THE 0-60 MPH *IN ONE WEEK* GUIDE TO REAL ESTATE INVESTING

ACKNOWLEDGMENTS

In this journey of finding words and clarifying wisdom, I am reminded that a solitary path is never walked alone. The support, encouragement, and inspiration of many have shaped not just this book, but my life's purpose. To each of you, I extend my heartfelt gratitude:

To my late mother Nancy, whose love and unwavering belief in me continue to guide my steps, even in her absence. Thank you for loving what I called 'drumming' all those years ago.... Your spirit lives on in these pages.

To my father and first real estate mentor, Roger W. King, Sr., your tenacity and guidance ignited the spark of my real estate passion, setting me on a course of discovery and growth... I'm beyond proud to be your son.

Michael & Margret Brown, your faith, friendship and shared vision for taking care of our clients has been a beacon of light, guiding me through the many intricate landscapes of real estate investing and through life.

To my trusted advisors and friends, Lynda Sands, Bob Case, and Wayne Allen, your wisdom and legal expertise have been invaluable on this journey... I'm honored to call you friends and colleagues.

To my dear brothers and sisters in the Tony Robbins' Platinum Partnership, your collective energy fuels my drive to bring the best of myself to every endeavor, and your own lives remind me to Set A New Standard and STEP UP!

To my fellow musicians, you enrich the world with your art and share your creativity with me, thank you for reminding me of the beauty that exists beyond words... and for always pulling me back to the creative artist's ethos.

And to each of you who hold this book in your hands, your presence and curiosity motivate me to distill complexity into clarity. May these words bring you at least one step closer to embracing the life of your dreams.

With heartfelt appreciation,

Roger King

INTRODUCTION

The art of war is of vital importance to the state. It is a matter of life and death, a road either to safety or to ruin. Hence it is a subject of inquiry which can on no account be neglected. **-Sun Tzu**

It was the end of 1995, and I had no more money to pay for college. Plus, I was in debt up to my eyeballs with student loans and no way in sight to earn enough to pay it back. With a life-long dream of being a famous musician, I had gone to the famed Berklee College of Music in Boston, completely confident that that was my path in this world. However, now, I began having my doubts.

It was the first time that I needed to take a step back and truly re-assess my future. "*Was I good enough?*" was a prevailing thought for the majority of us at school, mostly because there were some 'pre-famous' musicians going to school with us. These people had already played some major gigs and were the teacher's favorites… and I was friends with most of them. Nevertheless, I clearly was not *one* of them: I did not get the BIG calls like they did. I needed to begin planning… and seeing the path in front of me differently was a hard pill to swallow.

So, I started speaking to my father - he had been in real estate investing for about 15 years and had made some great money. Of course, I thought I could duplicate the success he had. However, having him on my team seemed like an excellent idea at that time. Interestingly, so did my brother-in-law, who was soon to leave the US Army and bring his firstborn into the world. This seemed pretty great: two eager young men and an experienced teacher to show us the ropes. So, we all moved to Orlando and set up shop.

This Module is what I wished I would have gotten at that moment, with my added years of hard-earned experience.

This Book is for the person that has never bought a property and has only a limited understanding of the processes: finding the right type of property, doing due diligence, writing offers, basics of negotiations, going through escrow (or closing), owning, managing, and selling the property. It is a pretty exhaustive module - probably the biggest of all. I am writing this because there are millions of people out of work right now and many millions more who want a better life... and they all need this information - presented differently than anyone else will. Furthermore, in a context that gets you started for the remainder of this course.

It's my sincerest dream for you to live yours!

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Property Investment types covered:

- Wholesaling
- Single-family rental (SFH)
- Small multi-family rental 2-4 units
- Fix & Flips - SFH

The Processes:

- **The Searching Process -** Marketing to buy properties, what to look for and choosing your market, locating properties in that market
- **The Financing Process -** Self-funding, bank lending, partnership financing, hard-money, crowdfunding
- **The Buying Process -** How to make an offer through an agent or directly to the seller, how to determine a price, negotiation basics, 'musts' that cannot be missed, scripts
- **The Due Diligence Process -** Things to look for in a property, things to make certain are not there, leveraging other people's experience
- **The Escrow/Closing Process -** communicating with escrow, the items you need to see from the escrow officer, the items you need to give to escrow
- **The Management Process -** self manage or hire a manager, leases, housing law basics, tenants and toilets, insurance, scripts
- **The Flipping Process -** Determine if you do the work, contractor bids, labor and materials, quality of workmanship, permitting, delays, catastrophic problems, scripts
- **The Selling Process -** When to sell, how to determine value, hiring an agent vs. listing for sale by owner, creative sales techniques, owner financing, scripts
- **The Profit Calculation Process -** How to determine expenses, how to calculate profit

Documents Included:

- Purchase and Sale Agreement (Contract)
- Letter of Intent (LOI)
- Lease Agreement
- Property Evaluation Tool
- Contractor Agreements

Topics NOT included in this module:

- Large Multi-Family
- Commercial
- Mobile Home Parks
- Self Storage

- Student Housing
- Senior Housing
- Land/Land Banking
- Development
- 1031 Exchanges
- Hotel
- Vacation Rentals
- Industrial

There are many courses on real estate investing, and you may have already gone through one or two (or more!) before coming to this one. This '0-60mph Guide' is designed to be a primer/companion for the next modules in the *larger* course we've created. So, while there is a ton of powerful info here, it is to be used *with the rest of the course*. Almost all of the other courses out there deal with one or two of these topics individually, necessitating the purchase of more courses. We are giving you everything you will need not only to *become* a real estate investor, but also a *better and wiser* real estate investor. However, to get there, you need a foundation and some experience… Fortunately, it does not need to be YOUR experience!

Let us jump into section 1, *The Searching Process*…

NOTES:

THE SEARCHING PROCESS

NOTES:

The basic summary for this section: How to search for a property that you can either buy or wholesale. These are the resources we'll focus on:

1. Bandit Signs
2. Letter Campaign
3. Agents/Multiple Listing Service (MLS)
4. Wholesaling
5. Brokers
6. Real Estate Investor Associations (REIA)
7. PropTech

These are the various ways to find properties and are detailed below. After some time and success, you'll find people sending properties to you *before they become publicly available.* Again, this list is very basic and obvious to most of us who have been at it for a while. I think ALL of these are valuable and have been fortunate (or stubborn) enough to have actually made money on each one.

There is one ***ULTRA MAJOR CONSIDERATION:*** all sellers must be motivated to sell at a discount. I need to repeat this, as it is crucial: **sellers must be motivated to sell at a discount.** How can we find out if they are motivated? By asking great questions. I have some scripts a little later that we will be looking at to help you discover if these sellers you are speaking to are motivated. If you find out that they have no motivation at this time, please do NOT waste your time trying to convince or cajole these people into selling. When someone is motivated, *you will know!*

Tip: Learn the 3 Rules of Real Estate Investing:
(to save yourself time and money)

Location Location Location

Bandit Signs

These are the cheap signs on the road that say, "We Buy Houses." A 'shotgun' approach to getting people to call. I have made *hundreds of thousands of dollars* using these. They are not sexy. They may not be what ivy league college grads think 'real estate investing is.' Nevertheless, they really work and can get you up and running. They are named 'bandit' because they are mostly illegal to the sign ordinances in your area. Get a [Google voice number](), and use it on these signs, so when the person from the city calls you telling you that these are illegal and require removal, they cannot trace the number back to you. I suggest using this script when they call:

you: *"Hello?"*
city: "You have an illegal sign on Smith Street at the corner of Jones blvd, and you need to take it down immediately."
you: *"oh, no! I am so sorry! I told my people not to put those up over there. I will be right over."*
city: *"Not a problem. Please do not do it again." (they might even say, "we took it down already").*
you: *"Thank you so much for your help. Sorry for the problem."*

This helps to disarm them and make you look like a good person. You will probably get calls from other people making wild accusations and claiming that they know you or calling the police on you. The police have so many better things to do than follow up on a complaint from someone that has nothing better to do than calling about "how you are 'ruining the peace and safety of his neighborhood." by placing a sign on the main road. Forget these people and do not engage. Please also keep in mind that you will be helping someone out of a very tough spot they might be in with their house. Every time I put a house under contract with a bandit sign, the seller *needed* to get out of their house as quickly as possible. Furthermore, I helped them to get it done quickly.

You may want to call the friendly people at [DirtCheapSigns.com](). You will probably pay about $5.00 per sign, and I suggest you begin with one hundred double-sided, single-color signs with 30" H-stakes. This is what I used:

I suggest going out on Friday nights about midnight to 2 am placing these signs with a friend - one to drive and one to place the sign. It is much easier and way more fun - and SAFE to have someone with you. After a few times of doing it yourself, start paying someone $15/hour and $500 for each house you buy with a sign. It may change their life, too - showing someone *how* to be a real estate investor is a very gratifying process!

Letter Campaign

This can be more expensive and more time-consuming than putting up bandit signs. It is also another shotgun approach but is more targeted to those people you want to market to. Look at distilling it down to these types of factors:

single-family + 2nd homes + no mortgage + >1200 sq. ft. + (zip codes) + >1970 + owned for 10 years or more

With those, you will begin to target a specific type of home and a specific type of seller. You will need an escrow agent that will get you a basic list like that. If you hire a list broker service, you will be asked to provide additional parameters to further narrow your search. Be careful not to shrink it to too few, however. A decent list can get you at least 100 names meeting your criteria. If you use these criteria and cannot get a list with 100 minimum names, you need to get more, so expanding your parameters becomes necessary. If you can get over 5000 names with that list, you may want to shrink the parameters such as the age of the house (>1980+ for instance) or (>1500 sq. ft.). Get good at determining *whom* you want to buy from, *what* you want to buy, and *where* you want to buy it.

So, what do you send? A postcard is good, as are letters. Interestingly, people tell you handwritten *anything* works best, and I tend to agree. I have hired high school students to write letters paying 'per letter' written (I pay about $2 per letter to make it enticing). They do not mail them until after they are written and stuffed but not sealed, so I can check and then give them a bonus for every house I buy.

Here is an example of a card I sent. I ordered from vistaprint.com. 500 cards like this will cost under $300, or $0.60 per card, including the list and all mailing services:

NOTES:

As far a writing a letter, I found this one to be very effective:

Hi John,
My name is Roger King. My father and I want to BUY your property at:

198630 July Street
Playa Vista, CA 92230

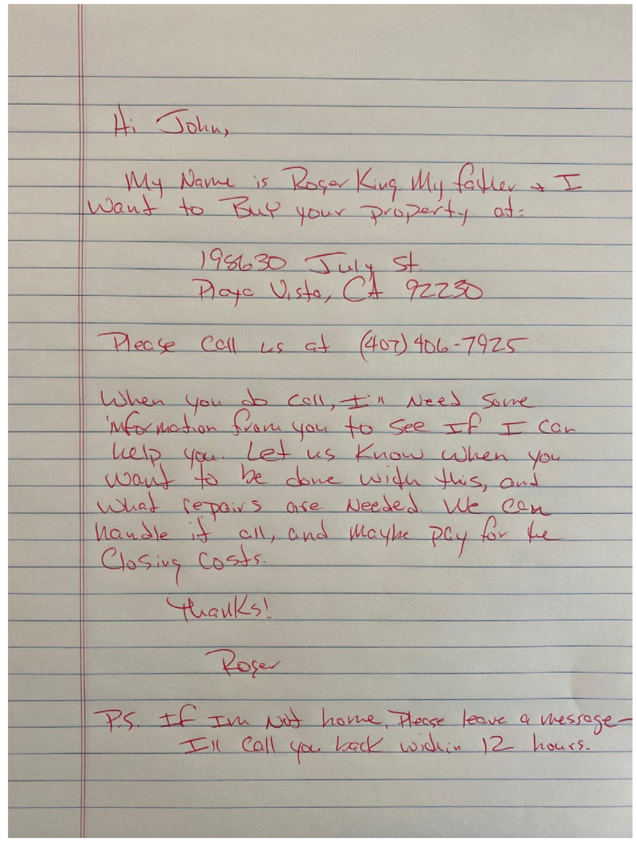
Please call us at (310) 406-xxxx

When you call, I will need some information from you to see if I can help you. Let us know when you want to be done with this and what repairs are needed. We can handle it all and maybe even pay for the closing costs.

Thanks!
Roger

P.S. If I am not home, please leave a message - I will call you back within 12 hours.

Here's what it looks like:



Hi John,

My Name is Roger King My father + I want to Buy your property at:

198630 July St.
Playa Vista, CA 92230

Please Call us at (407) 406-7925

When you do call, I'll Need some information from you to see If I can help you. Let us Know when you want to be done with this, and what repairs are Needed. We can handle it all, and maybe pay for the Closing Costs.

Thanks!

Roger

P.S. If I'm Not home, Please leave a message - I'll Call you back within 12 hours.

NOTES:

The BEST way to do this is with an assembly-line approach: Simply write this out into a yellow legal pad but keep the seller's first name and address blank until you have your list. Then, write that information in. It will save so much time. Better yet: Have someone do this!

What is very interesting about postcards and letters is that people hold onto these things for years! I have gotten many calls from people a year or two down the road when the personal circumstances have changed, and they need to make a move quickly. Moreover, there is tremendous power in following up consistently. I would suggest sending to these people on this list four times per year. If it costs $1,000 per mailing, that is $4,000 per year, and you are sending to 500 people four different times. The odds are that you will be able to close at least 2 of these, and hopefully, you will earn at least $20,000, giving you a net profit of $16,000. To break that down even further, if you give me $1 and I return $4 to you, is that a good deal? Is that a healthy profit? ***Quiz: What is the ROI on that?***

Door Knocking

A VERY targeted approach - targeting the property, not the seller. I will make this simple: If you see a house that looks like you might want to own it (or even a mobile home park, office building, or whatever), knock on the front door to see if they have any motivation to sell. You will never know until you ask. One of the things I do is always practice this - much to the consternation of my friends and family: I am always asking, "*Can I get a discount on that?*" Literally wherever I go. Sometimes even at Whole Foods just for fun and to be playful. Once, I was parking at Downtown Disney in Anaheim and asked if I could get free parking, and the parking attendant said, "Sure!" Everyone in my entire car was dumbfounded… ya just gotta ask!

So, what do you say when you knock on a door, and someone actually answers? Here is what I have said in the past when 'knocking for dollars': "*Hi, I am Roger, and I am interested in buying this house. Are you the owner?*" It is that simple. If they are interested, then they might entertain your inquiry if things are difficult for them. If not, and them your card, and tell them, *"Thanks for your time, and sorry to intrude. If you change your mind, please do not hesitate to call or email me. I want to help if I can."*

Why are we knocking on *this* particular door? If the property looks like it is in disrepair, then the owner may have trouble with the upkeep for many reasons. We all know people that have fallen on hard times, and sometimes a little help can go a long way. See the scripts page for more on this.

Agents/Multiple Listing Service (MLS)

We can find agents and brokers willing to work with us, and we can tell them that we are going to make a ton of offers. However, these people hate to have their time wasted, and the more experienced ones will not make multiple offers with someone they do not think can perform (this is their livelihood, after all, and time is scarce). Respect them and their time, and you might find an agent willing to learn as you learn, too. Give them the parameters you want, and they will help you to look at properties. After 'performing' on only one project (performing means closing on a property), they know what to send you and will send things to you maybe for years! I still have a few agents in Palm Springs, sending me things, and I always thank them and tell them, "I will pass on this one." However, since you are just starting, you need to look at all of these properties to build your due diligence skills. You will find more about performing due diligence in the section called The Due Diligence Process. You will also learn in The Buying Process how to determine a price and terms to give to the agent: Vital information!

Wholesaling

A 'wholesaler' is a person that has already found a property, negotiated with the owners, and is 'flipping' the contract to a buyer. That means they are assigning the purchase rights to a new person or entity for a fee. I have done this many times, too. It can be a very profitable way to begin investing if you do not have any money… *Especially* if you do not have any money. Again, I have done this so much that I have earned *hundreds of thousands of dollars* by never owning some of these properties! ALL the skills needed are being taught to you here, so do not believe that I am anything special - except that I went out and did it. I did it with my very first real estate deal in 1996.

I was literally fresh off the boat (ok, a cruise ship playing drums after leaving the frigid winters of Boston) and began 'driving for dollars' around Orlando. I found a truly beat-up house, knocked on the door, and not surprisingly, nobody answered. I did speak to the neighbor, though, and they told me the previous owner had died a few *years* before. Furthermore, this house was just sitting empty. I did not know what to do. So, I asked my father, and he said to go to the county probate office and look it up there. I came across a law firm based in North Carolina and called. They told me that they were the owners from the probate process and that I could make an offer. I got their fax number and sent an offer of $5,000 to them. I got a call from them about 20 minutes later, and she kind of laughed at me and said, "Mr. King, we see what you are doing, but we simply cannot take an offer that low." I said, "I understand. What is the lowest you *could* go, and I will take to my partners?" She replied, "Mr. King, we simply cannot sell this property for anything less than $10,000." I was flabbergasted! So, I scratched out the '5000', and replaced it with '10,500' and sent it to them again.

I had a fully executed contract within 5 minutes!

This shifted SO MUCH for me - after four months of nothing, I finally saw some degree of success. However, getting it under contract was only half the battle: I needed to flip this contract! So, I created a flier to take to the Real Estate Investors Association in Orlando (which is still going very strong, by the way), and I got up in front of everyone and told them about it. I immediately was inundated with people clamoring to meet me and see if it is a deal. I met a local builder, who offered me $35,000 the next day, and we closed within two weeks. I made just under $25,000 on my very first real estate deal!! It is still exhilarating to think about it even now - 24 years later!

That is wholesaling!

Brokers

If we speak about smaller commercial properties, you will normally be dealing with brokers to buy and sell. Now, these folks tend to be much more experienced than a residential agent, and most of the ones I know, know their business, their markets, and the property types they are selling. This should be a substantial benefit for the negotiation and due diligence phases of your search, but do not rely *solely* on their opinions to guide you. Certainly, a trusted part of your team, but they should not be the *only* part of your team that you rely on to give you input, advice, and clarity. As a broker, they have tons of experience, which is a major part of my reasoning that ‘it doesn’t need to be *your* experience’!

If you find a broker who is willing to work with you on your first purchase (say, a small strip center or office building), then make sure to verify their information during your due diligence by hiring inspectors and probably a lawyer - both of which are covered in this module as well as others in this course. Just know that these people only want to work with serious people who do not get cold feet and back out. Those who do not have any money or credit (yet!) are encouraged to begin building your portfolio with smaller projects to get some experience under your belt. By all means, meet these people and build those relationships, and glean as much information as you can. Just be aware of the time you are asking for in return, and act with integrity.

Real Estate Investor Associations (REIA)

I Love REIA’s! Most of my business has happened because of meeting people at real estate investor clubs - in Orlando and then multiple clubs scattered around Southern California.

How to get the most: Take your business cards. Join the yearly membership. Meet people and ask questions (but do not be annoying or monopolize people’s time). Take notes from the speaker. Volunteer. Become part of the community, and more deals will begin flowing to you. You might partner with some of these people (I *still* partner with people I met years ago!), and you can all grow together. If you are doing letters or bandit signs, you might be able to wholesale the contract to one of the people you meet here. THIS is an invaluable resource for real estate investors of all levels. The phrase, “Your net worth is equal to your network,” becomes a part of your reality. Be cool. Help people. Learn & grow. Furthermore, keep going to these meetings…

PropTech

This is the new kid on the block: zillow.com, redfin.com, trulia.com, for residential and loopnet.com, and costar.com for commercial. There are also so many more that are not yet announced that change the way people buy and sell real estate in today's market.

As we see, safety is changing the way people look at properties, which is rapidly changing the landscape for both buyers and sellers. Fewer in-person showings, more interactive video, and 3D tours are quickly becoming the norm, so get ready to change how you see your next purchase. For those over 50 years old, things will be very different from what you grew up with when looking and buying houses as some revolutionary advances in Artificial Intelligence will blow you away... I cannot wait to show you what we have up *our sleeve* in the coming months!

So, these are some ways to find properties for you to buy or wholesale. Once you have successfully performed on a few projects and have made it known to more than 30 active investors in your area that you are always looking for properties to buy (and you really *should be*), you will get more people to send potential leads your way. You then get to cherry-pick the ones that most align with your goals.

But how do you *pay* for those properties? Read on for *The Financing Process...*

NOTES:

THE FINANCING PROCESS

NOTES:

The basic summary for this section: How to pay for a property that you are buying. These are the resources we'll focus on:

1. Self-Funding
2. Bank Lending
3. Partnership Financing
4. Hard-money Lending
5. Syndications/PPM
6. Crowdfunding

If you are buying real estate, you need money. As I tell so many beginning investors, though: It does *not* need to be *your* money! Let us look at some of the main ways we can begin financing our real estate investment business.

Self-Funding

This is fairly self-explanatory: You have all the capital to buy a property and do not require any outside financing. The capital you provide may come from cash, savings, a retirement plan (be careful on this!) through a 1031 Exchange, or the proceeds of another liquidated investment such as stocks, bonds, ETFs, etc.

There are many pros and cons for using your capital to fund a purchase. A brief list:

Pros: Full control of the property, no debt, no partners, capital deployment (having capital in a bank is not always a wise choice).

Cons: Reduced liquidity, no benefits of leverage, fewer tax advantages (of course, you can write off various deductions)

If you do not have all of the capital required to fund the purchase, or if you do not want to use all of your capital, read on to learn about other financing options that may be available.

Bank Lending

Perhaps the most common way people think of buying real estate, getting a bank loan can also be challenging. From mortgage brokers (people who 'broker' loans from many different lenders) to local/regional/national banks, all have dozens of loan programs. Let us look at the most common

- 30-year Fixed Mortgage - Usually an excellent choice for a longer-term hold (5+ years), however most mortgages last only 3-5 years before the property is sold or the loan is refinanced. If you invest in a property for only 3-5 years, determine if this is truly the best loan type. It may be too expensive. NOT good for fix & flips because they take so long to process.
- 15-year Fixed Mortgage: A more expensive mortgage because the loan's amortization is shorter; therefore, your payments are higher, but you pay off your debt more quickly. This also helps build your equity (and reduces liquidity).
- Adjustable-Rate Mortgage (ARM) - These have lower interest rates than a traditional 30-year fixed mortgage but might not be beneficial if you cannot make the payment once it stops adjusting. Investopedia.com has a great page on it.
- Interest Only Mortgage: Usually a lower payment than the 30, 15, or ARM because you are not paying off any principal. This can be good for short-term loans or waiting on the appreciation to build your equity.

All of these usually take 30-60 days to get financed (or more) and require significant effort: applications, credit reports, pay stubs, tax returns, etc., and a host of other documentation is needed to push these loans through. These tend NOT to be good for fix & flips because they take so long to process.

Partnership Financing

Perhaps you know someone with more available cash than you, and you wish to pay them a return, a part of the deal, or maybe both. This can be very beneficial if you do not have enough capital to do the project yourself. How you structure these types of projects is critical. We dive *deep* into this in Module 9: Intricacies of Partnerships. Your project could be structured as a loan (they loan to you), or as a new entity (partners in an LLC or co-beneficiaries in a trust), or perhaps they buy the property and sell it to you as owner financing. There are many ways to make a structure work. Again, we will dive deep into M9.

Hard-Money Lending

Why are they called 'hard money' loans? Because they are hard to pay each and every month! To get an idea of how many there are, Google "(My Town) Hard Money Lender," and you will come up with a few hundred options. A hard money lender will typically do short-term (6-24 months), high interest 9-16%(!), fees with 2-6 'points' (one point is equal to 1% of the loan amount) and will loan 65%-75% of the purchase price or After Repair Value (ARV) in first position loans. Some do second position loans that are even more expensive. You will also find these lenders at your local REIA.

Critical: Never borrow short-term money for long-term projects.

These hard money loans are outstanding for fix & flips and as short-term 'bridge' loans, where properties need to stabilize before longer-term financing can be put into place. The benefit of getting these loans for individual projects? You can get into the project without too much of your capital, and they are faster and less hassle than traditional bank lending. Again, only use these for short term projects.

Tip: YOU can be a lender, and even your retirement plan can become a lender and earn all of those fees and points; plus, you will loan on only 65% max of the ARV of the property! Another GREAT investment tool - and in some ways, better than the stock market. This has been the backbone of my investment portfolio for years. However, it also has numerous challenges that you need to become aware of.

Ask me about it if you want to know more.

Syndications/PPM

We are now getting into some advanced funding options. It is unlikely that you will be setting up a PPM (Private Placement Memorandum) to buy a 100+ unit apartment complex in your first few properties. Certainly not undoable, just *unlikely*. This is a way to bring in many accredited investors who provide the equity portion of the 'capital stack.' (Capital stack is the term used for the various parts of funding needed on larger projects where there is debt (loan) equity (yours and/or outside investor's capital), and perhaps mezzanine or bridge (construction/renovation) capital. Again, this can be a very advanced topic and not germane to this module. Nevertheless, it is good to begin hearing these types of investing vernacular. I encourage you to google any and all of these terms.

Crowdfunding

Finally, "The Internet" has figured out a way to level the playing field between larger institutional investors and the everyday investor. Most crowdfunding platforms allow people to invest as little as $1,000 into a project such as an apartment building or office complex. This would be considered part of the equity, and you get to share in the positive net cash flow, plus a pro-rata percentage of the profits (if any) when the property sells. However, you may also be liable for a 'capital call' if the project needs more funding, and if you decide not to pay this call, your initial investment equity share may be diluted. This can be tricky stuff, and again, not germane to the beginner's course we're going through.

If you're asking yourself, "Why is Roger writing this about finding financing before I make an offer on a property?" My simple answer is, "So you can have options and know what the capital & lending requirements are for whatever type of property you're going to buy." It's wise to begin lining up potential financing before putting in an offer on a property. This way, you understand the loan documents required, the amount of a loan you (or the property) qualify for, etc. Specific property info will be required once you have entered into a contract with a seller.

I also want you to get used to this document, the 1003 Loan Application from FannieMae. Please download and save this now. This is the standard loan application form that most lenders use to understand who is applying for a loan, what assets and liabilities they have, what their credit history is, among other information (including spousal info).

Let's not jump too far ahead, though. We need to actually buy a property, so let's jump into *The Buying Process...*

THE BUYING PROCESS

NOTES:

Welcome to The Buying Process! This is a really interesting part of being a real estate investor... Some people *love* this process, others *loath* it! Either way, we all need to get through the steps outlined here in order to invest in properties!

Here's a very crude chronology of buying a property:

1. **Find the property you wish to buy and contact the seller.**
2. **Negotiate the price and terms and agree.**
3. **Draft the PSA per the negotiation.**
4. **Execute the contract on both sides and provide the earnest money deposit to escrow.**
5. **Inspect the property and docs quickly (you have only as long as written in your PSA to cancel and receive your deposit back.)**
6. **Close escrow on the property.**
7. ***NOW, the real work begins***

Many newer investors ask, "*How do I get a property under contract?*" The answer is that it depends on *how* you are making offers: Directly to the seller or through an agent? You need to know *what* to put in all of your contracts, so here is a breakdown of how to 'write it up' (investor lingo) when presenting to a seller. Of course, you will need to read through all of the other language in the Purchase and Sale Agreement (PSA) to make sure it is all correct for your specific need. With the state-specific versions presented by your agent, get ready to read and ask many questions to help familiarize yourself. There is a lot to take in. Here is the basic info you will need to know to make a legitimate offer:

- **Buyer name -** I urge you to form an LLC to use as a buyer on your first transaction. I break this process down in other Modules. This helps to eliminate your liability if something goes wrong at the property.

- **Property Address -** The street address for the property, not the legal description, as that will be included later. Please make sure this is correct.

- **Purchase Price -** What the total amount you are offering to buy this property for. This is not to do with financing or the earnest money deposit. We will learn how to create an offer price in a subsequent section of this module.

- **Inspection Period -** How many days you have to thoroughly inspect the property, surveys, appraisals, property disclosures from the seller, various financial and tax records, rent rolls, obtain and review a title report for liens/encumbrances/easements or issues with the chain of title. What you want to do during this time is to discover if this project is *viable* and has a greater likelihood of success than failure. The more extended the inspection period you can negotiate, the greater the likelihood you can receive your deposit back if you find problems with the property or title. Alternatively, if you intend to flip the contract, this helps you find a qualified buyer. I usually ask for no fewer than 17 days unless I have seen it, and it is a truly fantastic deal.

- **Cash and/or Financing terms -** If you are buying 'all-cash' which is to say, 'no mortgages whatsoever,' then write 'all-cash.' If there is some financing, you will need to determine the terms (how long) and the rate (the annual interest rate: either Principal & Interest some variation), and other financing conditions. If working with a lender, you will ask them for a pre-qualification letter that details how much you have qualified based on your income and credit score. If you are making an offer for the seller to do 'seller financing,' you will need to tomato the offer here. Usually, on these, you will ask for as low an interest rate and as long a term as you can get because if they agree, you do not need to go to a bank to get financing. This is a phenomenal way to get more properties with fewer complications. Be prepared for the seller to negotiate heavily on these terms. Moreover, yes, look at the Module on Negotiation for some great strategies on this process.

- **Closing/Escrow Agent -** I have found a few exceptional escrow officers in my day and *refuse* to use anyone else 99% of the time. This can only be done when you know your stuff and after you have found people that understand what you are doing, how you want it done, and how it *needs* to be done. There is a delicate line that you cannot cross by getting these folks to be dispassionate third-party professionals and giving them so much business that they help you accomplish your goals. Fairness for both sides is their mandate. So, if you find someone, tell them and show them by giving as much of your business to them and referring others to their services. It is also worth pointing out that nickel and diming these people are counter-productive, so do not get upset over $100 Doc Prep Fee on a $500,000 purchase.

- **Closing Date -** This is the date agreed on that title will be conveyed to you. I have seen 99% of lenders need up to an additional 14 days to get the property closed in our current lending climate. Often, the buyer has failed to get the appropriate info to the lender in time. *Tip:* If you are selling a property, ask for $100 (or more) *per diem* (meaning 'per day') for each day, they fail to meet the closing date. This usually lights a fire under the agents and buyers to get this closing done as soon as possible. If you are the buyer, stay on top of your lender and make sure that you close on the property when you agree to or risk losing your deposit.

If you are working with an agent: The agent is to write the contract on your behalf. With the benefit of e-signing, you will not (usually) need to go into their office any longer to sign a contract, saving you time. They can help you answer most of the information required above.

If you have already established a good relationship with the escrow agent (and it may be a law firm in your state) then you'll instruct the agent to provide the escrow agent's name in the contract. You'll tell the agent how much you will use as earnest money deposit, how long the inspection period is, the name you're using to buy the property with such as, 'Hopkins 5456 Trust' and you'll need to tell them how you'll be signing. I sign it with this: 'Roger King, CEO, Jazzdrummer, LLC, as Trustee of the Hopkins 5456 Trust'. Yup it's a lot. This is the way. The way I do it, anyway.

If you are NOT working with an agent - You will need to write up the offer (the PSA) using the template provided or another that you source elsewhere. Again, the primary information you need is listed above. Even if you are not using an agent to buy a property, you will need to open escrow to close any and all real estate transactions that you buy (until you do not, that is) because you must know what is in the title search - you *do not want* to miss any liens which may be on the property (HOA/Condo Association) or undisclosed back taxes, easements, or even a seller's judgments. You MUST know everything you can about a property *before* you buy.

The steps I use in negotiating directly with the seller one-on-one:

1. Upon communication with the seller, get the address and search on all websites to see their values: zillow.com, redfin.com, trulia.com, or, if commercial: loopnet.com.
2. Get a 'basic' valuation from these and determine a conservative value. You will want to get either a Broker's Price Opinion (BPO) or full appraisal after the property is under contract - do not spend money until you have the property secured with you as a buyer.
3. Determining your offer (If a single-family fix and flip):

(After Repair Value x 65%) - Fix up costs = Max Offer. This is a standard outside of primary cities like L.A. San Francisco, and NYC. Here's the way the math looks:

($250,000 (ARV) x .65 = $162,500) - $30,000 (repairs) = $132,500 Max Offer price.

Do NOT make Max Offer your first offer! I usually begin with ARV x 50% = First Offer

$250,000 x .5 = $125,000 (First Offer price)

4. This should begin the negotiation process. Tip: Whenever your opponent asks for something, you must ALWAYS ask for something in return... NEVER give your opponent something for nothing, or they'll keep asking for more. See Module on Negotiations for more depth.
5. You need to determine the earnest money deposit amount: I like to give $1,000 on projects up to $150,000. Above that, you may consider providing 1-3% of the purchase price, a very standard rate.
6. Choose an inspection period as long as you can negotiate. I always ask for at least 17 days and will sometimes get 21 days. Tip: On larger projects that have rent rolls and expense reports, state that the inspection period begins on the day you receive ALL financials from the seller. This could give you 30, 60, or even as long as 90 additional days!
7. After some back and forth, you might get an agreement - fill out the contract, and get it signed by both parties.
8. Choose escrow and title, and your vesting: the name of who you'd like to buy the property, I urge you to use either an LLC or trust. If you plan on wholesaling the contract, add into the buyer's name, "Joe Smith and/or assigns" (substituting your name for Joe Smith). This is how you can then assign the contract for your assignment fee. Yes, you can do this legally. If the seller asks, tell them you don't yet know what entity you'll be taking the title in, and just want to have some flexibility, which is absolutely true.

Have I told you one of my mottos yet? Here it is:

If you're not embarrassed by your offer, it's too high!

Wait. WHAT?!?

I firmly believe in asking for way more off of the ARV than is comfortable. All they can say is no, ignore you, or they might just say yes. You simply don't know. My intention isn't to insult or waste anyone's time. To the contrary, I'm attempting to build a business that has a greater likelihood of success. I can only do that if I'm profitable. I'm only profitable if I buy property at the 'right' price. I can only buy property at the right price if I offer a lower-that-market-value price. I can only make a low offer if I'm willing to move out of my comfort zone. I can only move out of my comfort zone if I know what makes me uncomfortable.

In either of the processes, whether working with an agent or not, you may need to re-negotiate various items: the contents of the property (like the cool golf cart in the garage), or the earnest money deposit, the amount of time to inspect, etc. These are all various things that the seller may kick back on from your original offer. It's ok. It's the process. The agent can (and usually will) make suggestions, and if you're wildly inexperienced, give them a lot of credence. For those who have been through this a few times, you're already beginning to think for yourselves, so listen and learn. But don't feel obligated to do it ONLY the agent's way.

So now, you have a property under contract. Let's go to the next step: *The Due Diligence Process...*

THE DUE DILIGENCE PROCESS

NOTES:

In this section we're going to go through the Due Diligence process on a week-by-week, step-by-step schedule of things that MUST get done, and in the preferred order of importance. Some steps will not apply to you, such as getting a Phase I Environmental report. Those are for commercial properties that a newer investor might otherwise not know to do. Plus, it's something you'll want to hear about for the future, and with this one sentence it's now seared into your brain!

One of the main reasons we need to have a Due Diligence process is because there are so many steps. Listed below are the most important steps. Your escrow agent and real estate agent will have a few other forms for you to sign, as will your lender if you're receiving financing.

1. On the day that escrow opens, you need to do the following:
    a. Schedule a property inspector and have it inspected and completed within 4 days, MAX.
    b. Contact the lender (if obtaining financing), providing docs they require to them (you should have already done this).
    c. Ask for disclosure forms from the seller (either directly or your agent should be following up urgently on this).
    d. You or your agent to contact HOA for covenants and reports
    e. For commercial: Schedule a property survey (if unavailable), phase 1 environmental,
    f. Acquiring access for you or your team to do evaluations and begin lining up contractors (if renovations are needed).
2. Within the first week of opening escrow, you should have the following:
    a. The first property inspection report.
    b. The preliminary title policy report.
    c. A list of items still needed from the lender.
    d. Several bids on the renovations.
    e. Appointments for other inspections if needed: such as plumbing, roofing, electrical, HVAC, sewer line/septic, foundation, termite, fire safety systems, radon gas, propane/natural gas, etc.
    f. Financials and leases from seller if a commercial property
    g. Obtain property insurance quotes, and other business insurance quotes: loss of income, tornado/hurricane/flooding, etc.

h. City and county reports: Are there any open permits? Bad permits that need completion? How will this affect your project's numbers? (Think: unpermitted rooms or structures on the property, or unfinished.

i. If partnering, all partnership docs need to be finalized and executed.

j. All LLC and trust docs to be nearing completion (the only hold up should be the legal description, if not yet back from title).

Note if you're wholesaling this contract: *If you haven't already begun to market this property, you MUST. Time moves too quickly and there is not enough room for error before you're locked into your deposit 'going hard'. You probably have 30 days to close, but you want to have as many qualified people looking at it once it's under contract and inside the inspection period to know that you're likely to have a performing buyer. It's time to HUSTLE! Escrow can provide an 'Assignment of Buyer' that you, the seller, and the buyer will all need to execute. I suggest not having the assignment fee in this document. I also urge you to tell your buyer that you may be assigning it to someone else, so they're not surprised.*

3. If at any point during this first week you discover something with ANY of these items that changes your financial analysis so much, you have a few choices:
   a. Continue gathering data (although you may be paying for various inspections and throwing money away on a bad deal)
   b. Begin renegotiating with the seller to cover unanticipated costs (new roof, new sewer line, new HVAC, etc.)
   c. Cancel the contract and get your deposit back and move on to the next property that meets your criteria. Reasons might include un-repairable foundation cracks, roof trusses are too far gone and need replacing, sinkhole. You want as many 'easy' projects you can get in the beginning of your career - I urge you not to attempt a foundation correction on your first project!
4. Within the second week of your due diligence, you need to have:
   a. All disclosures from the seller fully reviewed and signed off.
   b. All bids from contractors and verified they fall within your projected budget.
   c. HOA docs reviewed.
   d. Phase 1 ordered and concluded (although you may not have received the actual reports).
   e. Solid understanding of the permitting process and what is required if any are needed.
   f. All docs into your lender, and appraisal should have been ordered.

   g. Review of leases and all financials from the seller should be completed.
   h. Re-calculation of purchase price based on added costs
   i. Re-negotiation with the seller for either lower purchase price or seller concessions.

10. By the 15th day of your 17-day inspection period, you should:
    a. Continue gathering data (although you may be paying for various inspections and throwing money away on a bad deal)
    b. Asked and agreed to extend the inspection period - *always in writing. and prior to the deadline!*
    c. Nearly concluded the renegotiating terms and/or price with the seller if you're able to.
    d. Cancel the contract due to too many unforeseen issues with any of the following: property, title, tax, financing, etc.

Note: If you're wholesaling this contract: you'll need to have all of the assignee's docs ready to be sent in, so that if you need to cancel the contract - so you don't lose your earnest money deposit - you have enough time to do so.

Now that the Due Diligence process and inspections are complete, we want to clarify some of the escrow process mentioned here. Let's move on to *The Escrow/Closing Process...*

NOTES:

THE ESCROW/CLOSING PROCESS

NOTES:

Since we're now past the Due Diligence Process and now in 'let's get this property closed mode', let's look at the various items and processes you'll need to actually conclude the purchase of the property. Because we need to communicate with escrow frequently, you'll want to make sure your escrow officer is ON TOP of their game.

In fact, I find this to be such a critical part of being an investor, and this person being such an integral part of my team that when I insist on using a specific person to help me purchase a new property and there's pushback by the seller, I threaten to walk from the deal. Why? Because this person controls how well the closing goes: They're in contact with the seller, the seller's agent, my agent, the lender, certain city government officials, or even the Bureau of Indian Affairs, a federal agency. If they're too overwhelmed, too inexperienced (and don't have a solid team helping them) or are a bit crusty and burned out, I find someone else. I simply cannot afford the time to wait for someone to 'hopefully get it right' or to just be cool.

Before you really get deep into the Closing Process, you'll need provide escrow with a few specific items:

- Your contact info: phone, email, etc.
- A copy of the executed contract (either from you or your agent).
- Earnest money deposit (Cashiers check or wire transfer. Bitcoin? Not as common... yet!)
- Identification: Valid drivers license for you and all signatories on the property.
- LLC information: Articles of Organization (the secretary of state confirmation of formation of this LLC), Operating Agreement (that details who can sign on behalf of the LLC, and who the members are with their percentages), a current Certificate of Good Standing from the Secretary of State (which shows that the LLC is operational), Tax ID number from IRS (your social security number if you're buying in your own name, or an EIN: Employment Identification Number).

- The Trust Agreement: Showing the formation of the trust, the trustee info and who can sign on behalf of the trust (if using a trust to purchase the property).
- You'll need to execute all of the seller disclosure documents attesting that you've read and reviewed them, which are then turned over to escrow.
- If you decide to cancel your contract, I suggest you do it through escrow officially, in writing, and no later than the day before your contracted diligence period expires. They have your escrow deposit and are ultimately the decision makers on whether you get it returned to you. (Ok - in some instances the seller may not agree, then you may need to go through arbitration, mediation, or even court to get this returned. *DO NOT miss your deadlines and get your updated agreements in writing 100% of the time to protect your deposit!)*

The escrow officer will provide you with several items as well:

- A copy of the escrow instructions that need to be executed by buyer and seller.
- The preliminary title report. (You MUST review and look for liens, taxes, fines, mortgages, etc. and also check for various deed restrictions, easements, and other items that show up. The escrow agent can help you understand what each of them are. You might review this and see something that makes you want to walk away from the property because it can't be cleared up quickly upon close of escrow, as it might remain on the property.)
- Wiring instructions for both the earnest money deposit and also final funding.
- Various tax reporting related docs.
- HOA/Condo association docs (escrow pulls these and there is usually a cost for the HOA to provide.)
- A Trustee Certification (a doc that details the responsibilities of the trustee). A template is included in the full program)
- Other miscellaneous state, county, and city docs as required.

You'll be in communication frequently with escrow to see if the seller has provided their required docs and disclosures. Take this process seriously and your closing experience should go well... *hopefully!* You'll soon see why having a strong person in this role on your team is crucial!

Your escrow officer and team, plus your agent will guide you through the various stages of when to sign docs, when the financing is getting sent in and subsequently received, and when the closing occurs. ('Closing' is the specific process of receiving money for a deed, and having the deed recorded into the buyer's name with the county where the property is located. Once recorded, this property is - for better or worse - *yours!)*

Note: *If you're wholesaling this contract: you'll need to have all of the assignee's docs sent in, along with their funds in order to close. Escrow will pay you out of these proceeds directly.*

What are the assignee docs? Here are a few, and the escrow agent will tell you both what else:

- The Assignment of Contract
- The Assignee's LLC Operating Agreement
- The Assignee's Personal Identification
- The Assignee's Deposit

So, it seems at this point, you've bought (or wholesaled) your first property! This is truly amazing! Celebrate, and then get to work - you're only *now* beginning the hard part! Let's head into either The Management Process, or *The Selling Process...*

THE MANAGEMENT PROCESS

NOTES:

Congrats, property owner! You now have a few things to reconsider, based on your abilities to self-manage versus hiring a manager, adopt legally binding (and government compliant) lease agreements, understanding of housing law basics, 'tenants and toilets' repair requests, binding various insurances, and so much more. While this list is not comprehensive, we will dive into much of the management process for single family and small multi-family rentals.

Let's consider the following in this section:

- Determining the rent amount
- Determining the tenant qualification requirements
- Determining the Manger qualification requirements
- Making the property 'rent ready' and the team to keep it in good condition
- Accepting rent and deposit payments
- Making Repairs
- Your lease agreement
- Your growth as a property owner

In order to set the rent rate, you (or your manager) need to understand what this type of unit is currently priced at within a 3-5 mile radius of your property. Some of this may have been provided by your agent prior to selling, so you had a thorough understanding of income potential. Demographic information is also important: average income, rent rate, occupancy/vacancy rates, etc.

Determining the rental rate is also easier than you might imagine, because there's so much free data on the internet. Using zillow.com, rent.com, realtor.com, and other sites will all help you see what's renting near you and for how much. Once you have several amounts from *comparable* property types (making sure you're not comparing a 2 bed 1 bath to a 4 bed 4 bath) choose the most appropriate and then take 5% off to get your price. Why? We want people to jump to this one, right? We need more people to be applying for this unit because it's vacant, and vacancy is the way you lose money. Unless there are major repairs needed, you should be able to complete a 'refresh' (not a rehab) in 2-3 weeks. That's simply making this rent-ready, and may replacing the flooring, paint, appliances; All of which you'd begun sourcing after your earnest money deposit has gone hard. You should also begin marketing the property for rent when you're beginning the refresh, or in case of a rehab, when you're about 2-3 weeks away from completion.

Next, determine what kind of renter will you allow:

- Smoking or non-smoking
- Pets or no pets
- Credit score
- Bank statements and/or pay stubs
- Foreclosure/Bankruptcy
- Employment status
- Previous rental history (evictions)
- Criminal record (drug, felony, etc.)
- References required

By setting the qualifications of your tenant as high as possible, you'll save yourself trouble down the road. But this is also a bit of a tricky balancing act: You might not expect your tenant who is paying $750 a month to have an 820-credit score. It's a great thing to have, but it is more likely that there have been some challenges they've faced that have negatively impacted their score. More important than the score is the historical timeline of the payments: do they consistently pay their bills on time, or do they consistently pay past 30 or even 60 days? Do they have evictions? What we really want to get a sense of is even if they *can* pay, *do they pay on time, consistently*?

Once you or your manager has found a tenant, please make sure that the home is clean, free from insects and rodents, clean carpets/flooring, and that everything is functioning. We really want to help them create a clean and comfortable new home for these folks, regardless of if it's a $650/month mobile home, or a $6,500/month beachfront condo in Miami Beach. After all, they'll be paying down your mortgage over the next few years. Plus, more of our competition is focused on creating even better living environments, so we need to stay on top of that trend.

When something arises with the unit, your manager should already have contacts and companies they work with to solve these problems quickly and affordably. Otherwise, you'll need to get this list together with back-ups for most, *before* you need them. These will include:

- HVAC
- Plumber
- Appliance repair
- Electrician
- Flooring
- Painter
- Roofer
- Landscaper
- Handyman
- Cleaning person

You may find some of these tasks can be completed by one person, and you will probably need to employ one or more when the tenant leaves and you're doing a 'turnover' of the unit to make it ready for the next one to move in. I suggest getting a few bids from each item needing to be fixed and creating a job description (a scorecard) for each. This will help everyone understand the scope of work including the quality, plus the timeframe for completion. (We'll be diving into 'scorecards' in later Modules).

Taking payments is getting much easier in our rapidly cashless society. You can have your tenants pay via PayPal, Zelle, Venmo, or you may use a system such as tenantcloud.com, rentmanager.com, or propertyware.com. And there are bound to be many other payment /management services as the tech side of real estate continues to evolve and expand. If you can, make sure you give no more than 3 days after the due date for your tenants to make their payment (or create a payment arrangement). If rent is due on the 1st, they are late and required to pay a late fee if the funds arrive on the 4th or beyond. Setting the tone in this situation is very important, as people may attempt to push this out as far as possible. While we want to be compassionate, we are also running a business. You can do both but keep an eye on the people that are habitually late. And always make sure they are charged a late fee - the maximum allowable by your laws. Not as a source of additional revenue, but rather as the motivation for making timely payments to you.

Make all tenant repair requests as quickly as possible, even if they are the culprit. You want your property to be well-maintained as long as you own it, which reduces the long-term effects of the damage, and also increases your sales price (if that's an exit strategy you're looking for). Additionally, you get to write of capital improvements, such as new roofs, new sewer lines, parking lot repavement, etc. Those dollars add to your 'basis' and reduce your capital gains when you do sell (if you're not doing a 1031 exchange, that is!)

Also - a brief mention on 'weatherizing' your units in the winter: Don't forget to pay attention to freezing weather and how that could negatively impact your vacant units. I've had managers that didn't drain the water from the pipes which caused them to freeze and expand, and then burst! Flooding, ruined wooden floors and drywall... plus repairing the plumbing. It takes the unit off the market, costs too much, and is an absolutely avoidable situation.

Let's take a look at an actual lease, which is included. There's an upside and a downside to using the document I provide: It *may* violate your local landlord-tenant laws. Every town, city, county and state have their own laws and ordinances on how landlords need to treat their tenants. Some states are very 'pro-landlord', and others are 'tenant-friendly'. You'll need to know your laws.

The way through this is to google something like this: How do I find the tenant landlord rules in my town? You can also replace 'my town' with Houston, TX, or Bridgeport, CT, or Clinton, OK. Also try the HUD site for your specific info. https://www.hud.gov/topics/rental_assistance/tenantrights

You may be saying to yourself, "I don't want to read all the rules about tenant rights and landlord responsibilities. I just want to make money." I understand. Please understand me now: This mindset will open you up to financial loss. If you really want to be a successful investor, you're going to need to understand the law and how it pertains to your situation. Becoming financially independent is really about *who you become* while growing your wealth. It takes time and effort to learn this stuff. And it's truly worth the time and energy!

We're now going to jump to *The Flipping Process...*

THE FLIPPING PROCESS

NOTES:

The Flipping Process can be both profitable and full of challenges. And it can be a great way to learn about managing people, managing your money, and managing your emotions! You can make lots of money if done correctly, and actually lose lots of money if you miss even one small thing. We're going to make sure you lower the chances of that from ever happening.

Now, if you're excited about fixing & flipping properties you should be! *And...* you need to be very clear on your objectives: timeline, team of contractors and/or sub-contractors, budget, permit process... to mention only a few things! Any one of these will make or break your project and your profitability. (Honestly, it may also break your desire and ability to do this again.)

So: Let's make sure to have clear eyes moving forward, ok?

Let's break down a few decisions you'll need to make right away. In fact, you'll be doing much of this during The Due Diligence Process and The Closing Process:

1. Determine if you want to do the work or hire contractors to do the work.
2. If the contractor is to do the work, then please obtain 3 bids, including the following:
    a. Labor - I prefer to pay per job, not per hour. 'Milking the clock' annoys me.
    b. Materials - I prefer to pay for these as contractors usually mark up the amounts as high as 20%. Sometimes, that's part of the profit structure for the contractor, which may work in your favor: If you have a contract at a specific price, then any increase may come out of the contractor's pocket and not yours. So, you've protected your downside to a degree.
    c. Timeframe for completion -It's important to get them to commit to a timeframe and base a portion of their payment on this.
    d. Payment schedule - I never pay 50% down unless I've worked with them in the past and trust that they'll complete. I prefer this: 30% down, 30% midway, 40% upon completion. And by 'completion, I mean the Certificate of Occupancy that the city gives. It'll take some negotiation sometimes, however.

e. Quality of workmanship - This is important on all levels of property: It always has to be high quality *for that type of property*. Look at painting: No bleeding or missing areas, or thin paint, no streaking, no paint on the ceiling or flooring, etc.

f. Permitting (needed? Who obtains?) - a huge consideration. You'll need the contractor to obtain it often, but sometimes it's better for the owner to pull permits. It depends on your municipality.

g. How to handle delays - If the delay is caused by your contractor, then part of his payment should be tied to this. If it's caused by you or other contractors, then no payment should be refused or penalized.

h. How to handle catastrophic problems - Firstly, your insurance should cover most instances of fire or flooding. Secondly, your contractor *should* have some insurance that covers their responsibilities if it is a situation caused by them. See that rider, and if appropriate to the scope of work, that you're included, and this property is included on that policy.

This list should be used even if you're performing some of the work. Is it laborious to create this? Yes. Does it help set up a clear agreement for what you're hiring the person to do? Absolutely. You'll both be signing a copy of this agreement. Yes, a couple of templates are provided in this section.

3. **If you're considering doing the work, you'll need to ask yourself several critical questions prior:**
   a. **Do I know how to perform this work extremely well?**
   b. **Have I already done work like this in the past?**
   c. **Can I afford the time commitment to do this to the level of quality that I need?**
   d. **What can I do if I make a mistake - who can I call to fix?**
   e. **What's the worst that can happen and will it delay (or eliminate) the unit from being profitable if the worst happens?**
   f. **If I chose someone better and more experienced than me to do this work, would I be able to invest my time and energy more profitably elsewhere? How much more profitable? Is the profit one of financial, time, or emotional?**
   g. **If I decide to not do the work, will I be able to better manage the people I'm hiring to make sure the work is completed on time, and on budget?**

As you can see, there are some interesting questions that we need to get serious answers to. And remember: Your sanity may be tested by hiring a contractor!

Unfortunately, we cannot go into the minutia of buying flooring, windows, faucets, sprinkler systems, etc. This is where you'll need to do homework for your particular area. But a few rules will help:

- Measure 3 times, cut once.
- Buy 10% more than needed. You'll need it.
- Never touch the electrical - hire an electrician.
- Never buy the most prominent house in the neighborhood - it will take too much money to renovate, too long to repair, and then too long to sell.
- If you do not have an eye for design, get someone that does. Grey and brown are usually separate color pallets.
- You will probably want to stage the home valued over $300k - include it in your budget.
- Make sure you have a home inspection before buying and that you get a video of the water lines heading out to the main - especially if the house is older than 15 years.

I think we can now move on to *The Selling Process*...

NOTES:

THE SELLING PROCESS

NOTES:

So, you're ready to sell? Or maybe just *thinking* of selling? These are some critical questions that need to be answered and kept track of.

1. **What is my goal with this investment? Is it a short-term flip or long-term hold?**
2. **Have I achieved my goal, and does it still make sense to sell?**
3. **If I sell now, what is the upside, and what is the downside? Which is superior for my goals?**
4. **Can I do something other than sell to recoup my cash? Refinance, perhaps? Sell with owner financing? What else can I do?**

These questions will help give you clarity, and perhaps will help you decide if selling is in line with your goals, or if another approach is better.

However, let us look at a few additional steps you will need to take:

1. **Hiring an agent vs. listing For Sale By Owner -** If you have never bought and sold a house, please use an agent. Learning this as you go will create many challenges, most notably during the disclosure process. How do you know which agent? Accept only STRONG referrals from people who have bought and sold a house (or two) in your area and around the price range you hope to sell. These people cannot be newbies, even for a discounted commission. You require a professional that has at least five years of full-time experience. Unless, of course, you are married to a new agent, and then obviously you must use them!
2. **Determine the value -** Get a few agents to come to look, give them a list of ALL upgrades and amounts spent on the renovations, and they can do a bunch of research. This is time to learn how they are pricing the value of your home. Remember the BPO that we got earlier (the Broker's Price Opinion)? We should be relatively close to this value, within 3%-10% unless you have drastically changed the renovation schedule, or the market has changed drastically.
3. **Creative sales techniques -** Often, you will get offers from people that have had divorces or significant medical issues, and their credit has been ruined, and therefore cannot qualify for a loan. These people might want to do a lease with an option to buy. (Known as a Lease/Option, or L/O). These are relatively popular, and there are pros and cons. In later modules, we discuss the benefits of using a trust to own property. One such benefit is using the trust structure to do a L/O structure, which is quite a powerful tool. Another creative way is through owner financing...

4. **Owner financing -** This is where you become the bank to the buyer. This has many pros and cons, and we will outline them in the following chart:

However, this does not have to play out this way if we use a trust. Furthermore, I cannot wait to show you in Module 10!

Here are the abbreviated chronological steps of the selling process:

Pros	Cons
The house gets sold	The buyer may default
You hold the first lien position	The buyer might file for bankruptcy to stall
You get a down payment	The buyer might sue to get the down payment returned
You receive the house back if the buyer is evicted	The house might get trashed if the buyer gets evicted
You get to do the process all over if the first buyer fails	You HAVE to this all over again if the first buyer fails...

1. Determine a sales price at or slightly over its fair market value.
2. Stage the property to make it more attractive.
3. Develop marketing: Get professional pics and maybe drone footage of the property and surrounding area.
4. Place the property up for sale - with an agent or through FSBO.
5. Allow access for prospective buyers to view.
6. Receive an offer and determine if it is 100% legitimate: Check for proof of funds, pre-approval (not pre-qualify!), and within a negotiable price range. If it is a lowball offer (greater than 15%), say, “Thank you, no.” We need to guard our time and energy for the real buyers.
7. Negotiating Price: One of my primary rules is that “Whenever someone asks for something (please repaint the exterior to sea-foam green) then you need to ask for something in return: “Yes, I will paint sea-foam green, but you will need to place $10,000 non-refundable deposit into escrow.” This helps them to understand that you do not give something for nothing. Once you finish negotiating...

8. Negotiating on inspection: you want to give them enough time to inspect thoroughly and not risk tying-up the property unnecessarily as you may lose out on new potential buyers. Go with whatever is customary in your area. California is 17 days.
9. Execute the contract, making sure they are using your escrow officer or closing agent. At this point, I usually will not even close on a property if I cannot use my agent - they are that important to me. I will usually only need to 'threaten' to walk away before they acquiesce on this.
10. Escrow should receive the earnest money deposit within three days. Make sure this occurs.
11. You will need to supply all of the seller's disclosures to the buyer ASAP - certainly within their inspection period.
12. You may be asked to lower the price based on their inspections. Just accept that this is standard practice. In the commercial property space, this is sometimes referred to as 're-trading.' What you do depends on several factors: Are you in a buyer's market or seller's market? Are the average days on the market expanding or contracting? Were there other offers that were close but came in a little after you opened escrow? How badly do you need to sell (Are you doing a 1031 exchange that places you on a tight timeline)? Are the requested repairs a big deal, like replacing a roof versus changing the sprinkler bib? If you are asked to drop your price or to do the repairs, you may consider doing a seller credit: This is simply can back at closing. (It is tricky if the loan is approved, and they do not know about the change in contract terms. Escrow and the agents can usually help solve this if you choose to go down this path.)
13. Before the inspection period is over, the buyers need to sign off on the inspections and accept the property as-is or have created some other written addendum signed by both parties. If they refuse, you need to understand what is preventing them from signing. Sometimes, they are still getting inspections, and others are making the repairs that they have requested. Until they sign, they can back out of the contract. Be careful if you are doing repairs costing money without getting some written assurances that you are not wasting time and money.
14. Once they sign, their earnest money deposit has gone 'hard.' This means that if they back out, you 'get' to keep their deposit for failure to perform. There is usually a process for this, and sometimes it is not easy. People do not like walking away from money. However, this is one reason I insist on using my escrow person. They know what conditions have or have not been met, and they can also let me understand what their position is in the recovery of these funds. You might ask yourself, "Why should I get to keep their money if they do not buy the house? That does not seem fair?" My answer is this: You have taken the property off the market, so any number of potential buyers that might have looked

at your property have passed because there was a designation that it was 'In Escrow.' Plus, you have spent money (holding costs, mortgage payments, utilities, etc.) waiting for someone to perform on a contract, and they have failed to do so in the agreed-upon timeframe. Take this money in case you need to find another - and better - buyer.

15. Now, you should have everything into escrow, and you are in a bit of a holding pattern until the buyer closes. This is usually a concern for the lender to perform. As a seller of too many homes, I realized that there is a way to motivate the buyer to stay on top of the lender: place a clause in an addendum that states, "Buyer agrees to pay $150 per diem for any delays as a result of the lender not closing after the agreed-upon close of escrow date." This is usually a good one-sided addition. The other way to do this is, "The seller agrees to a $50 per diem reduction in sales price for every day the buyer closes before the agreed-upon close of escrow date." You can use both - this is the carrot and stick approach to getting the buyer to stay on top of the lender. A wise buyer will know to extract this fee from the lender if they are slow-moving and causing undue delays, but that is not your problem in this situation.
16. Now that all docs are in escrow and funds have been wired in, from the buyer and lender, you might feel all is done. Well, not just yet! We need to get the document recorded - and sometimes, the document will get hand-delivered to the county recorder's office, presented to the clerk to record and the attendant rejects the document for formatting issues… or other issues altogether. This may delay the final transfer of ownership, and also the wiring of funds into your account. A very *frustrating situation*, indeed. It may take a day or two (or more) to get these corrections made and driven back to the recorder's office.
17. If you have no delays, the escrow person or your agent will be contacting you to inform you that you're 'recorded', meaning that the new deed has been officially recorded in the county's books. The property is no longer yours. You should be receiving a wire usually the next business day.

YOU have now officially sold a property. Go Celebrate!! Then, get down to work and create your Log of Lessons Learned. Write down the major things you didn't know would come up, what happened, what the solution was, and what would you do to prevent it in the future. After writing out twenty or so of these lessons, you can simply begin to write down the 'lesson': a one- or two- sentence rule that you'll heed moving forward.

After that… let's head over to *The Profit Calculation* Process to see how much you made!

THE PROFIT CALCULATION PROCESS

NOTES:

In this section, we are going to determine how to determine expenses, and therefore how to calculate profit for the following:

1. **Wholesaling**
2. **Single-family home rental (SFH) & Small multi-family rental 2-4 units**
3. **SFH Fix & Flip with a partner**

Several things to consider in this section:

- The term 'expenses' is used broadly to cover many of the costs associated with real estate, including buying, selling, renovating, and holding property costs.
- You will also need to consult with a tax advisor on what category of expense a particular item is. For instance, if you are paving a parking lot, there is a long-term benefit as a 'capital improvement,' which is quite different from repainting your unit to make it rent-ready. These costs need to be separated from one another.
- We will not cover taxation on short- or long-term capital gain tax, depreciation/recapture, etc. This section is merely illustrative, and I am not advising anyone on tax. Please see your own chosen tax advisor, who should be an expert on real estate taxation.

Below is a chart to quickly identify what particular type of expenses in real estate investing. These are large generalizations, obviously, but designed to identify areas that may need focus or not. As each person's business is going to vary, so is the list for each person's business. Often, many new investors will want to begin with wholesaling, then go into fix and flips. For that person, you may also want to begin building a list of tradespeople while you are wholesaling to eliminate the time crunch when you move into your first fix and flip.

Additionally, you might not yet have the resources to form an LLC. Please do NOT let that be why you do to get into wholesaling or investing in general. Many of us did not have those resources either - we just got more resourceful! **Expenses Associated with Real Estate Investments**

Wholesaling

Let us first begin with some straightforward calculations. The most easily explained profit and loss calculation states:

Income - expenses = profit

An example looks like this for a wholesale project:

$275,000 (sales price) - $250,000 (Contract Price) = $25,000

This formula shows that the buyer has paid $275k for a property that you have put under contract for $250k, giving you a *gross profit* of $25k. Out of that, you will need to account for your marketing, LLC expenses, and fuel. Here is what this expense breakdown looks like:

44 Gulfview Ct.		
Purchase		$ (250,000)
Expenses		
Marketing		$ (525)
LLC Formation		$ (200)
Fuel		$ (40)
Subtotal		$ (250,765)
Sales Price	**$ 275,000**	
Profit	**$ 24,235**	

Relatively easy to see the math. Yes, spreadsheets are our friends. Moreover, remember this: Garbage in, garbage out. Which is to say, people cannot rely solely on the numbers that appear on the spreadsheet. They need to take great care in inputting the correct information, to begin with. Then, double and triple-check the numbers.

Single-family home and/or small multi-family rental

It is the same process for calculating the profit and loss but getting a little more intricate. (Find a loan calculator here: usmortgagecalculator.org) An example looks like this for an SFH project, valued at $367,500, bought for 5% less than asking, held for ten years, then sold. We are not taking any management fees, capital improvements, or costs associated with the buying or selling process. These fees can all be written off as expenses and can benefit the profitability of the investment, not to mention the depreciation. Also included in the Expenses are the property taxes and insurance for simplicity.

374 Robbins Rd.		
Purchase	**$ 350,000**	
Down Payment	**$ 70,000**	
Loan Amount	**$ 280,000**	
Sales Price		$ 470,000
Down Payment		$ (70,000)
Loan Payoff		$ (217,172)
P&I Paid over 10 years		$ (170,240)
Gross Profit		$ 12,588
Rental Income	1,200/mo	$ 144,000
Expenses 30% annual	4,320/ann	$ (43,200)
Gross Profit		**$113,388**

Fix & Flips - SFH with a JVP

As you can see with this, it is still a very simplified breakdown of the project. Which details are removed yet calculated on other sheets? *E*very single piece of material and labor, all interest paid, all draws that align to materials and labor, plus a clean breakdown on all closing costs. As Partner B, this was not a bad project for about 30 hours of my work spread over eight months!

1031 Daisy Dr.	
Sales	**$ 625,000**
Closing/Commissions - Sales	**$ (31,816)**
Distribution From Escrow	**$ 593,184**
Note Payoff	$ (385,000)
Total Remaining	$ 208,184
Undistributed Portion of Note	$ 22,116
Available for Project Costs	$ 230,300
Draws, Interest	$ (137,150)
Total Remaining	$ 93,151
Profit for Partner A (⅔)	$ 62,038
Profit for Partner B (⅓)	**$113,388**

So you made it!! This is the beginning of your investment career… And happily, you have taken a big chunk out of your *theoretical* education. Furthermore, *now*, it is time to get that *experiential* education!

Step 1: Choose what you want to start with: Wholesaling, lease options, flips, or buy and hold.

Step 2: Follow the plan outlined in this module for that process.

That's it! Remember: You will be learning forever - and this course, the entirety of it - is going to help you realize what it is you want, how to do it better, and with more safety. Longevity in this business can be yours… but more efficiently, failure and ruin can be too! Let us take time now to learn, ponder, reflect, execute, and refine.

Then repeat… So let's find out about the super secret ***The Final Process… and the NEXT!***

NOTES:

THE FINAL PROCESS…AND THE NEXT!

You made it!

This is the beginning of your investment career… happily, you have taken a big chunk out of your theoretical education. Furthermore, *now*, it is time to get that experiential education!!

Step 1: Choose what you want to start with: Wholesaling, fix & flips, or buy and hold. (Perhaps it's something else?)

Step 2: Follow the plan outlined in this module for that process.

That's it! Remember: You will forever be learning - and this course, the entirety of it - is going to help you realize what it is *you* want, how to do it better, and do it with more safety. Remember Warren Buffet's motto:

> ***"Rule No. 1 is never lose money.***
> ***Rule No. 2 is never forget Rule No. 1."***

Longevity in this business can be yours… but more easily, failure and ruin can be, too! Let's take time *now* to learn, ponder, reflect, execute, and refine. Then repeat…

Starting today, I have a challenge for you: Make an offer each week for 6 months. If you remember in The Buying Process, we're *always* going to protect our capital with an inspection period, so you'll be safe.

In the Due Diligence Process, we learned what to look for. This will keep your capital (both cash and time) safe.

If you stay on track and make an offer each week for 24 weeks, what is the likelihood of you actually buying a property? MASSIVE!

But what if time isn't on your side? What can you do? Get to a local Real Estate Investor Club meeting - meet other investors who want to partner, just as described in The Searching Process.

It's time for you to take action to get a new property under contract. It's time for you to *finally* become a real estate investor! It's time for you to change your life!

And if you're ready to REALLY jump in, and if you're fully committed to your accelerated growth as both an investor and a human existing for 20, 30, or 40 more years…

And if you think that *my experience* is precisely what can help you get there…

And if you want to shave *years* off of the learning curve…

And if you know that today - *right this moment* - is the absolute BEST time for you to begin investing in real estate…

Look, if you're reading *this* right now, that means you're committed.

Committed to your own growth.

To your own business.

To your *new* future.

I can tell. Because I've been there, too.

And I know what that commitment can do: it can change your world, just like it has for me, my father, and so many of my friends and business partners. This information and guidance is truly life-altering. It will change your world. And I'm stoked to help!