BiggerPockets®

The Ultimate Beginner's Guide

TO REAL ESTATE INVESTING

Introduction

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

—Joshua Dorkin, Founder & CEO of BiggerPockets.com

Welcome to the Ultimate Beginner's Guide to Real Estate Investing!

Over the many years that we've been serving real estate investors, one of the most asked questions on our site, BiggerPockets.com, has been, "How do I get started in real estate investing?"

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

What to Expect in This Beginner's Guide

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

Your Real Estate Investing Education

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

Choose Your Real Estate Niche and Strategies

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

Create Your Real Estate Business Plan

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

Find the Best Investment Properties

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

Financing Your Real Estate Investments

Paying for your investment is very different from paying for a loaf of bread—and the method used can often mean the difference between success and failure. Chapter 6 will dive into the various financing tools you can use throughout your investing career.

Mastering Real Estate Investment Marketing

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

Knowing and Executing Your Exit Strategies

How you plan to exit your real estate investments is just as important as how you enter them. Whether you sell, rent, or exchange your property, in order to minimize your risk, it is vitally important to clearly understand your exit-strategy options (for any investment deal) from the beginning. Chapter 8 will discuss these exit options in detail to help you plot your real estate investing course.

Are You Ready to Begin?

As you work your way through this guide, remember that this is not all-encompassing. It is a 40,000 foot view of how real estate investing works, and it is designed to give you the basic tools to get past the all-important question: how to get started? As you read along, make note of any questions, or highlights pertinent information, and then visit to BiggerPockets.com to search the site or ask questions on our forums to learn more about anything that's still on your mind.

For those unfamiliar with our site, BiggerPockets.com is an online community of real estate investors with the largest collection of advice for new and experienced investors. It is free to join and to begin participating, learning, and growing.

If you are new to BiggerPockets, start with our real estate forums. The BiggerPockets Forums contain more than 3,200,000 posts about every aspect of real estate investing, updated hundreds of times a day. Search through the site or create a new thread and ask any questions you'd like; many of our 900,000+ members will be there to help answer them. Also, check out the BiggerPockets Blog—which holds more than 8,000 articles from experienced investors in many different real estate investing niches— and the BiggerPockets Podcast, now the leading real estate podcast on iTunes. These sources, along with hundreds of other pages on the site, make BiggerPockets.com the largest source of real estate investing knowledge on Earth.

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

Chapter 1

HOW TO INVEST IN REAL ESTATE: AN INTRODUCTION

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

—Andrew Carnegie

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

This chapter includes the following sections:

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

Why Invest In Real Estate?

There are many places you can put your money besides underneath your pillow, including in stocks, bonds, savings, mutual funds, CDs, currencies, commodities, and of course, real estate investments. There are positive and negative aspects to each investment option, but since we're here to learn about real estate, we'll focus on that and that alone.

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

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

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

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

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

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

You've probably heard the age-old question (perhaps from your high school guidance counselor), "If you suddenly had one million dollars and didn't have to work anymore, what would you do?" The answer, some say, reveals what career field you should enter.

Would you invest in real estate?

If your dream path is to open up a shelter for abused animals or to move to Aruba and train tourists to surf, you probably should not become a full-time real estate investor.That's not to say that you shouldn't invest in real estate—you just probably shouldn't go full time.

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

Advantages of Investing While Working a Full-Time Job

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

You can invest in real estate while keeping your day job by doing the following:

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

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

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

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

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

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

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

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

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

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

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

Many investors use little or none of their own money when investing in real estate. They're able to achieve this by using one of several methods, including:

- Wholesaling
- Using partners
- Using lease-option strategies
- Via FHA (3.5 percent down payment) loans
- Using USDA or VA (no-down payment) loans
- With home equity loans or lines of credit
- Using private/hard money

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

Working in Real Estate Without Investing at All

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

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

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

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

How many late-night real estate infomercials have you seen where the real estate guru is sipping drinks on the back porch of his beachside home, beckoning you to join him in this life of luxury?

No doubt one of the largest draws to real estate investing is the image of investors driving fancy cars, living in large homes, and ultimately being rich. And while many real estate investors do build significant wealth during their careers, real estate investing is not a get-rich-quick scheme. Yes—there are some who make a lot of money in a short time; however, these situations are generally the exception, not the rule.

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

Moving On

By the end of this chapter, you should have a clear vision for why real estate can (and should) be an important step for building wealth for your future. Whether you decide to go full time or just invest on the side, real estate can be the path toward a bright financial future for you and your family.

In the next chapter, we are going to look at the very first step (and one of the most important ones) you should take on your journey: education.

Chapter 2

REAL ESTATE INVESTING EDUCATION

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

—Lao Tzu

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

In this chapter, we'll cover the following themes:

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

As we discussed at the end of chapter 1, real estate investing is not a get-rich-quick scheme. Just as any solid home needs a strong foundation, the same is true when it comes to your real estate education—a solid foundation is key to a long-lasting business.

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

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

Sources of Real Estate Investing Education

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

Blogs—Blogs, short for what we used to call a "Web log," can be an amazing source of information. There are fantastic ones written on every topic you can imagine. There are many great blogs written by people living in the trenches of real estate that are worth checking out and learning from. Be sure to check out the Bigger-

Pockets blog—in which dozens of expert contributors share their best tips and advice—as well as the BiggerPockets member blogs for great examples of real estate blogs. On our website you may also view a list of our picks for the top 35 real estate blogs to discover new favorites.

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

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

Real Estate Mathematics: It's No More Complex Than Junior-High Math

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

Income

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

For example—you own a rental house. The home rents for $1,000, and the tenant also pays $25 for the use of the garage.

  $1000
+ $25
  $1025

Your total income was **$1,025.**

Income could also include late fees, application fees, pet fees, laundry or other vending machines, and any other value your rental brings in.

Expenses

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

  $500
+ $100
+ $50
  $650

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

Cash Flow:

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

$1025
- $650

$375

Your total cash flow for the above example property is **$375** for the month. Let's look at a few more math equations.

Return on Investment

Return on investment (also known as ROI) is a fancy way of describing what interest rate you make on your money each year. For example, if you invested $250 and you made $250 from that investment (for a total of $500), over the course of one year, you would have made a 100 percent return on investment. Similarly, if you invested $5,000 and made an additional $2,500 over the course of the year (for a total of $7500) you would have made a 50 percent return on your investment that year.

The actual calculation for return on investment looks like this:

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

A simple scenario for using ROI to calculate an investment return would be as follows: On January 1, you put $1,000 into a bank account. On the following January 1, you cash out the account for $1,100. Your ROI on the investment is:

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

You start with $1,000 and end up with $1,100 after a year for a return of 10 percent.

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

Real Estate Investing Mentors

A mentor is an individual who will teach and instruct you based on his or her first-hand experiences; mentors have lived this life before—walked it, talked it, and breathed it. Finding a mentor and learning from those who have come before you is one of the most important steps you can take in your real estate investing education—yet perhaps it's the most misunderstood. This section will focus on what makes a great mentor and how to find one. It will also explore whether or not you should pay for one.

Non-Real Estate Mentors in Your Life

In your life, who have been your mentors? I'm not talking in regard to real estate—but simply in life in general. There are a number of individuals who may have served in a mentorship role at one time or another, such as:

- Parents
- Grandparents
- Siblings
- Professors
- Bosses and managers

Among all these mentors, there exists a common thread: an existing relationship.

These individuals are part of your life due to an existing relationship. Perhaps a mentoring relationship grew organically from it. Most likely, it wasn't forced or manipulated: There was no formal mentorship agreement written and signed ahead of time; no payment required for mentorship. The only requirement was the relationship.

How to Find an Organic Real Estate Mentor

For those who have been led to believe that the only mentors available are the kind that cost $19,997.97, the concept of an organic mentor may seem profound. After all, why would a seasoned, professional real estate investor bother to help a newbie? You may find yourself asking, "Won't I just be wasting their time?"

There are a variety of reasons why a seasoned real estate investor may choose to help a newbie, but the fact is, many do. Whether it's with the goal of passing on a legacy or simply having someone with similar interests to talk with or the prospect of future deals, organic mentorships happen each and every day. These mentorships are usually identified by another name, though: friendships.

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

In other words:

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

If you'd like to attract a mentor into your life, seek ways to organically foster a mentor-mentee relationship. Try these tips for building those relationships:

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

Make yourself valuable in a way that is meaningful (read: profitable) to the other person. What can you offer someone whom you want to learn from? Do you have a free weekend to help them clean up a vacant unit? Do you have Web-design or cold-calling skills? Value comes in many different forms to many different people. Make it your goal to provide solid value to every relationship you're in. Additionally, you don't necessarily need to do everything or anything for free. If you are handy, perhaps simply being a dependable, honest, and fair maintenance supplier will be enough to build that relationship. Maybe a well-designed website could be your value proposition. Whatever it is—remember, provide value.

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

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

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

Should You Pay for Mentorship?

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

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

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

Before ever paying for training, we recommend that you first exhaust all options in trying to find a local mentor, as discussed above. A paid mentor may be unfamiliar with the intricacies of your local real estate market, while a local mentor will usually have a much better grasp on the situation.

If you cannot find a local mentor, next seek out education via books, forums, blogs, and other sources. Besides pointing you in the right direction, this will also help guarantee your full commitment. After all, you don't want to pay hundreds (or thousands) of dollars just to lose interest the next week.

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

—Chris Clothier, Investor

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

Finally, before paying for a mentor or program, follow this one final step: Wait! Oftentimes, individuals promoting a program dispense pitches and pressure that is effective at striking emotional nerves. As a result, you may end up buying something out of fear or excitement, rather than prudence. Wait a few weeks to see if you are still as interested. Many times, when the daze from the salesman's shiny new suit wears off, the program suddenly seems less appealing. After all, there is a reason they want you to "Sign up TODAY!"

Paid mentors can provide accountability ("I spent thousands... I better make it worth it!") and good information that is neatly packaged for easy consumption. Many investors do find success working with paid mentors. However, many do not. By focusing on finding local mentors, building your knowledge, and researching your potential paid mentor before paying, you will be increase your chance of finding success. Remember: there is not a product, coach, or mentor who can guarantee your success. Your success is strictly up to you. A mentor—paid or not—is merely a guide to help you get to your goal as safely and quickly as possible. The choice to do so is up to you.

Fear: A Roadblock in Real Estate Education

"I never worry about action, but only inaction."

— Winston Churchill

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

However, fear will stop you from ever getting started if you let it. The purpose of this section is to address potential fears and teach you how to overcome them and succeed in spite of them.

Six Steps to Help You Overcome Fear

Get off Your Duff—If you are looking to real estate investing as a means to get out of a job you hate, then you need to start replacing the income from your job with money from your real estate activities. Develop a plan, and work that plan every day—just like you would get up and go to work every day for a paycheck. If you expect to do one deal and then land on a beach somewhere surrounded by people—wake up. Successful real estate investors work hard, and you will need to do the same. Instead of working for a company you're not fond of, you'll be working for yourself—both a blessing and a curse.

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

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

Learn the Lingo—Without knowing the lingo of a real estate investor, you will always be afraid to sound like you don't know what you are talking about. Understanding the lingo will help build confidence and make it exponentially easier to talk to people and land deals.

Learn the Concepts—Once you have the lingo down, you need to start learning the concepts. If you can't adequately explain what a debt-to-income ratio is or why 70 percent ARV is important in a house flip, you need to spend more time learning. Fear is often a result of being unclear. If you need help, look back at chapter 3 for places to look for more knowledge. And once you have a good knowledge base, help teach someone else. Teaching others a difficult concept helps cement it in your own mind.

Watch Others—By surrounding yourself with investors who do the kind of investing you want to do, you will naturally begin picking up on the traits that make them successful. If this means working nights and weekends for a local investor for free, then that's the price of admission. You'll find that you quickly overcome fear when you're helping others accomplish success, which will help give you the confidence to eventually strike out on your own. All investment involves some degree of risk, and real estate investing is no exception. While risk is unavoidable, it can be managed through proper preparation (which you have already begun by reading this guide). The hardest thing to do in any new venture is to get started. At some point, you need to follow Nike's advice and "Just Do It!"

Analysis Paralysis

It's easy to get stuck in what we call analysis paralysis," which is when you find yourself in an endless cycle of research, plan, evaluate; research, plan, evaluate—leaving you paralyzed, unable to take action. In other words, it's reading books without implementing what you've learned, reading blogs without somehow engaging, and meeting investors without interacting with them. Typically, analysis paralysis is caused by fear of screwing something up.

It's easy to convince yourself that you don't know as much as you should, which may prevent you from taking action. But remember, you don't need to know every single niche buying technique, and you don't need to become an expert before getting your hands dirty. Focus on one area of investing, become an expert in it and then move on to another technique or area. We'll cover the various real estate niches in the next chapter of this guide.

Once you know where you want to start, you need to learn the ropes. The BiggerPockets Forums are an excellent place to learn about all facets of real estate investing. Ask questions. Learn the basics, and start planning.

If you feel like you are not completely ready to begin, realize that you most likely never will unless you take action. At the time, it will seem scary, and you probably won't initially be able to answer every question from sellers and buyers. However, this position will force you to learn the answers to those questions (remember, that's what this site is for).

When you're fearful, it's so much easier to spend time and money buying another course or reading about what other people are doing than it is to dive in. But holding back won't get you anywhere. Get educated, get your plan together and start taking action. As you do, you will quickly start to feel right in your new skin. You will actually begin to feel like a real estate investor! Your confidence will skyrocket, and you will get even better at what you do.

Moving On

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

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

Chapter 3

REAL ESTATE INVESTMENTS: NICHES AND STRATEGIES

“Very narrow areas of expertise can be very productive. Develop your own profile. Develop your own niche.”

—Leigh Steinberg

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

- In this chapter, we'll cover:
- Why Real Estate is Like a Box of Chocolates
- Choosing Your Niche
- Choose Your Real Estate Investing Strategies
- Buy and Hold Real Estate
- Flipping Houses
- Wholesaling
- Real Estate Investments are Like a Box of Chocolates

A Box of Chocolates

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

You may absolutely love some niches and strategies, while others may make you shudder. You don't need to choose them all. Learning how to successfully invest in real estate is about choosing one niche and becoming a master. This chapter will open up that box of chocolates for you to sample, pulling back the curtain of the most common real estate niches.

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

Choosing Your Real Estate Investment Niche

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

Raw Land

Raw land is nothing more than basic earth. Land, on its own, may be improved (adding value), and it may be leased or rented to create cash flow. Land can also be subdivided and sold for profit. Some investors choose to buy raw land with hopes (or plans) to someday sell it to be used in external developments like the construction of a freeway or a housing development.

Single Family Houses

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

Multifamily Houses: Duplexes, Triplexes, and Quads

Small multifamily properties (2–4 units) combine the financing and easy-purchasing benefits of a single family home. Bought properly, these can produce a good amount of cash flow, and there is often less competition than you'd run across bidding on single family homes. Best of all, these properties can serve both as a solid investment and a personal residence for the smart investor.

By buying a small multifamily property, you'll be taking advantage of the economies of scale, because only one loan is needed to secure multiple units. One of the things that makes these investments so appealing is that most banks evaluate small multifamily properties (less than five units) with the same guidelines as a single family house, which can make it easier to qualify for the loan.

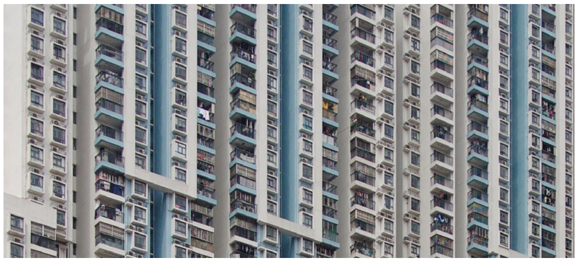
Small Apartments

Small apartment buildings are generally made up of between five and 50 units, although the line between small and large apartments is not set in stone. Properties with more than 50 units can be more difficult to finance than single family homes or those with two to four units, because they rely on commercial lending standards rather than residential ones. However, these properties often provide significant cash flow for an investor who can deal with the more management-intense nature of these properties. Additionally, there is generally less competition for this property type, because they are too small for big professional Real Estate Investment Trusts (REITs) to invest in (more on this below), but too large for most novice real estate investors.

Instead of being priced based on comparable properties (often referred to as "comps"), the value of these properties is evaluated based on the income they bring in. This creates an enormous opportunity to add value by increasing rent, decreasing expenses, and managing the property effectively. These properties are a great place to utilize on-site managers who manage and perform maintenance in exchange for free or decreased rent.

Large Apartments

This class of property refers to the large complexes across the country that often have pools, work-out rooms, full-time staff, and high advertising budgets. These properties can cost millions, but they can also produce stable returns with minimal personal involvement. Many large apartments are owned by syndications—small groups of investors who pool their resources.



Real Estate Investment Trusts

In the most simplistic definition, an REIT is to a real estate property as a mutual fund is to a stock. A large number of individuals pool their funds together, forming an REIT. This alliance makes it possible for the REIT to purchase large real estate investments, such as shopping malls, large apartment complexes, skyscrapers, or bulk amounts of single family homes. The REIT then distributes profits to its individual investors. You can buy shares in an REIT via your stock account, and they often have a relatively high dividend payment. This is one of the most hands-off approaches to investing in the real estate business, but you should not expect the returns to be as great as those produced by hands-on investing.

Commercial

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

Mobile Homes

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

Tax Liens

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

Investing in Notes

Investing in notes involves the buying and selling of paper mortgages. When a home is purchased with a loan, a "note" is created explaining the terms of the contract. For example, an apartment owner decides to sell his property for one million dollars. He offers to carry the full note (thus allowing the new buyer to avoid using a bank loan), and the new buyer will make payments of 8 percent per year for thirty years until the full $1 million is paid off.

If the owner decides he no longer wants to be involved, he may choose to sell the mortgage to a note buyer. Just like any other real estate investment, a note will oftentimes be sold at a discount when the seller is motivated. A note buyer will then begin collecting the monthly mortgage payments and can keep the note or sell it again in the future.

A Summary of Your Real Estate Investment Niche Choices

We've just outlined 10 different investment niches, or vehicles, that are ripe for investing in on your foray into the industry. When starting out, it's helpful to simply pick one (or, at most, two) niches to focus on and become a pro at that niche. You can always expand later as you get more experience and knowledge.

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

Choose Your Real Estate Investing Strategies

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

Buy & Hold

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

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

To properly carry out the buy-and-hold strategy, an investor must learn how to properly identify the ebbs and flows of the market a property is located in. Ultimately, when the market and the properties in it are at a low point (prices low, inventory high), it's a good time for the buy-and-hold investor to seek property purchase.

When the market becomes overheated, an experienced buy-and-hold investor will usually stop buying until things settle back down. During these slow periods, the investor may sell—or simply continue to hold—his or her properties.

Some buy-and-hold investors will hold onto a property for a long period of time, choosing to pay off the mortgage and live on the cash flow or ultimately sell it much later using seller financing (see Chapter 8 for more on this and other exit strategies).

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

The Real Estate Market Cycle

The Peak:
Prices are at an all-time high, inventory is down, multiple offers are common, even above asking price.

The Tipping Point:
Prices begin to fall, compensating for the over-building and high-prices. Foreclosures begin rising, as homeowners cannot sell due to owning more than their home is worth.

The Decline:
Prices continue to fall, foreclosures flood the market. People are fearful of buying, causing even more inventory and driving prices down.

The Bottom:
Prices bottom out, causing investors to start purchasing much of the excess inventory. Deals are plentiful and cashflow is at an all-time high.

The Climb:
Confidence among home buyers improves, leading to more sales, decreasing inventory, and higher prices.

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

Flipping Real Estate

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

The most popular type of property to flip is the single family home. There's a rule of thumb in house flipping known as the 70 percent rule: An experienced house flipper will buy a home for 70 percent of its current value (less any rehab costs).

For example, home A would be worth $100,000 if it were in good condition, but it needs $20,000 worth of work. A typical house flipper will purchase the home for $50,000 ($100,000 x 70% – $20,000) and seek to sell it for the full $100,000 when the works is completed. Keep in mind that this is simply a rule of thumb, and actual numbers must be verified and adjusted to ensure a successful and profitable flip.

Check out the free BiggerPockets 70 Percent Rule Calculator to quickly check if a deal is feasible using this rule of thumb.

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

Flipping is not a passive\ activity. Instead, it's like an active day job. When an investor stops flipping, they stop making money until they begin flipping again. Many investors choose to use flipping to fund their day-to-day bills and to provide financial support for other, more-passive investments.

If you'd like to get into house flipping, we highly recommend checking out the BiggerPockets book, The Book on Flipping Houses, along with our free bonus book, The Book on Estimating Rehab Costs. Both books will be fundamental in helping you learn how to start a profitable house-flipping business. To learn more about these valuable resources, click here.

Wholesaling Real Estate

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

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

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

Wholesalers must continually seek out the best deals in order to keep up inventory to sell to others. They also must have a well-designed marketing funnel to continuously attract leads and constantly be seeking out buyers for the deals they acquire. While promoted as a strategy that anyone can utilize—even someone with zero money—you'll ultimately need financial resources to build your marketing funnel. That said, those who persist in growing their wholesaling skills often find great success and a good source of income while they learn about other, more profitable strategies.

Moving On

After reading this chapter, you should have a better understanding of the many different real estate niches and strategies available to build wealth in real estate. Don't worry if you don't know exactly which one you want to pursue yet—this is simply the beginning of your education. Learning how to invest in real estate will take time. Throughout this guide, we will provide numerous tips and sources to help nail down your plan.

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

Chapter 4

CREATING YOUR REAL ESTATE INVESTING BUSINESS PLAN

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

—Saint Augustine

No great building is made without careful planning well before ground is broken. Plans serves as a map for developing the structure, without which the building simply wouldn't come together. In the same vein, carefully crafting your real estate business plan will be an integral part of your journey. This chapter focuses on the options available for creating your plan, which prepare you for your entrance and long-term success in real estate investing.

- This chapter includes:
- Creating a Business Plan
- Assembling Your Team
- Partnerships
- Business Entity Structuring

Creating a Real Estate Investing Business Plan

If you were to get in your car and take a road trip across the country to somewhere you had never been, would you just trust your gut and start traveling in the general direction of your destination? Most likely, you'd bring a road map of sorts.

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

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

What Your Real Estate Business Plan Should Include

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

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

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

Timeline—What is your desired timeline to reach your goals? Be realistic, but don't be afraid to reach, either. Do you want to retire in 10 years? Are you planning to quit your job next month? Document your timeline here. Do this in accordance with your goals.

Market—Define your market. What kind of properties will you look for? Low-income? High-income? Commercial buildings? As a beginner, choose an area you feel most comfortable with. As a new investor, plan on investing in a property that is within short driving distance of your home (unless your local market makes it impossible). Doing this will help you to become an expert in your locale, which will help you analyze nearby deals and opportunities. It will also help you identify and get to know the players in your area, which will ultimately help you find partners—and again, more opportunities.

Criteria—Before you go out and start looking for deals, you need to establish a strict criteria for them to adhere to. You'll want to define your loan to value, cash-flow requirements, max purchase price, max rehab budget, and max timeline, to name a few. One of the most important lessons you can possibly learn is to stick to your criteria and walk away from any deal that does not meet that criteria. Too many new investors get excited and buy the first deal that comes their way. By having clearly defined criteria, you are able to easily reject the 99 percent of properties that won't end up being a good deal.

Flexibility—If you don't find enough deals to cherry pick from, change your market and/or strategy. You'll learn more about this in Chapter 5. Flexibility within your criteria is one of the most important concepts to understand and clearly define.

Marketing Plan—How are you going to create a marketing system that brings in motivated sellers? How will you find the best deals that are listed? Will you use the MLS, agents, online searches, direct mail to lists, or other means of finding deals? We will cover different marketing strategies in Chapter 7.

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

How You Do Your Deals—How are you going to turn a property purchase into a profit? Clearly define the steps. Make sure to carefully document your income and expenses, and prepare for the unexpected. You should prepare several exit strategies in case the first one doesn't work out as planned.

Teams and Systems—Clearly define your team and the systems you will use to delegate and automate tasks. Who will be on your team? Will you need an attorney? A CPA? You don't necessarily need to know who will fill those positions, simply figure out what roles you will need the people on your team to play. More on this below.

Exit Strategies & Backup Plans— Developing multiple clearly-defined exit strategies will be extremely important to your business plan. How are you going to get out of the deal? What are your backup plans? Do you flip, lease, wholesale, bird dog, sell the note, sell the entity holding title, rent and hold, or use some other technique? What is the end game? Clearly define it. We'll talk more about this in Chapter 8.

Illustrate Example Deals—This part should excite you!. Think about what the next 10 years will look like in an ideal, (but feasible) world. Illustrate purchases, cash flow, appreciation, sales, trades, 1031 exchanges, cash-on-cash return, and more, in order to demonstrate what your path forward may look like. This goes somewhat hand in hand with your goals—it just illustrates possible ways of making them happen. Additionally, this will change with time because, of course, ideals are not real life. However, it is good to see what is possible.

Financials—In your business plan, include a description of where your personal finances are at the moment. What do you bring to the table? Do you have any equity you can use? Are you starting with nothing? Document your current situation and update it whenever it changes. As you move forward with your investments, it is always important to have complete documentation of your finances at the ready.

One last thing—remember that road maps and business plans are guides, not rules. A business plan is meant to provide direction and to motivate you to follow through. It is designed to keep you headed in the right direction at the correct speed. When you have a clearly defined business plan, carrying out the plan and envisioning the end game becomes much easier.

It is almost impossible to perfectly follow a financial or real estate road map. While you can plot your course with care and extreme precision, there will always be outside forces at play. You may come across bumps in the road, hit dead ends, and even have a breakdown or two. However, if you hold as tightly as you can to the map you've created, you will pass through the obstacles and eventually come out at your destination.

If you talk to investors who have a few failures under their belts, you'll find that the majority of failures were due to a lack of preparation and planning. Don't fall into this trap.

Assembling Your Team

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

Mentor—Every successful entrepreneur needs a good mentor. A guide. By training under the watchful eye of someone smarter or more experienced, we can only get smarter. For more information on mentors, see Chapter 4.

Mortgage Broker/Loan Officer—A mortgage broker is the person responsible for getting you loans—especially if you are going conventional (rather than hard or private money). Find someone who has experience working with other investors, someone who is creative and smart. Many loan officers have a pipeline of buyers (or future buyers) set up; real estate investors can use the help of local loan officers to build a list of buyers and lease purchasers.

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

Escrow Officer or Title Rep—If you live in a state that uses title and escrow companies, your escrow officer or title rep will be the person responsible for closing the deal, taking you from the offer to the keys. Having this person on your team helps to close deals that much quicker. You always want people around who will look out for your interests.

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

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

Contractor—A good contractor is often the most difficult team member to find. Contractors can make or break your profit margin. Find someone who gets things done on time and under budget! Be sure that your contractor is licensed, bonded, and insured in order to protect yourself. Don't simply hire the cheap guy.

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

Realtor—An exceptional real estate agent will be fundamental to your investing career. You (or your spouse, if you're working together) may even choose to become a real estate agent in order to gain access to the incredible tools that agents have. Either way, working with an agent who is punctual, eager, and a go-getter is essential. Real estate agents make money from commission when a property is sold. In other words, for the buyer, an agent's service is complimentary. Agents can also be an excellent resource for contract real estate work, which may include the following activities: bird dogging, referring buyers, showing properties, open houses, price opinions, and more.

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

Handyman—You're going to need someone to take care of the little things that come up on a daily basis. Ask other landlords for great handyman referrals. A good handyman typically doesn't need to advertise, but works almost entirely off referrals from a small group of investors and homeowners.

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

What Makes a Great Real Estate Team?

A great real estate team is defined by its ability to consistently produce reliable results. As you might suspect, it's way more difficult to construct a team in real life than it is to discuss it here.

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

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

—J. Scott, Investor

People often talk a good game, so watch everyone closely when it’s their turn to produce. A great team member will exhibit certain traits that are sometimes difficult to immediately recognize but can be identified through conversation or through other people’s referrals. For example:

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

Assembling the team will not happen overnight, but once it’s together, it will give you the assistance and backing you’ll need to make your real estate investing dreams come true.

Should I Use a Partner or Go It Alone?

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

Partnership Pros

Team Brainstorming: Two heads are better than one. Ideas can often develop with clearer focus and direction as multiple minds work through the same issues.

Pooling Resources: Real estate investing generally takes a lot of resources and can often be too expensive for one person to handle alone. A partnership allows you to pool your resources to get off to a stable start. A solid partnership may also help with bank financing.

Assistance with Analysis: It is important to master the art of deal analysis (which we’ll cover more in Chapter 5). There are hundreds of things to consider when searching for your first real estate investment deal, so having someone else looking at your numbers will increase your odds of an accurate analysis.

Complementary Qualities: Different people bring different strengths and weaknesses to a partnership, e.g. analytical vs. hand on, construction vs. financing, time vs. knowledge. Understanding what each person excels at, and harnessing that strength, is key for successfully working with a partner.

Task Division: When investing in real estate, there are a lot of tasks that can easily overwhelm your life. Effectively and fairly dividing tasks can ensure that all partners are able to contribute to the business without being overwhelmed.

Expanded Networking: Networking with others, within and outside the real estate industry, will be vital to the growth of your real estate investing endeavors. In a partnership, each partner comes to the table with their own network of connections.

Accountability: A partnership, if both sides do their part, will help to keep the business moving forward; you've got a built-in accountability partner to keep you to task. When one partner begins to falter, the other can step in and assist, ensuring the team continues moving forward.

Confidence & Motivation: Starting out in real estate investing can be overwhelming. A partnership can help inspire confidence and motivation when obstacles arise. A good partnership can be revitalizing and motivating.

Split Risk: As with any investment, real estate investing involves a certain level of risk. Having a partner splits the risk (and thus, the profits) and can lessen the burden.

Partnership Cons

Personality Conflicts: Partnerships can be difficult due to the possibility of vast differences in personalities. When you rely on another person to get things done, if you don't mesh perfectly, conflict can easily arise.

Difference of Opinion: Everyone has an opinion about how things should be done. partnership will require you to compromise on many aspects of your business, from paint color to investment type. Ultimately, differing opinions can cause conflict.

Suspicion/Lack of Trust: As with any close relationship, there's potential for suspicion and trust issues to arise—especially when things aren't going well. Trust can be hard to gain and easy to lose. Fraud has also been known to play a role in the demise of many businesses and partnerships.

Delayed Decision-Making: When you act alone, you have the ability to quickly make decisions yourself. In a partnership, you will most likely have to discuss all decisions—no matter how trivial—with your partner, which can slow down your dealings.

Smaller Profits: When you form a partnership, your profits, by nature of the agreement, will be split. In other words, you will make a lot less money per deal than if you were going it alone.

Mixing Business and Friendship: Oftentimes people get into business with friends and friends of family—and many times, that decision becomes the death of the relationship. Partnerships don't always work out, and when they don't, the relationship may be severed for good. A partnership is very much like a marriage—don't get into one unless you're ready!

Unrealistic Expectations: When you rely on someone else, it's easy to get caught up in your expectations of how things should be done. When your partner doesn't live up to your expectations (or vise versa), bitterness and blame often enter the equation.

Responsibility: While the legal ramifications will depend largely on the entity structure you set up, you and your partner will still be in business together, which will mean you'll be responsible for your partner, too, at least in terms of the business. If your partner skips town, you'll still be responsible for the business. For this reason, you should have your real estate attorney help you draft a partnership agreement in order to help protect your interests.

Taxe Complications: If you work alone, your taxes will be much more straightforward than if you work with a partner (or partners). The more people you bring on as owners, the more complicated the bookwork will become—and the more time consuming (and costly) tax season will be.

“A friendship founded on business is a good deal better than a business founded on friendship.”

—John D. Rockefeller

Four Tips for a Successful Real Estate Partnership

If you decide that the benefits of a partnership outweigh the complications—be sure to follow these four tips to minimize problems:

1. **Don’t be a jerk:** Treat your partnership with care and with a giving spirit.
2. **Learn to compromise:** There will be disagreements and conflicts in a partnership, but there must be compromises.
3. **Talk daily:** When possible, speak to your partner every day. Discussing daily events as well as future goals will help relationship stability and validate why you are partners.
4. **Plan ahead:** Do not start a partnership off the wrong way. Make sure the arrangement is written, well-planned, and includes an operating agreement detailing the roles and responsibilities, capital contributions, profit splits, and exit strategies.

The Bottom Line

While partnerships come with many benefits, they are not for everyone. What’s worse, if they are not created properly, they may end up being the silent killer of your investment plans. If you choose not to forge a partnership, you won’t be investing alone. There are thousands of individuals in the BiggerPockets community who can help you through whatever you may be facing. You can also outsource things you don’t want to do rather than splitting your profits. For example, if you are not good at construction, it may be cheaper to hire a contractor than to partner with an individual who is good with construction.

If you decide to create a partnership, be careful. Many people simply do not make good business partners. If you decide to pursue a business partnership, choose a business partner who will treat you fairly, add value to the relationship, and maintain similar goals. Carefully plan out the arrangement (in writing) and communicate constantly. If both partners remain committed to the business, it will likely become prosperous for all parties involved.

Business Entity Structuring

I is important for any real estate investor to understand that incorporating your business is almost universally regarded as one of the best ways to protect yourself from personal liability. There are many opinions about what structure to set up, when to create one, and so on. BiggerPockets recommends that you consult with a real estate attorney or accountant when making these important decisions.

Moving On

Without a proper foundation, your investment career is bound to show cracks, possibly resulting in failure. This chapter was written to help solidify your foundation, providing an overview of how to create the strongest business plan possible. If you have further questions about these items, don’t be afraid to ask questions in the BiggerPockets Forums.

Once you have chosen your niche, performed research, educated yourself, and set up a proper foundation, it will be time to start shopping for your first property. The next chapter will examine the criteria for shopping for a property.

Chapter 5

HOW TO FIND INVESTMENT PROPERTIES

"Make your profit when you buy."

—Popular Real Estate Mantra

Up to this point, we have focused on the preparing for your investment career. However, it won't be enough to simply analyze deals. At some point, you'll have to take the plunge and buy your first property. This chapter will focus on the best ways to find the best properties, negotiate the best deals, and make sure you get through closing in one piece.

In this chapter, you'll learn:

- How to Profit When You Buy
- Your Shopping Criteria
- Where to Find Real Estate Investments
- The Buying Process

How to Profit When You Buy Your Investment Property

You won't start your investing career by landing a big fat check; these types of checks will come after you've successfully implement your investment strategies. The profits you make, however, can be made or destroyed at the time of purchase. So what does it mean to profit "when you buy?"

To make your profit when you buy, you must purchase a property at a price that will ensure your desired profits based on your ability to execute your exit strategy. In other words, you need to buy smart. If you vastly overpay for a property, no amount of wishing, hoping, or improving it is going to make your investment worthwhile.

While you can't predict with 100 percent accuracy where the market may go, you can figure out where it's at today.

Real World Example:

The house at 28 Cherry Street is currently listed at $145,000, and recent comparable sales show that similar nearby homes have sold for between $140,000 and $170,000. Twenty-eight Cherry Street, however, needs about $25,000 worth of work. Therefore, if you pay $145,000 for it and put in $25,000, you'll have already spent $170,000—and that's before closing costs, holding costs, selling costs, unforeseen overages, and any other fees that you'll end up paying. You will most likely be underwater (you'll owe more than it's worth) with this property no matter how much work you do to it.

However, if similar homes were valued at $225,000, you would find that indeed, you made your profit when you bought the house for $145,000.

The same principle applies to rental investment properties. If your monthly expenses (including taxes and insurance) for 28 Cherry Street cost $1,200 per month, and the average rent is $1,100 per month, you'll lose money each month. However, if average rents are $2,000 per month, and your total expenses are just $1100, you'll be profiting from the day you buy it.

It's often said by experienced investors that appreciation is the icing on the cake. In other words, don't count on the market swinging upward. You'll make your profit when when you purchase a property based on what it's currently worth, rather than what it might be worth someday. If an investment doesn't make sense without appreciation, don't invest in it. Doing so would be to make an investment on speculation, and, while doing so may be profitable for some, is a risky venture for both inexperienced and experienced investor alike.

Your Investment Property Shopping Criteria

Now that you understand why getting a great deal is important (to lock in your profits at the beginning), it's time to start looking for a property. Before you do, define your selection criteria. This section will focus on criteria, why it matters, and how to define yours.

Imagine that you want to use a new recipe to make dinner tonight. You take out a cookbook to find a recipe that looks good, discover a great-looking baked chicken meal, and prepare your shopping list of ingredients in order to make the meal for your family. You head to the store and begin picking up the items on your list: chicken, basil, olive oil, and other items fill your cart. Suddenly, you see the spaghetti and remember another recipe you once wanted to try with spaghetti. You reach for the spaghetti, but then you remember your shopping list. Spaghetti isn't on the list for tonight's dinner, so you put the distraction back on the shelf and continue on your way to make a perfect dinner for your family.

Real estate is no different. Your selection criteria list will be just like your ingredient list. It's designed to keep you focused on shopping for the things you need so you don't waste money on other good looking things along the way. Real estate is an exciting field with a lot of different niches and strategies, so it is easy to get distracted by the next big thing or trend. Having a clearly defined selection criteria will help you stay focused and avoid analysis paralysis—and keep you on track to buy a great investment property. By defining your criteria, you'll narrow down the choices in the market, thus eliminating the vast majority of deals (distractions). Instead, you'll focus on finding only the kinds of deals that you are interested in buying.

Creating Your Selection Criteria

In Chapter 3, we looked at a number of different niches you can invest in, as well as multiple strategies you can use to invest. It's now time to choose your niche and strategy, and come up with a list of criteria to further narrow down your selection.

There are a number of different items to consider adding to your criteria list. These may include:

- Town
- Neighborhood
- Property size (square feet)
- Lot size
- Property condition
- Number of units
- Cap rate
- Cash flow
- Appreciation potential

No one can tell you exactly what your investment property criteria should or should not include. Some of it will come down to personal preference, such as, "I only want to buy in Seattle," or "I only want houses with basements," but most of your chosen criteria will be specific to the type of investment. For example, if you are looking to become a buy-and-hold investor of small, multifamily units, your criteria will include small, multifamily properties and it will exclude old commercial buildings.

By specifying ahead of time what properties you are willing to look at (those that meet your criteria), your search will become much more manageable. In the same way, you will be able to more effectively communicate your desires to the people who may help you buy property. If you simply tell people, "I am looking for real estate," the most likely response will be, "Good for you..." However, if you instead mention that you are looking to buy a small, single-family house in the Rockford neighborhood for under $150,000, you'll enable others to think of properties that match that description, which may ultimately get you connected with a deal.

Understanding the Rules of Investment Properties

Perhaps the most important aspect of the criteria you'll put together is the financial component. If a deal doesn't make financial sense, it's not going to be a strong investment. In Chapter 2, we looked at some of the basic math that applies to real estate investing, which included variables like income, cash flow, and return on investment. Generally speaking, a listing won't publicize all of the important information you'll want to know about the financials of a property. Yes, you can generally determine the amount of income a property makes, but you won't know immediately how much monthly cash flow the property will produce, how overpriced the property actually is, or how much you should offer. Additionally, it's not going to make sense to get out your spreadsheet and do a full property evaluation on every single deal you glance at. This is when rules come into play.

Applying rules will help you quickly evaluate a property's financials on the fly. As with any rule of thumb, it's not always an exact science and should never be entirely relied upon to decide whether or not a property is a good investment. Instead, applying a few rules will help you quickly filter a property and help you decide if it's worth further evaluation. Let's take a look at a few real estate rules:

2 Percent Rule

According to the 2 percent rule, monthly rent should be approximately 2 percent of the purchase price. In other words, a $100,000 home should rent for $2,000 per month; a $50,000 home should rent for $1,000 per month. This is a very conservative estimate that is very simplistic, but can help in deciding if a property warrants a deeper look. In most parts of the country, 2 percent is very difficult to achieve, but the closer you can get, the better cash flow will be.

Real World Example: An average three bedroom home rents for $800 per month in your neighborhood. According to the 2 percent rule, you should spend around $40,000 on that property ($800 / .02 = $40,000).

50 Percent Rule

The 50 percent rule is a great rule of thumb that will help to fairly accurately predict how much a property's expenses will cost you each month. The 50 percent rule simply states that 50 percent of your income will be spent on expenses—not including the mortgage payment. As mentioned above, most real estate listings will identify the monthly income of a property. By dividing that number in half, you can easily figure out how much you'll have left to pay the monthly mortgage (principal and interest). Any income left over after the 50 percent for expenses and mortgage payment will be your cash flow. The 50 percent for expenses includes all expenses, like repairs, vacancies, utilities, taxes, insurance, management, turnover costs, and the occasional big ticket repairs (that must be saved up for)—aka capital expenditure or capital expenses, like roofs, parking lots, and furnaces.

Real World Example: An apartment building brings in $8,000 per month in income. Using the 50 percent rule, we're left with $4,000 to make the mortgage payment. If the monthly mortgage payment on the property is $3,500 per month, you can reasonably assume a monthly cash flow of $500 per month.
The 50 percent rule is especially helpful in teaching that expenses almost always cost more than anticipated. One common mistake new investors make is underestimating how much expenses are going to cost. The 50 percent rule helps demonstrate that there are always unpredicted costs, so plan for them.

70 Percent Rule

Investors use the 70 percent rule to quickly determine the maximum price they can pay for a property based on the after-repair value (ARV). While this rule is most commonly used by house flippers, it can actually be used for any strategy when you want to find a good deal. The 70 percent rule says that you should only pay 70 percent of what the after-repair value is, less the repair costs.

Real World Example: A home that should sell for approximately $200,000 after repairs needs approximately $35,000 worth of work. Using the 70 percent rule, multiply $200,000 by 70 percent to get $140,000, and then subtract $35,000 for the repairs. Therefore, the most anyone should pay for this property is $105,000.

Remember, a rule of thumb like the ones above should only be used to quickly and efficiently screen a property to determine if it's worth further investigation. Never use a rule of thumb to decide exactly how much to pay or whether or not to invest. Don't confuse a rule of thumb for a license to skip doing your homework.

NOTE: Check out the BiggerPockets 70 percent rule calculator to run 70 percent calculations on potential deals.

Where to Find Real Estate Investments

Once your criteria set, it's time to start looking for your investment property. No doubt you've seen "For Sale" signs in front of homes, but there are many other ways to find investment properties. This section will explore the various ways to find properties. The list is not exhaustive, but a good start for new investors.

Multiple Listing Service

The Multiple Listing Service (MLS), is a collection of properties for sale by different real estate brokers across the country. When you search a site like realtor.com or redfin.com, you'll be searching the MLS. This information is widely distributed for the most eyes to see.

Newspaper

Although it's quickly fading from use, the classified section of your local newspaper is a good place to look for homes that are for sale by owner. Oftentimes, real estate agents will also put their listings in the newspaper, so it can be a bit challenging to determine what in the classifieds is also listed on the MLS and what is not.

Word of Mouth

Some homes are simply sold the old fashion way—by word of mouth. By letting everyone know that you are in the market to buy (and defining your criteria, as discussed above), you'll place yourself in the best position to find deals via word of mouth. You can do this by directly networking with peers, hanging at your local real estate club, or visiting the BiggerPockets Marketplace

Craigslist

Craigslist.org is a free classifieds website that is currently the 51st most popular website in the world. Millions of people use Craigslist to buy, sell, trade, or give away nearly anything you can imagine—including real estate.

Outbound Marketing

Outbound marketing means finding sellers and bringing them to you. You can do this by way of advertising, direct mail, or a number of other marketing techniques. Marketing is such an important topic, that we've dedicated the entirety of Chapter 7 to it.

LoopNet

LoopNet is the Web's largest marketplace for commercial properties. From small multifamily properties to large apartment complexes, shopping malls, fast food restaurants, and beyond, LoopNet is the place to search for publicly listed commercial properties for sale.

The Process of Buying Property

When you buy a property, you don't simply write a check to the seller and grab the keys. The process of buying and selling real estate is a complex and often lengthy venture with many moving parts. This section will walk you through the steps from beginning to end.

Step 1: Decide on your investment strategy/niche (see Chapter 3).

Step 2: Define your selection criteria (see earlier in this chapter).

Step 3: Decide on a financing method. Make a clear plan of how you will purchase the property. If you plan to use a bank loan, you'll need to be pre-approved. If instead you plan to use cash, you'll need to have that money liquid and ready to use (see Chapter 6).

Step 4: Begin looking on the MLS, on commercial search sites like LoopNet, in the newspaper classifieds, at direct mail, yard signs, and other avenues to find properties for sale. At this point, you should connect with a real estate agent (remember they are generally free for the buyer, paid out of the seller's closing costs). If you deal directly with homes that are not listed on the MLS, you probably don't need a real estate agent but should instead contact the sellers yourself.

Step 5: Run each property through a list of criteria filters to quickly screen out the duds. These filters should include your criteria and the rules we discussed earlier in this chapter.

Step 6: Make an offer on the property (or properties) you want to pursue. You may offer less than what you are actually willing to spend, or you may offer your bottom line. Typically, an offer is made using a purchase and sale agreement, which your real estate agent will most likely put together for you. If you buy a property that is not on the MLS and you don't use an agent, you can usually get a boilerplate purchase and sale agreement online, at a paper supply store, from an attorney, or free from a local title and escrow company. We strongly recommend that any agreement be reviewed by your real estate attorney.

Step 7: Negotiate the deal with the seller and, if possible, come to a mutually accepted agreement on price and terms. For a great podcast episode on negotiation, check out BiggerPockets Podcast 260: The Ultimate Guide to Negotiating (for the Negotiation-Averse) With Former FBI Hostage Negotiator Chris Voss.

Step 8: Perform your due diligence, which includes inspections of the property. The property details are then handed over to either a title or escrow company or a local attorney (depending on your state). During this time, you will submit the necessary paperwork for your financing, begin lining up contractors (if work is needed), check on the validity of the property's disclosed financials, and prepare for closing by handling whatever other issues come up. This process will take anywhere from several days to several months or more, depending on the situation. Bank financing is generally the reason this process takes longer, so if you are using all cash, closings will be much quicker.

Step 9: You sign papers at the title and escrow (or attorney's) office. Later that day (or within several days, depending on your location), the paperwork will be recorded, and you'll officially be the new owner.

Moving On

By now, you should understand the importance of a clearly defined set of shopping criteria, which should include both personal and financial requirements. This well-defined criteria list will help narrow down your choices and help weed out bad investments, allowing the best chance for a solid, profitable investment that best meets your needs. At this point, you should also have a clear, basic understanding of how the buying process works—from the first thought to receiving the keys.

In the next chapter, we will dive deeper into the world of real estate financing and look at 12 different methods available for financing your next investment.

Chapter 6
REAL ESTATE FINANCING

"A bank is a place that will lend you money if you can prove that you don't need it."
—Bob Hope

Regardless of what some late-night infomercial may lead you to believe, there is no such thing as free real estate. Real estate is a commodity, and it must be paid for. As a real estate investor, one of the most important roles you will play will be putting together your deals using a variety of different financing tools. This chapter will teach you the ins and outs of the methods available to fund your real estate investments.

In This Chapter, You'll Learn About:

- Understanding Real Estate Financing
- Cash Purchases
- Conventional Mortgages
- Portfolio Lenders
- FHA Loans
- 203K Loans
- Owner Financing
- Hard Money
- Private Money
- Home Equity Loans and Lines of Credit
- Partnerships
- Commercial Loans
- Other investment Tools

Understanding Real Estate Financing
This chapter will discuss the many different types of real estate financing that are available. In Chapter 3, we looked at the different investment vehicles in real estate (such as single family homes, commercial real estate, apartments, and more), as well as some of the different strategies (buy and hold, flipping, and wholesaling) you can use to make money in real estate.

This chapter is designed to help you put those strategies to use in reality. If you have any questions about any of these financing techniques, try searching the BiggerPockets website for more information.
Finally, the following list is by no means comprehensive, but it provides an overview of some of the financing methods used by real estate investors. This information will help you combine an investment vehicle, strategy, and financing method in order to tackle a real estate investment.

No Money Down?
Do you need a lot of money to invest in real estate?

The short answer is no. The longer answer is more complex. There are numerous strategies that investors use to invest in real estate without having a lot of cash. Some deals can be done without using any money, period!

Below you'll find several strategies for financing your real estate deals, but if you want more in-depth information, we invite you to pick up a copy of The Book on Investing in Real Estate with No (and Low) Money Down, sold here on BiggerPockets. This book was written by Brandon Turner, co-host of the BiggerPockets Podcast, and contains numerous tips, ideas, and strategies for investing in real estate using other people's money (OPM).If you'd like a copy of this book, head to BiggerPockets.com/NoMoney today to get your copy!

With that, here's a summary of the financing methods available for your real estate deals!

1. **All Cash**—Many investors choose to pay in cash for an investment property. According to a recent joint study by BiggerPockets and Memphis Invest, 24 percent of US investors use 100 percent of their own cash to finance their real estate investments. To be clear: even when investors use terms like "all cash, the truth is, no cash is actually traded. In most cases, the buyer brings a check (usually certified funds, such as a bank cashier's check) to the title company, and the title company writes a check to the seller. Other times, the money is sent via wire transfer from the bank. This is the easiest form of financing, as there are typically no complications, but for most investors (and probably the vast majority of new investors) all cash is not an option. Additionally, the return given from a cash deal will not be the same as when leveraged. Let's explore this further with an example.

   Real Life Example: John has $100,000 to invest. He can choose to use that $100,000 to buy a house that will produce $1,000 per month in income—$12,000 per year. This equates to a 12 percent return on investment.

   John could also instead use his $100,000 as a 20-percent down payment on five similar homes, each listed at $100,000. With an $80,000 mortgage on each house, the cash flow will be approximately $300 per month, per house, which equals $1,500 per month—$18,000 per year. This equates to a 18 percent return on investment, which is 50 percent more profitable than buying just one home.

2. **Conventional Mortgage**—As the example above illustrates, financing your investment property may produce significantly better returns than paying in cash. Most investors choose to finance their investments with a cash down payment and a traditional conventional mortgage. Most traditional conventional mortgages require a minimum of 20 percent down, but may extend as high as 30 percent for investment properties depending on the lender. Conventional mortgages are the most common type of mortgage used by home buyers and generally provide the lowest interest rates. Click here to find interest rates in your area.

   To learn more about mortgage financing and what you qualify for, check out the BiggerPockets Mortgage Center.

3. **Portfolio Lenders**—Conventional mortgage loans originate from a variety of sources, such as banks, mortgage brokers, and credit unions. In most cases, these lending sources don't actually use their own capital to fund the loan, but rather acquire or borrow the funds from another party—or resell the loan to government-backed institutions, like Fannie Mae and Freddie Mac, in order to replenish their own funds. As a result, most lending institutions must adhere to a very strict set of rules and guidelines when it comes to financing an investment. These strict rules can make conventional financing difficult to obtain for many, especially for real estate investors and other self-employed borrowers.

   However, some banks and credit unions have the ability to lend entirely from their own funds, making them a portfolio lender. Because they lend their own money, they can provide more flexible loan terms and qualifying standards. This means that they are able to make loans available at whatever terms they deem acceptable. Oftentimes, a portfolio lender will offer available funds with less-restrictive qualifications than a conventional lender.

   Most banks and lending institutions don't advertise portfolio lending, but you can find these individuals through referrals and networking with other investors. You can also simply grab a phone book, call up lending institutions, and ask if they offer portfolio lending.

4. **FHA Loans**—The Federal Housing Administration (FHA) is a United States government program that insures mortgages for banks. If you have health or car insurance, you may already understand the concept: pooling money to spread the risk for everyone. FHA loans are designed only for homeowners who are going to live in the property, so you cannot use an FHA-backed loan to buy a property purely as an invest-

ment. However, you can take advantage of an exception that allows an FHA-financed home to have up to four separate units. In other words, if you plan to live in one of the units, you could buy a duplex, triplex, or fourplex with an FHA loan.

The benefit of an FHA loan is the low down payment requirement, which is currently just 3.5 percent. This may help get you started quickly since you won't need to save up 20 percent. However, every blessing comes with a curse. While the low down payment option is great, an FHA loan require an additional payment, known as Private Mortgage Insurance (PMI). This type of insurance protects the lender and is required whenever a down payment is less than 20 percent. A PMI will make your monthly payment slightly higher, thus reducing your cash flow.

To read more about using an FHA loan to get started, check out [FHA Guidelines: How to Qualify for a 3.5% Down Loan.]

5. **203K Loans**—A subset of the FHA loan, a 203K loan allows a homeowner to purchase a house that is in need of some rehab work by allowing buyers to finance repairs or improvements by building those costs into the loan itself. Like a standard FHA loan, a 203K loan still allows for a low down payment (currently just 3.5%). This loan type is also applicable for duplexes, triplexes, and fourplexes (as long as they are owner occupied), and comes with PMI demands for loans below 20 percent.

   Real World Example: John found a small duplex for $100,000 that he wants to purchase He plans to live in one unit and rent the other one out. The property needs about $12,000 for new paint and carpeting. John can add that $12,000 into the cost of the loan and put 3.5 percent down—a total of just $3,920. Now John can get the new paint and carpet (paid for by the loan), move into his renovated home, rent out the other half, and begin making cash flow and building wealth. John is a happy camper.

6. **Owner Financing**—Banks or other giant lending institutions are not the only entities that will finance a property for you. In some cases, the owner of the property you want to buy can actually fund the purchase; in this case you'd simply make monthly payments to the seller rather than a bank. Typically, the only time a property owner will do this for you is if they own the home free and clear, meaning they don't have an existing mortgage on the property.

   If the seller does have another loan and then sells the home to you, the seller's loan must be paid back immediately or the house will face foreclosure.This is because a legal clause is written into nearly every loan called the due on sale clause. This clause gives the former lender the right to call the note immediately due. If that amount can't be paid, the lender has the right to foreclose on the property. Some investors choose to ignore this clause and still purchase subject to the other loan, risking bank foreclosure.

   If the conditions are right, owner financing can be a great way to gain ownership of real estate without using a bank. Owner financing can also be a good tool for selling your properties in the future as well, which we'll cover more in Chapter 8 when we look at exit strategies.

7. **Hard Money**—Hard money is financing that is obtained from private business or individual for the purpose of investing in real estate. While terms and styles change often, hard money has several defining characteristics:

- Loan is primarily based on the value of the property
- Shorter term lengths (due in 6–36 months)
- Higher than normal interest (8–15 percent)
- High loan points (fees to get the loan)
- Many hard money lenders do not require income verification
- Many hard money lenders don't require credit references
- Does not show on your personal credit report
- Hard money can often fund a deal in just days
- Hard money lenders understand when the property needs rehab work

Hard money can be beneficial for short-term loans in certain situations, but many investors who have used hard money lenders have found themselves in tough situations when the short-term loan ran out. Use hard money with caution, making sure you have multiple exit strategies in place before taking the loan.

To find a hard money lender, try the following tips:

- Ask a Real Estate Agent
- Ask a House Flipper
- Check out BiggerPockets' Hard Money List
- Newspaper
- Craigslist
- Google It
- Mortgage Broker

8. **Private Money**—Private money is similar to hard money in many respects, but it's usually distinguishable due to the relationship between the lender and the borrower. Typically, with private money, the lender will not be a professional lender like a hard money lender, but an individual looking to achieve higher returns on their cash. Oftentimes, there is an established relationship with a private money lender, and these lenders are often much less business-oriented than hard money lenders. Additionally, private money usually has fewer fees and points, and the term length can be negotiated more easily to serve the best interest of both parties.

   Private lenders will lend you cash to buy a property in exchange for a specific interest rate. Their investment will be secured by a promissory note or mortgage on the property, which means if you don't pay, they can foreclose and take the house (just like with a bank loan, hard money, or most other loan types). The interest rate from a private lender is usually established up front and the money is lent for a specified period of time—anywhere from six months to 30 years.

   A private lender typically does not receive an equity stake in cash flow or future value outside of their predetermined interest rate, but there are no hard-and-fast rules when it comes to private capital. Generally, private money is financed by one investor. These loans are commonly used when an investor believes they can raise the value of the property over a short period of time—they will take on the debt from the private money loan, refinance the property after adding value, and then pay back the private lender. Just like with hard money, private money should only be used when you have multiple, clearly defined exit strategies.

   If you are trying to build relationships for private capital, developing credibility is a must. Whether it's through blogging about your real estate endeavors, posting your real estate updates to Facebook, talking about real estate investing in casual conversation, or attending your local real estate investment club, you should make yourself visible. Ask yourself: Are you maximizing your visibility? Are you creating opportunities to highlight your investing experience? You don't need to be a braggart, but next time someone asks what's new in your life, share a few details about your real estate endeavors. You never know what might transpire.

9. **Home Equity Loans and Lines of Credit**—Many investors choose to tap into the equity in their primary home to help finance the purchase of their investment properties. Banks and other lending institutions have many different products, such as a home equity installment loan (HEIL) or a home equity line of credit (HELOC) that will allow you to tap into the equity you've already got.

   For example, an investor may decide purchase a property, but instead of going through the normal hassle of trying to finance the investment property itself, they instead will take out a HELOC on their own home to pay for the property.

   In order to obtain a home equity loan or line of credit, you must first have equity in your home. Banks will typically only lend up to a certain percentage of your home's value in total. This percentage differs between lenders, but it is not uncommon to find a lending institution that will offer to lend up to 90 percent of the value of your home.

Real World Example: John's current home is worth $100,000. John visits with his local bank and learns that they will allow up to 90 percent debt on that home. Therefore, John can borrow a total of $90,000 on the house. If he already owes $50,000 on a first mortgage, the home equity line or loan will be capped at $40,000 to ensure the total loans don't exceed 90 percent.

Using home equity loans and lines of credit has multiple benefits over traditional loans, including:

Loan is based on the value of your primary residence—not the newly purchased property. This means that the bank that is providing the loan won't typically even look at the new property. They don't generally concern themselves with what your intent is with the money, only your ability to pay it back. As such, the new property can be in terrible condition, and the bank likely won't care.

When you have a home equity loan or line, the money is yours to do with what you want. It's not dependent on the new property—so you can offer cash when making offers on new properties, and as a result, you will have a higher chance of your offers being accepted.

Home equity lines and loans may have certain tax benefits, like the ability to deduct the interest paid on the loan. See a qualified CPA or attorney for more information.

Because the loan is secured by your primary residence, the interest rate on a home equity loan or line is typically very low compared to that of hard money or private money. To learn more about what current rates are on these products, visit the BiggerPockets Mortgage Center.

Another strategy often implemented by investors is to use a small bit of their home equity to fund the down payment on their investment property.

Real World Example: Sarah, an investor, wants to buy an investment property for $100,000, but she doesn't have any additional down payment. She does, however, have a lot of available equity in her own primary residence (she owes $50,000, but the home is worth $100,000). Sarah opens up a $20,000 home equity loan on her home to fund the down payment, and then gets a conventional mortgage from a bank for the remaining $80,000 owed on the investment property.

Home equity loans and lines come with both fixed and adjustable interest rates. Be sure to look at your goals, timetables, and financials when determining which home equity product you want to use to further your investing career.

10. **Partnerships**—We touched briefly on the use of partners in Chapter 4, but what we didn't cover is their ability to help you finance a deal. If you want to invest in a property, but the price range is beyond your reach, an equity partner may be a welcome addition to your team. An equity partner is someone who you bring into a transaction in order to help finance the property.

    Partnerships can be structured in many different ways, from using a partner's cash to finance the entire property to using a partner to simply fund the down payment. There are no set rules with equity partnerships, but each situation and deal requires its own analysis of how the deal will be put together, who makes the decisions, and how profits will be split at the end.

    Depending on the operating agreement signed by both parties, the equity partner may have an active or passive role. The ownership stake provided by the equity partner may allow that partner to actively participate in nearly all aspects of property ownership. Additionally, as a partner, they typically receive in accordance with their ownership percentage a return on their investment that includes cash flow, appreciation, depreciation, and eventual profit when the property is sold.

    Unlike a private lender, an equity partner does not receive an agreed upon interest rate on the loan. Instead, they receive only a percentage of what the property generates. If it makes a lot of money, then their return will be higher, but if the investment loses money, they may have to financially contribute to keep the property afloat. Equity partners take a higher risk than a private lender might, but in return, they have the potential to make significantly more if the investment is successful. Also, unlike with private lending, the equity partner's investment is not secured by a mortgage or promissory note, but by an operating agreement between the partners.

11. **Commercial Loans**—While most of the options above focus on residential loans, the world of commercial lending may also be a viable option for your investing. Since multifamily properties with more than four units are seen as commercial property in terms of lending, you may need to look at commercial loans for larger residential properties.

    Commercial loans typically have slightly higher interest rates and fees, shorter terms, and different qualifying standards. In the world of residential lending, the income of the borrower is valued almost above all else; commercial lending, however, is much more focused on the property. The logic behind this is simple: if you own a $10 million apartment building and things go wrong, you won't be able to make your mortgage payment whether you make $20,000 or $200,000 per year in personal income. The commercial lender will still look at your income, credit, and other personal financial indicators, but only to gain a picture of your skills financially. What's more important in the vast majority of cases is the amount of revenue a property generates.

    Additionally, commercial lenders will often extend a business line of credit to finance flips or other investments. Some investors obtain a large business line of credit, which allows them access to cash for house flipping and other real estate ventures.

12. **EIULS, Life Insurance, ROTH IRAs, and Other Sources**—There a multitude of other investment and savings products available for investing in real estate. While covering each of these in depth is beyond the scope of this guide, be sure to speak to a qualified financial advisor about ways you can use these products in your investing career.

Moving On

One of the most valuable roles you play as an investor is in your ability to find creative ways to continually move forward with your investments. As every deal is different, you will most likely find you use many different financing strategies throughout your career, so understanding the different options will help you throughout your entire investing journey.

Another valuable and equally important role you will be playing as an investor is the role of marketing professional. Chapter 7 will look at the concept of real estate marketing and provide strategies to supercharge your investment opportunities. Marketing is important not only for buying properties, but also for selling and renting.

Chapter 7
REAL ESTATE MARKETING

"Marketing takes a day to learn. Unfortunately, it takes a lifetime to master."
—Philip Kotler

No matter what aspect of real estate investing you choose to engage in, you will probably need to use marketing in some fashion. Marketing is the process of reaching outside your normal sphere of influence to propel your business forward. Where you take your business is entirely dependent on you and your marketing skills.

In this chapter, you'll learn:

- Your Greatest Marketing Tool: Yourself
- Marketing Through Networking
- Networking in the Online World
- Your Marketing Funnel
- Marketing Through Direct Mail

Your Greatest Real Estate Marketing Tool: Yourself
As a real estate investor, the first and most important thing you'll be marketing is yourself—your own personal brand. It doesn't take a lot of money, and it doesn't take a lot of time. You will begin building a brand around yourself the moment you begin talking to others about real estate. You never know where these conversations are going to lead, so guard your brand fiercely.

Let's look a little deeper at how to effectively market your own personal brand.

Be Honest
As a new investor, you won't know everything and that's 100-percent OK. One of the quickest ways to tarnish your reputation is to speak about things that you don't actually know much about. When you try to come off as an expert, other real investors will know immediately and will not waste any time dealing with you. Admit what you don't know and use that to learn. In fact, one of the best ways to grow as an entrepreneur is to ask a lot of questions and, in humility, listen to those who are willing to teach.

Also, don't misrepresent yourself. We often see new investors do this here on BiggerPockets and elsewhere online. What you'll sometimes see is a new investor coming on the scene and introducing themselves as such. Then, in just a few days (sometimes less), they talk about having "properties in all 50 states" that they are willing to sell on discount. Unless that person suddenly inherited dozens of properties overnight, that person is likely misrepresenting themselves. In most cases, that person is merely a wholesaler following the advice of a guru somewhere and trying to build a buyer's list for their future deals. Yes, building a buyer's list is incredibly important. Doing so under false pretenses, however, is the surest way to never make a deal.

You'll also find new investors marketing deals via Craigslist or other sites, but these are deals that they have no interest in. Like in the previous example, these people are lying about deals to lure in other investors who might be interested in them. If you get busted lying about a deal, you can rest assured that you'll never do business with the folks who discover it.

Integrity

Do you do what you say you will do? Your integrity is the thing that will keep people coming back to work with you time and time again. As an investor, your reputation will precede you wherever you go. This means that you need to continually act with the highest level of integrity. Imagine a lender who promises to lend, but then backs out at the last second. Would they continue to grow their business? How about a real estate agent who undercuts his clients and swoops in on all the good deals under his client's feet? Would he continue to grow his brand? Your integrity is an integral part of your brand and can easily be tarnished. Maintain the highest standards of integrity, and the business will find you.

"The importance of your integrity and reputation cannot be overstated... you can work to build your reputation for years and years but it only takes one falter to destroy all which was built."

—James Vermillion, Investor

Professionalism

Are you planning on running a hobby or a business? If you want to be seen as a business professional, start right now. Every decision you make, every relationship you build, and every item you buy: be professional. You don't need to be a million dollar business to look like one. Showing up to a house with a dirty Hawaiian shirt and shorts probably isn't going to give you the professional image you need to succeed. The same goes for the business cards you order, the voicemail message on your phone, and the appearance of your vehicle. People trust professionals—so act like one.

Real Estate Marketing Through Networking

One of the most important marketing tactics you can start implementing today is networking. Networking is simply the process of getting to know others for the purpose of moving both individuals forward. It doesn't need to be a formal meeting, but your day-to-day interactions should be part of your networking strategy. Networking is often thought of as something that take place at an event, where dozens of people get together to mingle, exchange cards, and tell industry-specific stories. While yes, this is a form of networking (most often seen at industry-specific conferences and meetings), networking is actually a lifestyle.

Some of the most noteworthy connections you'll make will come from impromptu conversations about your real estate investing. I'm not suggesting that you simply walk up to strangers and start telling them about your dreams and goals, but take advantage of talking about your business when the opportunity presents itself. You'll be surprised at how many people are interested in real estate and how often one quick mention leads to an entire conversation.

Not only is networking valuable for meeting people and businesses that can move your business forward, but it's also effective for building your real estate team (which we covered extensively in Chapter 4). No person can succeed entirely on their own, so finding the best people to work with is one of the important tasks you can do at the start.

Speaking of important, one of the places you can start networking is your local real estate investing club. Located in nearly every major city, people gather at these clubs on a regular basis to discuss current market trends and investing strategies, to swap tenant horror stories, and to make connections. Many of the most important people on your team will probably come from your local investment club. Real estate investment clubs differ dramatically in size and quality, so if there are multiple clubs in your city, be sure to check them all out. For a list of local real estate investment clubs, see the BiggerPockets Real Estate Clubs page.

Do keep in mind that many of these clubs are also designed to be profit centers for their owners. So, you may need to endure sales pitches from gurus and other salespeople. That said, there is nothing more important than connecting with your local peers, and these clubs are a great place to find them.

There are other networking events that are great for meeting your peers, including landlord association meetings, meetups, and small live events organized by your peers here on BiggerPockets.

A final note on networking: get yourself some professional business cards. While many aspects of old time marketing are fading away, the business card remains a staple in the real estate industry. Be sure that your business card contains the following information:

- Your Name
- Your Company Name
- Your Company Position Title
- Your Website
- Your Phone Number
- Your Email Address
- Your Wants/Needs if Applicable (We Buy Houses)

Networking in the Online World

The world is becoming more digital each day—and to be a top performer in the real estate investing industry, you'll need to, too. Let's look at a few places you can begin networking online:

BiggerPockets.com—BiggerPockets is an online community of real estate professionals who network with one another every day, to help each other learn, grow, and prosper. Begin your networking here.

It is important to note that when networking with others, it is not about wondering, "What can I get out of it?" but rather, "How can I contribute to the conversation?" Hang out on our forums. Ask questions when needed, and answer those of others when you can. Comment on blog posts, send colleague requests, follow popular users, and engage whenever possible. Networking on BiggerPockets is just like networking in the real world—it shouldn't be a one-time thing. Seek to become a familiar (and friendly) face on the site. This means completely filling out your profile and uploading a photo. Would you want to network with someone without a face to identify with them—and whose story you did not know? Never. Relationships are built with trust, and trust is built through transparency.

Your Website—Having a website is a sign of professionalism in the industry—think of it like a storefront for your business. In order to attract people, it has to look inviting, professional, and clean. In today's tech-friendly world, a great website is not hard or expensive to build, even if you are terrible at technology.

Social Media—Facebook, Twitter, LinkedIn, Google+, and dozens of other social networks are out there and are ripe for networking. You don't need to have a presence on every single network, but focusing on one or two is better than being non-existent on all of them. The trick to networking via social media, however, is to not use it as an advertising platform. Social media is about creating relationships, so spend your time building solid relationships, and make a name for yourself as someone with knowledge.

Blogging—A blog can help you establish credibility in your investing field, and can also be a great tool for sorting out your thoughts on paper (well, on the screen) and hashing out ideas. Furthermore, blogging can be a fun way to give back to the community. If you are interested in hosting your own real estate blog, you can sign up for a free blog right on BiggerPockets.

Your Marketing Funnel

Marketing funnels are designed to grab the attention of people who may have no prior knowledge of your company and encourage them to engage in a business relationship with you. People use marketing funnels in nearly every form of business, and real estate investing is no different.

Think of an actual funnel, often used for pouring large amounts of liquid into a small space—like putting oil in a vehicle. At the top, the funnel is at its widest, collecting the most amount of whatever substance. As the substance moves down the funnel, it gets smaller and smaller until it comes out the bottom. In the same way, your marketing funnel will be set up to bring in the most amount of people at the top, and through progressive steps, your funnel will get more specific until you have a much smaller number of people left to produce your desired goal.

The kind of marketing funnel you set will depend greatly on the kind of investing you get into. A marketing funnel for a wholesaler is going to be significantly different than that of a note buyer, but perhaps with similar themes. For example, a wholesalers funnel may look a lot like this:

- Send out postcards to individuals who are past due on their mortgage.
- Set up a 1-800 voicemail number for people to call for foreclosure help.
- Allow people to leave a voicemail if they want more information about selling their property.
- Call individuals who left messages and screen for possible good leads.
- Meet with the good leads and make offers.
- Get offers accepted and sign a purchase and sale agreement.
- Do due diligence.
- Close on the property.

Notice that in each step, the funnel narrows. At the start, perhaps five thousand people receive mailers. Out of them, perhaps only a hundred people make the phone call to the number on your postcards. Out of that hundred, only twenty leave voicemails, of which only four warrant a personal visit and an offer. Finally, perhaps one or two of those offers may actually result in a signed deal for the wholesaler.

While it may seem like a drastic waste, one or two deals may result in a huge financial windfall for the wholesaler. This is merely one example of a functional marketing funnel. As mentioned above, your marketing funnel may differ quite a bit from the above funnel.

As a real estate investor, you need to be constantly measuring and tweaking your marketing funnel. You can, and should, test your funnel to continually increase conversions—the percentage of people who make it all the way through the funnel to your desired outcome.

For example (to draw from the wholesale funnel example above), you could get two separate phone numbers, split the group of past-due homeowners in half, send half the postcards to one group and half to the other, and then measure the results. Do you get more calls from postcard A or B? If postcard A received twice as many calls, then use that as your baseline and test again with another postcard C. As you can see, your marketing funnel can continually be tweaked, tested, and measured to make it run like a well-oiled machine.

Marketing Through Direct Mail

While we are on the topic of postcards and mailing letters, let's discuss direct mail in greater depth. Direct mail is simply the process of sending information to targeted individuals through the mail, in hopes that a small percentage will respond. Whether you are a wholesaler, flipper, or buy-and-hold investor, your business will be dependent upon finding great deals and having a consistent supply of leads. For many investors direct mail is their number one source of leads.

How Does Direct Mail Work? Direct mail campaigns are designed to build awareness of your product or service over time. Think back to one of the last purchases you made, maybe a drink at Starbucks, a movie you rented, or a song you purchased from iTunes. Chances are, you didn't buy it the first time you heard about it. Most folks simply don't buy something the first time they come across it. Therefore, a direct mail campaign cannot be a simple one-and-done campaign. By sending messages over the course of time, as recipients become more familiar with you and your service or product, some will respond if you present a solution to their needs.

How Do I Build a List to Send to? You can build your list by using public records provided by your local county assessor, or you can hire a company like ListSource. While using public records is free, using an online company may save time, so keep your goals in mind as you begin creating your list. Keep in mind you should update your list every six months or so to keep it fresh—the market is continually changing. You will need to get rid of folks who are no longer candidates for your particular list and add in new people.

What Do I Send? There are two primary options that investors tend to mail to potential leads. Let's look at these briefly:

- Postcards—These can be either large or small, but the benefit is that the recipient doesn't need to physically open an envelope to read what's inside.
- Yellow Letters—Written (or typed) on an actual yellow piece of paper, these letters are typically mailed in an envelope. The response rate is often very high, due to the personal nature of the letter.

Who Should I Send Direct Mail to?

Both the frequency with which you mail and the length of the campaign will vary depending on the type of marketing funnel you set up and the type of investing you engage in. Direct mail can be sent to virtually anyone, so you'll need to look at your funnel and decide. The following is a list of a few different types of people you may consider targeting:

Absentee Owners. For those looking to get a great deal, absentee owners are great targets—particularly those who live out of town. In many cases, these owners may have moved and may be looking to get rid of their property.

Abandoned Properties. People may abandon a property for a variety of reasons, but in most cases, they don't care enough about the property to keep it and spend the money required to maintain it. Contacting owners of properties that appear dilapidated or abandoned may lead to fantastic opportunities.

Probates. Probates are properties that are in the process of being distributed, along with the assets of a deceased person, to the heirs. When investors talk about probate investing, they mean identifying properties of the deceased and attempting to buy them at a discount.

Pre-foreclosures and Foreclosures. People struggling with losing their home are oftentimes highly motivated to sell (and sometimes they are highly unmotivated and choose to stick their heads in the sand). You can oftentimes find a way to create a win-win situation to help these individuals save their credit and snag a great deal for yourself.

Apartment Owners. If you are looking to get into apartment buying, mailing to apartment owners can be a great way to stay on their radar. You don't need to necessarily target your mailers toward distressed or motivated sellers, but perhaps individuals who are willing to finance the property themselves using seller financing.

Expired Listings. Your real estate agent will have access to all the properties on the MLS that did not sell when listed with an agent. These individuals may be more willing to sell at a discount after their property was listed and didn't sell. Additionally, the owners may also be further motivated now that they no longer need to pay real estate agent fees.

Whatever niches you choose to work in, be sure to keep organized records of your campaigns so you can measure and test your results and maximize your efforts.

Marketing Through Online Advertising

As more and more people spend their time online, you may be left behind if you don't move your real estate marketing into the online arena. The internet provides numerous ways to market your real estate investing business, and the marketing style you choose will depend greatly on the type of investing you engage in. The following are several tools you can use to market on the internet.

Facebook/Google Ads for Real Estate

Have you ever wondered how Facebook and Google make all their money? The majority of revenue comes from online advertising platforms. As an investor, you can use these sources to target potential sellers, buyers, or other business interactions. While Facebook and Google ads may look fairly similar, they differ in several key ways:

- Facebook allows you to target who sees your ad based on interests, location, demographics, and Facebook connections.
- Google allows you to target who sees your ad based on searches, web history, and location.

The benefit of these kinds of online ads is that you can set them up so you only pay when the ad is clicked.

Imagine asking a local newspaper to only charge you when someone calls about your ad. There's no chance of that happening. However, this is exactly what online advertising allows you to do. Pay-per-click advertising means you only pay when someone clicks on an ad and is brought to your site. With pay-per-click advertising, you only have to pay for the ad when your advertisement accomplishes its goal of bringing people in your marketing funnel.

Benefits of Online Pay-Per-Click Advertising

Most online pay-per-click advertisements allow you to be location specific—which means you can choose to have your advertisement seen only by individuals within a certain-mile radius of a specified location.

Additionally, Facebook ads are interest specific. (You didn't think Facebook's "like" feature was only for the user's benefit, did you?) Facebook uses likes and friendship relationships to help marketers reach certain people. This means, as a real estate marketer, you can choose to show your ad only to people who have shown interest in a certain topic.

Finally, most pay-per-click advertising (especially that of Facebook) is demographically specific, so you can advertise to certain ages or genders. For example, you can create a well-written advertisement to attract first-time homebuyers by choosing to advertise only to people between the ages of 22 and 32 who live within ten miles of a property you'd like to sell.

How Online Ad Pricing Works:

"How much does it cost?" is a more difficult question to answer than it may seem.

Pay-per-click marketing prices are based on an auction, meaning that advertisers bid on a price to display their ad. Marketers then compete for either keywords or interests, based on targeted criteria. When you set up a new ad, you will tell the service what price you're willing to pay per click, and you'll generally never be charged more than that. If you bid too low and other marketers offer to pay more, your ad will not be shown. Thankfully, the major pay-per-click companies provide a general range of prices to help you determine how much you'll need to spend to reach a specific demographic. You also have the option to set a daily or monthly budget, so you can control how much you want to spend on your marketing.

Tips for Creating Online Ads:

Where Will Your Ad Send People? This destination could be your own website, your business Facebook page, or whatever site you'd like. Just be sure this destination is part of your marketing funnel.

Create a Title That Pops. You are allowed only a limited number of characters for your title, so make it stand out. It is helpful when advertising to local potentials to use something local in the title. Online viewers are not generally accustomed to seeing local names and places on an online ad, so ads like that tend to pop.

Intrigue Them with Your Ad's Content. The part of the ad that is not the title is known as the body. Appealing to both fact and emotion when you write the copy for your ad's body can help trigger interest in both sides of the brain and increase clicks. Promote benefits over features.

Use an Eye-Catching Photo. If using Facebook, the image is the most important aspect of your ad because it is generally the only thing viewers pay much attention to at first. Catch their eye with the image, which will lead them to the title, which will lead to the body, which will lead to clicks. An advertisement, in itself, is a funnel.

Determine Your Price. To avoid massive spending, be sure to set your budget. Decide what your monthly or daily budget will be and bid on your ad price from there. Monitor the results and adjust your bid price if you don't spend your complete budget.

Split Test. Split testing is the process of creating multiple ads, each with minor changes, to determine the best response rate from someone looking at the ad. This is the same process we mentioned earlier when talking about sending different direct mail postcards to different groups.

Creating a Website or Landing Page

A website is not a necessity to capture leads, but it can be highly beneficial. Some investors simply use a telephone number to collect leads, but having a website provides another avenue to collect potential opportunities. If you don't have the technical know-how to create a professional looking website, use a premade template from a company like Wix, or simply hire a freelancer to build the site for you (find one at a sites such like Odesk, eLance, or 99Designs). You can also create a Facebook business page to accomplish your goal, but having your marketing funnel to your own website will give you more control.

Moving On

As you can see, real estate marketing is not a simple process. An entire book could be written on each of the categories mentioned above. We did not cover every option available, but those that we feel are most commonly used today. The important thing when just beginning is to focus on one or two marketing strategies and to implement them carefully, while monitoring the results. Once you find something that works, stick with it. If you want to generate more leads, expand it or move on to another marketing strategy. In the same way, not all marketing strategies are going to produce effective results. This is why maintaining accurate records and continually testing your marketing campaigns is key.

Up until this point, we have looked at how to choose your investment strategy and niche, how to plan for your next investment, how to finance your property, and how to use marketing to make it all happen. In the next chapter, we are going to look at the way you actually begin making serious money from your investments: executing your exit strategy.

Chapter 8

REAL ESTATE EXIT STRATEGIES

"Start with the end in mind."

—Steven Covey

Buying real estate is great, but no one gets into real estate because it's a fun hobby. Investing in real estate is a means to an end: wealth building. Over time, your property should gain serious equity and provide you with substantial income and hopefully, appreciation. Some investors choose to hold on to their investments indefinitely. Some will simply hold on to cash-flowing properties forever with no intention of getting rid of them. However, in your investing career, you will most likely choose to get rid of one or more of your properties for various reasons. Choosing the best strategy for exiting your real estate investment is just as important as deciding which one to buy. This chapter will give you a broad overview of the various exit strategies you can use in your investment career.

This chapter includes:

- Traditional Selling With a Real Estate Agent
- Selling FSBO (For Sale By Owner)
- Selling With Seller Financing
- Using Lease Options
- 1031 Exchanges: Avoiding Taxes On a Sale
- Your Next Steps

Traditional Selling With a Real Estate Agent

When listing your home with an agent, be sure to interview several agents to find one you are comfortable with. In the world of real estate agents, the 80/20 principle often holds true: 20 percent of the agents sell 80 percent of the listings. It's important to find that 20 percent and allow them to work their magic.

When you choose the agent who you'd like to list your property, you will typically sign a listing agreement with the agent, giving them the right to earn the commission if they sell the home. The agent will discuss with you all the important features of the property and enter them into theMLS, which all agents have access to.

At this point, you will decide what price the property should be listed for. Pricing is very important, as you do not want to list too high (adding months to your holding time) or too low (leaving money on the table.) A good agent will be able to look at other similar properties and determine the best price to list at.

The listing agreement also spells out the commission to be earned by the agent. The typical commission for a real estate agent is 6 percent (though that can change slightly depending on price, property type, and location). This fee is usually split between the agent who brought the buyer and the listing agent. In the case where your selling agent is representing both you and the buyer, the whole commission is given to the agent.

Many individuals feel that this is the end of their duty in selling the property, and expect the agent will take it from there. However, this is not the case. There are many tricks and techniques that you, as the seller, can do to ensure the property sells for the highest amount, and quickly. Start with making sure the appearance of the property is desirable, including both the interior and exterior. Look around at competing properties, and aim to look better than the rest.

If selling a single family house, consider staging the home with furniture, artwork, plants, flowers, and other accessories to help the buyer see a home rather than simply an empty house. If selling a multifamily or commercial property, be sure all units are filled and operating at peak efficiency.

Once an offer is received, negotiations begin, and hopefully both parties will agree on a price and terms for the sale. Paperwork for the sale of the property will be handled by either a local title and escrow company or an attorney, depending on the common practices in your area. Both parties will sign the documents, the money will be funneled through the title and escrow company or attorney, and the deal will close, leaving you with a large check to invest in more real estate and grow your empire.

Selling FSBO (For Sale By Owner)

While the majority of homes are sold with a real estate agent, you don't need to use one. Most often, a real estate agent will cost you an extra 6 percent to sell your property. For this fee, an agent will typically:

- List the home on the MLS.
- Put a sign in the yard to advertise the home is for sale.
- Show your property to prospective buyers.
- Market to the best of their ability, including through networking, Craigslist, and other online or offline media.
- Manage negotiations with potential purchasers.
- Handle all the paperwork.

For some, the cost of a real estate agent is too high, so they choose instead to sell it themselves. A major deterrent when selling yourself is that the listing won't get put up on the MLS. Without being on the MLS, you'll lose the ability to reach the vast majority of individuals looking for a property.

One selling tool available in this instance is what's known as a flat fee MLS listing service, in which a seller will pay a flat fee to a real estate broker to list the house. This fee generally ranges between $150 and $400, and includes very limited help from the broker. The broker will simply place the home on the MLS and might even offer a sign in the yard, but he or she will do very little other than this. This leaves negotiation, setting up title and escrow, and managing the closing in the hands of the seller themselves. Additionally, since a real estate transaction includes both the buyer's agent and the seller's agent, a commission is still paid to whatever agent brings a buyer to the deal. Instead of 6 percent, it usually will end up being around 3 percent out of pocket.

Selling Using Seller Financing

Seller financing (also known as "carrying the contract") takes place when an owner sells a property to a buyer but carries the mortgage rather than requiring the buyer to get their own mortgage. This is done by investors all over the world and across different investment types for a variety of reasons. In a normal sale, the buyer will go to a bank to get financing for the house, and the seller will receive the total sale price (less selling closing costs) in one lump sum. With seller financing, the seller is the bank, so the buyer provides a down payment directly to the seller and makes monthly mortgage payments to the seller for the life of the loan, or until the buyer decides to sell someday.

Why Use Seller Financing?

This is done for a number of reasons, but typically it is for buyers who don't typically qualify for a normal mortgage. The current lending atmosphere can make it tough for many buyers to obtain traditional financing. They may not be able to document all of their income, they may be self-employed, or may have some blemishes on their credit reports.

Keep in mind that seller financing isn't only for the benefit of buyers who normally wouldn't qualify for a mortgage. Many investors choose to sell off their properties using seller financing because they want to receive monthly income that doesn't involve maintenance, tenants, or rentals. When a property is sold via seller financing, the property becomes the new buyer's responsibility, and with that comes all the rights and expenses that come with ownership (including taxes, insurance, and maintenance).

A seller may also choose to use seller financing in order to offset the taxes due at the end of their investment career. The IRS classifies this as an "installment sale" and allows the seller to spread out any capital gains taxes that may be due. See your tax advisor for more information on the tax benefits of seller financing.

How to Use Seller Financing:

When offering seller financing, the seller should require a large non-refundable down payment up front to protect their interest and to prevent against the likelihood that the buyer will stop making monthly payments. The higher the down payment, the lower the risk to the seller.

For example, if a seller requires a $1,000 down payment, there is not a lot of incentive for the buyer to uphold their obligations. However, if the down payment required is $30,000, there is a lot more incentive to perform. Additionally, it is important that the seller goes through the same process as they would during a normal sale, using a title company, attorneys, and other legal paperwork to ensure the sale is done correctly.

Who Can Sell With Seller Financing?

Seller financing is generally only applicable if the home is currently owned without a mortgage. If you have a mortgage through a bank or other lending institution and decide to sell the property to another party using seller financing, you will break the due-on-sale clause that exists in the fine print of the mortgage, and the bank may foreclose on you. Seller financing is only viable for a free-and-clear house.

After a property has been sold with seller financing, the seller may choose to sell the mortgage or note to another investor. This opens up the world of note buying, which is beyond the scope of this guide but is a very common strategy amongst experienced investors. For more on notes, search the BiggerPockets website.

What Are the Risks of Using Seller Financing?

The largest risk associated with seller financing is the chance that your buyer may stop making payments at some point, whereby you, the seller, will have to foreclose. In this case, you will be subject to the same laws and foreclosure processes as any other lending institution, which will cost time and money. Each state is different, but you will probably need to hire an attorney to get through it. After the foreclosure is complete, you will get the house back and can sell it all over again, but you may have to deal with repairs and other issues before the home is ready to be sold again.

While the risks foreclosure can never be completely avoided, they can be minimized if the note is managed properly. Do this by screening the buyer carefully. Furthermore, as mentioned earlier, the best way to reduce your risk is to collect the highest down payment possible. The more money you receive up front, the less likely you'll have problems.

Using Lease Options

Another exit strategy used by investors is the lease option or lease purchase. This arrangement is made of two separate parts: the lease and the option.

The lease is just like any other rental lease, where the tenant moves into the home and makes monthly rent payments.

The option is a legal agreement that allows the tenant to buy the home at a predetermined price in a predetermined length of time. The option makes it illegal for the landlord to sell the property to any other investor during the predetermined time period. In exchange for the tenant's sole "option" to buy the property, the tenant will pay an upfront non-refundable option fee that will typically be later applied toward the purchase.

Real World Example: John and Sally would like to buy a house from Fred, the investor, but lack the down payment and credit requirements to get a loan for themselves. Fred has a mortgage on the property himself, so he cannot carry the contract and provides seller financing instead. Fred does a thorough background and credit check on John and Sally and decides they would be good candidates for this. The parties then sign both a lease agreement and an option agreement, giving John and Sally the right to buy the home for $100,000 at any time within the next two years. John and Sally provide a $5,000 option fee and move in.

In this case, several different outcomes may occur:
John and Sally get traditional financing from a bank and end up buying the property from Fred sometime during the two years. The $5,000 option fee will be applied toward their down payment.

John and Sally decide they don't want to buy the house and leave within the first two years (or at the two-year point). The $5,000, which was non-refundable, is Fred's to keep. He then can decide to sell the property, do another lease option (collecting another non-refundable fee from the next tenants), or whatever he wants with the property.

John and Sally may find that after two years, they cannot yet get a traditional mortgage. Fred may sign another "option" with them for another year or two, possibly increasing the purchase price and option fee.

A lease option gives options to the seller. The lease option is oftentimes a great alternative if you find yourself in a changing market and cannot sell a property, but don't want to simply discount the price. It gives the seller the ability to win in any situation: In the event of the three endings above occur, the investor comes out okay.

Three Advantages of a Lease-Option Strategy

1. **A Great Short-Term Exit Strategy for a Slow Market.** Flipping a property in the current real estate market can be difficult and costly. Doing a lease purchase can provide positive cash flow and offer the opportunity to wait for the market to improve while locking in a possible buyer.

2. **Lease Option Tenants Usually Take Better Care of Your Property.** Tenants who have a lease option often feel more like buyers than tenants and often take much better care of a property than a typical renter. Tenants can also be made responsible for small repairs in preparation for becoming homeowners.

3. **No Real Estate Commission Required.** Unless you find the lease option tenant/buyer through a real estate agent, you won't owe a commission when it comes time to sell via your option contract. Besides marketing the home slightly higher than market value due to the flexibility you'll be offering your tenant, you can save up to 6 percent when the tenant buys the property.

Three Disadvantages of a Lease Option Strategy

While lease-options often present a terrific win-win situation for all parties involved, there are some downsides to be aware of before jumping in.

1. **The Dreaded Due-on-Sale Danger.** While technically no sale has taken place, many argue that a lease with an option to buy can indeed trigger a due-on-sale clause because it transfers an interest in the property. The language in the law that determines when a bank can trigger the due-on-sale clause is cloudy at best, and while this may be a gray area, it is ultimately up to the bank to decide if they want to call the note due and force you to pay back the entire loan within 30 days. Should this happen, you can challenge it in court, but that will require significant financial resources.

2. **You Can't Sell the Property to Anyone Else**. During the option period, the tenant has the exclusive right to buy the home. If prices suddenly rise, you'll be locked in at a certain price unable to sell for more. Also, if the market begins to drop and go downhill, you won't be able to sell to get out of the deal until the "option" is no longer binding.

3. **You Could Be Sued.** There is a story on the BiggerPockets Blog about an investor who was sued by a tenant who claimed (after being evicted for not exercising his buy option) he had "equity" in the home. While the tenant had very little (or no) legal grounds to stand on, the tenant still cost the investor time and money in court fees, hoping for a settlement.

One final note about lease options: Very few lease-option tenants ever actually utilize their "option" and purchase the property. As a result, some unscrupulous investors have used the lease option strategy to take advantage of tenants, offering a lease option to individuals who will never qualify for a mortgage and charging outrageously high option fees and short terms, hoping the tenant doesn't buy. These investors then re-churn the process over and over again. This usually leaves the tenant in a worse position than they were in when the process began. BiggerPockets does not approve of this practice and instead asks that you to treat your tenants with respect and dignity. Taking advantage of others for profit is what gives real estate investors a bad name. Don't do it.

1031 Exchanges: Avoiding Taxes On a Sale

As with any business venture, when you are successful, Uncle Sam will be there to collect his share. When it comes time to sell a property that you own, chances are you will have significant taxes due, especially if you followed the advice in this guide and bought a great deal. Thankfully, if you are paying taxes in the United States, the government provides a way to defer those taxes to a later time.

There are a number of rules to be followed, but if done correctly, you can possibly use the money you would have paid toward capital gains tax and instead put it toward your next property. Essentially, this is the government's way of partnering with you on your investment deals. There are a lot of complicated things that go into a 1031 exchange, so be sure to talk to a qualified tax specialist before making any decisions.

Next Steps

At this point, you should have a clear understanding of how to eventually get out of your real estate investment. If you begin with the end in mind, you'll make it much easier to unload your property and clear a nice profit.

While you have reached the end of this guide, your journey is just beginning. You now have a very clear understanding of real estate investing and how to begin profiting from it. Now it's time to put what you've learned into practice. If you have not yet done so, please head over to BiggerPockets.com and sign up for a free account.

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