"
Questions:

1) It seems like a good deal to me on the surface and I'd like to make the guy a lowball offer.

This is an instapass for so many reasons. Forget about it. Stick to cheaper homes. No way would you ever get this kind of money into a MH. Maybe $8k if its a nice double-wide. But $44k? No way.

2) I remember in his book that Lonnie councils against doing deals that are greater than $10,000 for various legal or tax reasons (I can't remember and I don't have the book in front of me). Does this rule apply to the current deal? Only $8000 cash would change hands, assuming I didn't negotiate a better price.

Calculate out the yield given an average payment. Your yield isn't high enough to justify such a big risk. Take that $8k and go find yourself 4 $2k homes.

3) This $10,000 rule is really a hinderance. 90% of the mobile homes I see advertised are for more than 10k, so the pickings are really slim if I stick wikth this rule. What do you think?

I think that you're looking in the wrong place. Go talk to park managers and make sure they understand that you'll put a crisp $100 in their hand for referrals. Ask around in the parks if they know of any homes for sale.

I drove through a local MHP and,

First of all, um whoa.

Secondly, there were a TON of MH's for sale. Like probably 1:8 were for sale. The vast, vast majority of them were being sold via the MHP's sales office, but some were being sold privately.

What would you make of that situation?

I would be hesitant to compete with the park for buyers. Personally, I'd look for a different park to operate in.

how would you evaluate a mobile home park?

I know of an owner that is getting old and letting the leases expire/not letting new homes into the park. Just kind of curious at how to evaluate it's value... Maybe just do a cap rate using area lot rents*vacancy*lots?

I use this rough formula. (#occupied lots * lot rent) + (#unoccupied lots * lot rent)

That should get you a rough idea. This sounds like an EXCELLENT opportunity for you to get a great bargain on a park. Approach the owner and see what his ideas are for the future of the park. Perhaps he'd be interested in doing a lease option deal with you. He gets the income and you can increase value and get the park for almost no cash out of pocket in a few years.

Jump on this park now before it gets worse.

Spex, would you be wary of buying a MHP in a small, rural town? It seems alot of parks for sale

are in very small towns of less than 15k people. I would be concerned about buying where the market for renters is so small. I guess this applies to apartment buildings also.

I would make an investment like that if I can see that the town has a stable population over time (i.e., not shrinking). this is easy information to get. Stay away from towns that are shrinking. So long as you have some kind of industry and a stable base of residents, that would be good enough for me.

i just went to frank rolfe's website and there are a ton more MHP listings on that site than on loopnet. i wonder why this is?

MHPs are such a tiny niche that they tend to have their own life. You can find MHPs on Loopnet, but there are a few others, most notably www.mobilehomeparkstore.com that offer MHPs for sale. on Loopnet you never know who, if anyone, is going to see your add over the myriad others. On MHP sites you know that everyone buying and selling there is looking for one particular thing. IMO you have a more realistic chance to sell your MHP on a site specializing in MHPs than a site like loopnet.

Thanks for the advice. The only website for frank rolfe (didn't find anything with your spelling) was the mobilehome park store listed in this thread (I did find page where they offered DD though). How hard is it to purchase and run mobile park homes from a long way away (I don't think there's much of anything like that in europe)?

Mobile home parks lend themselves to long distance operation better than any other residential RE investment I think. Lots of MHPs are owned by long distance. Its very common. IMO, there is no reason why this would not be quite easy to do

Here is a MHP that I might be offering on soon:

its in indiana in a town of 15k ppl close to indanapolis. I live near Chicago

29 lots out of 31 rented, avg rent 250

2008 gross 88k, NOI 62k

"well and septic with municipal utilities running in front of property." Does this mean it has a well and septic tank, but has the option of connecting to city lines?

asking price 690k, sellers will be willing to finance. Agent said I will probably not be able to get financing thru a bank, since Ive never owned property before.

It seems pretty well run from the numbers so I guess there's no room for big improvements. But if I can get it for 620k I can probly make a 20% cash on cash return which is all I'm looking for. Agent says it will just be a cruise control park.

Is this a go?

1. I'd value this park around $450k as a rough estimate.
2. expenses seem about right
3. maybe you can hook up to city lines, but it'd be a major expense. If you did this you ABSOLUTELY MUST submeter the water or else you'll get killed on the water bill. Submeter should cost about $400 per lot in a park this small. Perhaps the city will meter each unit for you for free. I've known of a few cities that have done this. Find this out before you buy.
4. Condition of sewer, water, electrical, and gas infastructure is EXTREMELY important. Each lot needs a 220 pedestal. water lines need to be running down the common streets, not under the homes.
5. size of lots is extremely important. I'd pass on a park where the lot sizes can't accomodate a min 14x70 trailer. Be sure that you check the city codes on set-backs. If you lose a home you don't want to find out

that the park has grandfathered set-backs and you can't fill the lot without moving every home.
6. the price is too high, there is no upside, and you'll never be able to sell the park later on.

Spex, what's a good way to value a mobile home note so both the buyer and seller get a good deal?

Because I read your thread I recently sold a mobile home and created a note. The note is for $14.5k principal with 13.5% interest and is payable at $500/mth for 3 years. The home buyer put $1.5k down

So is there a standard formula to calculate a good yield for the buyer? I just created the note this week so will it be worth more if I receive x number of payments on time and am able to report that to the note buyer? How would the price on a new note compare to a six month old note with perfect payment history?

To those considering doing this, it's early but it certainly appears to be a good business and most of my energy and leg work will be spent on the front end. I've already received calls from two park managers in my area seeing if I'll work with them and buy in their parks which is why I want to sell the note.

There isn't really any formula, its just whatever you can negotiate. A lot depends on how you structure the deal. As you mentioned, if you season the note for a few months it should be worth maybe a little more. Your buyer's credit score is a pretty big factor. Also, if you are doing the servicing on the notes, then your note should be worth a lot more. I'd say try to keep the deal as passive for your investors as you can. Offer them full servicing, full recourse (personal guarantee of all payments), and guarantee that you'll handle repo renovation, and resale. If you do this, you should be able to get away with selling at a 20% yield or so. Over time you can whittle this down too. Even at at 30% yield you make out like a bandit, so who cares?

read in some of the beginning posts that you are very high on mobile homes as a way to start with a smaller investment with less risk. This may have been discussed in the thread, but are there any good books or resources that you recommend reading to learn about making money with mobile homes? Also, do you still feel there is good money to be made in this area? (the posts I read were from about a year ago so I wasn't sure if things have changed)

Thanks

Check out the book "Deals on Wheels" by Lonnie Scruggs. Also this site http://www.creonline.com/mobile-homes/ has just about everything you need. Scruggs book is the used MH dealers bible, so read that before asking questions on creonline forum. Otherwise you'll invariably ask all kinds of questions that Lonnie deals with in the book and the regular posters will get annoyed.

Spex,

1. Say I bought and resold some mobile home and the people I sold it to end up being deadbeats and not paying (this just would seeeeem common for some reason, maybe I'm wrong.

You combat this by 1) screening, 2) taking down payments. If you find someone that won't pay, you repossess and sell it again. What are you afraid of?

2. How is the mobile home market RIGHT NOW as far as competition goes? Still fairly untapped? Or pro investors everywhere, all buying cheap homes from desperate sellers.

Same as always. Lots of sellers, not too many buyers. No financing.

3. How is the mobile home market relative to all other markets (for example apartments, condos,

and SFH's). Are mobile homes high in demand? High in demand for rental or for purchase?

Mobile homes are the most affordable way to live. So they're always in demand. You don't want to rent out mobile homes. Just sell them.

spex, would you say the reasons for buying and the expectations of owning a MHP have changed over the years? I have a very limited sample but the people I meet who have bought MHP in the last 5-10 years expect and usually make quite a bit of money.

Was this the case in 70s and 80s? If not, what was the reason or incentive for people buying 30 years ago? These are the people retiring and selling their parks now so I am curious if there is a difference in mindset.
Well, I dunno for sure. It was definitely a different market in the 70s and 80s. At that time your tenants could get financing for mobile homes. that isn't really the case anymore. Plus, for the last 10 years its been possible for a lot more people to buy stick-built homes because financing has been so easy. In the 90s and early 00s a lot of the companies that were financing MHs went out of business because their loans were really poorly structured. The lack of financing MHs and ease of financing SFHs has been a detriment to MHPs overall.

So as a result of all that, MHP owners that bought in the 70s and 80s started losing more tenants as homes were junked or pulled out and never replaced. These days in order to keep a MHP full the park owner has to pull in homes and seller finance the homes himself. That is the only way to keep the lots full. But this is a huge change from the days of the 70s and 80s. So most of the guys that bought 20+ years ago end up in 2009 with a half empty park to sell that nobody wants to buy and no bank will finance.

This is a tremendous opportunity for the smart RE investor. If you can structure smart deals with sellers, you can make a lot of money by turning parks around, and modernizing the business model. So while both the 1980 buyer and the 2009 buyer expect to make money, there is a marked difference in the business model. One can make a lot of money flipping MHPs.

Hum, maybe I should start a company with some of the guys from BFI flipping MHPs. Anyone want to invest $20k?

Why are Tony Colella and Scott St. Aubin using a like 30% expense ratio to evaluate cash flow on rented double wides (new or immediately renovated) in their land/home deals? This seems rather absurd, but iunno

There is nothing wrong with Tony & Scott's method. They are very through in their model. Its a hard question to answer. First off, taxes are lower on a DW than stick-built. Second, trailers are cheaper to repair than stick-built. Whatever accounts for the difference, its obviously working for them since they've been in business a while now

I'd be interested in investing in almost any RE project spex comes up with (subject to due diligence etc) because he has a track record of success. I'd hope it would be profitable and educational.

Given you're likely to have several people interested and therefore plenty of capital why flip the parks rather than keep them and use them as a source of Lonnie deals?

I would have thought that keeping them would generate better long term returns than a flip. Or by flipping do you mean business turn-around rather than a quick buy low sell high?

This is a question that the NPR (net present value) calc can answer. What you'd do is calc the NPR of different scenarios and choose the highest. But I can tell you right now that if you take a $500k, turn it into a $1.5M park in 10 years, you are better off taking your $1M profit and buying two more flippers. But that depends a lot on what your goals are.

Thanks.

What discount rate would you use for evaluating keeping the park?

Cost of capital [plus a bit to allow for interest rates rising] or some sort of opportunity cost measure to include the fact you don't have the money to do the other two flips? If the latter, how do you calculate it?

I'd use an opportunity cost rate, but more simplified. I'd just take a typical stock market return of say 10%. Doesn't really matter all that much though. It doesn't have to be exact to be useful.

Do you really need to sell the park to free up capital or is getting it revalued if you buy cheap and then refinancing to get more money not as easy as it sounds?

No, you don't have to sell at all. This depends on what your goals are. you may want to be more aggressive, and in that case, you should sell. Or maybe you want to be more passive, in which case you'd sit back and collect cash flow. But when you're doing these kinds of projects, its important to realize that the lion's share of the gain is made by increasing the income. After that your cash flow & equity gains are going to level off. If you want to make even more money quickly, sell out and buy another flipper. But it depends on what you want to do

Spex,

I have a potential 1971 2br mobile home in need of quite a few improvements. It is listed at $1100 but the gentleman selling it is too busy to continue work on it, he probably had plans of fixing it up real nice and selling it. As you have made clear, that is silly to do. He seems pretty motivated. Anyway, you mentioned you're pretty solid on eyeballing repair estimates and I have a ton of pictures that the guy has hosted on a website(I can't post pics in this thread since I'm on my phone.). What I'm requesting of you is to glance through the pictures and see if it's Lonnieable as is and if not, the necessary improvements to make it so.

sundaygator.com
not spam, etc I promise

Yeah, definitely Lonnieable. In my market, such a home would be worth about $500 for a cash sale. But in your market $1100 might be a fair price. Part of the problem is that a 1971 in good condition is going to sell for no more than $5,000, and that is a stretch. So I'd be thinking about the final sales price first and start from there. Probably what I'd recommend is buy it for like $700, try to sell it as a fixer for like $3500.

I'm trying to start doing lonnie deals, but I'm having problems with the whole issue of a license and if it is necessary or not. I emailed the Bureau of Motor Vehicles/dealer licensing section for my state asking if a license was needed, even if I was only doing a couple deals per year. I received a response today, and apparently you need a license to do ONE mobile home sale. There are two license options available, but both have pretty ridiculous requirements for someone who is only doing a few deals per year. For example, for the second license I would need a lot of at least 3,500 square feet. There is a "casual sale law," which allows five mobile home sales per year BUT it only allows for the sale of mobile homes that were obtained for personal use and not resale.

Earlier itt, someone asked about licensing and you said they could just operate out of an LLC and form a new LLC when they reached the max number of deals allowed. I've never formed an LLC before but the costs seem to be a couple hundred dollars. Considering I would need to form a new LLC for each sale, it doesn't really seem like it would be worth it. Maybe I'm wrong?

Should I just avoid lonnie deals until I'm living in another state? Or would you suggest something else? I'm going to call the Dealer Licensing Section tomorrow just to make sure everything I was told is correct, but I figured I'd see if you had any other suggestions first. Thanks

.

I dunno. What is going to happen to you if you operate without a license? Probably you'll get a cease and desist order from the state if they ever even realize what you're up to. Otherwise, perhaps you can try to do a lease/option type of arrangement rather than a resale. I know some guys in TX that do it that way due to some state laws. The first thing I'd do is go to creonline.com to their mobile home forum and ask someone in your state for help.

I bought five at 500 this afternoon. I sold one of them for $700 2 hours later to a guy that lived next door. Apparently he got tired of looking at the piece of junk and just bought it to get rid of it. This RE thing seems really easy so far.

If you're happy with the result, I say its a success. This is not the method I was talking about, but if it works it works. I'd caution you that real estate investing is typically not this neat, tidy, and easy, however. I'd also point out that this is not real estate investing per se.

have concerns about exit strategies in owning a MHP. How easy would a mid sized park sell as compared to a small apartment complex?

Well....hard to say. the MHP market is on a 10 year cycle. Obv, we were just kinda at the peak of the cycle and now we're looking at a prolonged trough. So I'd plan to hold the park for several years.

Overall though, if the property is nice, and its financable, there is, in my experience, a market for both apartments and MHPs. There are more buyers for apartments. There are more banks for apartments. But there is more money in MHPs.

Right now my plan is to make a larger (for me) REI in the next 18-24 months. I am getting cold feet about a MHP purchase because since following the MH community in my area, I keep seeing the same MHPs for sale with desperate sales pitches.

Yeah, but those might just be dog parks. Any number of the following will KILL an MHP deal deader than a doornail (and most for sale have several if not all):
price to high
vacancy too high
too many park owned homes
small lots
park-owned home rents factoring too highly in NOI

Financing is generally out of the question with any ONE of those. Sellers generally don't realize this.

btw, just got a couple of new JohnTReed books in today. Going to read them now.

I just reread a couple of his books over the summer. Based on one of his ideas I made a change to one of my properties that is netting me $850 more per month. So enjoy.

Spex,
When you're looking at mobile home parks, what are some common troubles you look out for? What kinds of things are dealbreakers?

I've found one that has 22 lots, only 7 occupied (edit, looks like 22 lots, 12 trailers, 7 of which are occupied), out of state owner who wants to sell due to family health problems, plus the property includes a 3/1 SFH. She is asking $185,000 obo, but that's the extent of the info I have so far.

I want to put together a list of questions to ask to get more info, just want to make sure I cover my

bases.

Thanks!

<EDIT>

This is the actual ad:

Mobile home park FSBO. I am an out of state Owner and can no longer run the park, Due to family health issues.

Almost 6 acres, includes a 3 bedroom/ 1 bath 1400 sq ft house. Needs Work! Can hold up to 22 single wides. There are available lots ready to have homes put in place. Currently has 12 single wides in place. A few need to be repaired in order to sell or rent. There is An excellent Managment in Place. 2 Owner financing contracts in place, 1 rental , 6 lot rent only contracts.

Well, this is a question that is really too in depth for this forum. You could write a whole book on MHP DD. Some key deal breaker items are
small lot size
old/damaged sewer and/or water lines
zoning problems
age limits on in-fill homes
too many park-owned homes
crappy park owned homes
crappy homes in general
bad neighborhood
rural property
city restrictions on MHPs
etc.

for more on this topic, get the book "Dealmaker's guide to mobile home parks" by Ray Alcorn if you can still find it. If you can't, contact Ray directly and I bet he'd sell you one. His contact information is easy to find via Google.

I was wondering if you could comment on my situation. I live in NYC where the type of deals you would do are basically non existent or you need a 300k-$1million+ bankroll to get started. I don't want this to stop me from perusing REI though so I've come up with a couple of ideas. Which if any would you persue if you were in my situation with 30-60k in capital. FWIW I do have a goal and that is to be making 60-75k a year from my REI after 5 years.

Well, you could just move. I'm not aware of anyone that is doing these MH deals from afar.

1. There aren't many MHP in NY but there are some that are about 3-4 hours away. I wouldn't mind driving there and back a number of occasions to look at MH but these homes are all priced at $10k plus, I've yet to come across a home with an ask price that is under $5k (been searching online for 2 weeks). Would you say I'm not looking hard enough, or are prices just different because they're in NY? Would you still recommend newbies get their feet wet with MH if they have 30-60k to invest?

These MH deals have to be negotiated. The sellers think that they know what the home is worth until they can't sell it. Your power comes from having cash to give them right away. But to find the deals you need to work the park managers, not the newspaper classifieds. You aren't going to get great deals from the newspaper. You're going to get them by having realationships with PMs.

2. How feasible would it be for me to go out of state to do these MH deals?

I'm not aware of anyone that does this. So I don't know if it can be done or not.

Okay Ive read through some of those links, and have almost completed this thread. I have another related more specific question that I didnt see addresed.

I know a guy who recently purchased a MHP that he is converting into a apartment complex. He has no need for the mobile homes and would likely sell them to me at a good price. They are pretty old though.

Question is: Are old mobile homes still worth buying, or will I have trouble finding customers? Would renovating the inside of these homes be financially worth the expense? And if I purchase these homes, how feasible is it to find a vacant lot in a MHP and to pay for delivery/hookup to the park? If these questions have been addressed I apologize I haven't come across them yet.

I agree with everything that has been said so far, and I wanted to toss in my $.02 as well. On thing that hasn't been pointed out yet is that fact that many older homes cannot be moved, either because the local government won't allow it, or because they're just too structurally unsound to withstand the move. Plus, as has been pointed out, it will NOT be cheap to move them.

Secondly, as a park owner, I get the figurative boner when someone wants to move a home into my parks. Of course, i don't have any vacancy, so I can never accommodate them. But consider that the typical valuation of an empty lot is lot rent*30 and the typical valuation of an occupied lot is lot rent*60. Filling empty lots makes park owners lots of dough. No joke.

And the park owner has to shell out the same dough to move homes as you do. So when someone comes along wanting to haul in a bunch of homes to his park, well, thats a deal he'll probably take. So long as the homes are decent.

That being said, I don't think that taking on a bunch of movers is going to be a good intro the business. Too big of a project for a noob. FWIW.

Hello again Spexx and fellow RE strategists.

Bought two mobiles in Arkansas and the lot, considering re-selling to one current occupant and writing a note for 10yrs at 9%. Haven't structured up all my options to see which is more attractive for the buyer and I. How difficult will it be on me (aside from any grumbling or eviction) if he defaults. I have never been the bank before (and wouldn't want to sell the note).

Depends on if you're selling the land & mobile, or just the mobile. If you're selling the mobile, the process should be roughly similar to a regular eviction. Prob a few extra hoops to jump through to exercise the lien.

If you're selling the land, I'd assume you're going contract for deed. On that, I'm no expert. Its really a lawyer question b/c all states are going to vary a lot on how they handle such things.

HUD

Does HUD provide you with tenants or do you have to find qualified ones?
Pros/Cons of dealing with HUD?
Anything you think is useful to know regarding HUD.

By HUD, I assume that you mean primarily the Section 8 program? Section 8 is HUD, but HUD is not

Section 8. Kinda like in the way that poker is gambling but gambling is not poker.

S8 doesnt' really find you tenants - you have to still find your own tenants. However, if you take S8 vouchers they will put your property up on their local website and usually they'll make the available properties known to S8 tenants that want to move. It helps too indicate that you accept S8 vouchers when you put your ads in the paper.

I very highly recommend S8 and other community programs. The pros, IMO, far outweigh the cons. First, having a community program involved helps you control your tenants - in my experience a lot of people are competeing for limited housing aid. So no tenants wants to lose their spot at the trough. Second, in these programs the tenant is not responsible for paying the rent - it comes directly from the program. Third, for some programs you've got a case manager that you can talk to if there is a problem - lots of times these programs will pay for damages inflicted on your property beyond the scope of the security deposit. Fourth, you can charge above market rents.

The downside is that you have to comply with some relatively strict guidlines if you want to participate. The house will be inspected by a S8 inspector. Of course, unless you're a slum lord you would have the property more or less in the kind of condition that S8 wants. Its not that big of a deal. The property will be inspected every 2 years or so. It seems like a pain the first time you do it because you don't know what to look do to pass. But after that its pretty easy.

how easy is it to get setup to accept S8 vouchers, and where would one start to get a property qualified?

Its pretty easy. All you have to do is contact whatever authority handles S8 in your area. You'll have to fill out some paperwork and get the property inspected. Thats about it. These links should help:

https://pic.hud.gov/pic/haprofiles/haprofilelist.asp
www.hud.gov