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THE FIVE LEVELS OF INVESTING

Real Estate acquisition and investing is the fastest and surest way we know to become a very wealthy person. It's great that you have decided to invest in your future by exposing yourself to this material!

Most of the great fortunes of our time and the past have their origins in real estate and we want to show you how to carve out your own piece of this very lucrative pie and the great part is that this pie is huge. There's more than enough for anyone dedicated and self-motivated enough to give it a try!

Why real estate? For starters, the real estate industry allows you to accumulate wealth quickly and to keep it through tax benefits and the ability to generate multiple streams of passive cash flow, or simply put the ability to sit back and watch the income flow in without effort on your part. Homeownership is a major part of the "American Dream" whether or not you are involved in it directly affects your family and your future. You can rent all your life and scrap by or you can own and be the one collecting rents and can rest easy in the assurance that you and yours will always be financially stable. It's a no-brainer which category you want to be in.

Getting started in real estate investing is all about education through trial and error— to be honest, in this field what you don't know CAN hurt you, but you will learn from your mistakes. It can be a little daunting initially but you will begin to understand and it will all make sense to you soon. Just pace yourself and once you have a basic understanding of the principals involved with making money in this business just hold your breathe and jump in. You will never get where you are going if you don't take the first step. The rest of the journey will figure itself out.

Real estate investing has five separate categories, or money-making centers: property locators or “bird dogs”, two types of wholesaler, find and assign and cash or credit; rehabbers, and lastly, the buy and hold investor. Each of these is important and a natural progression of each other. The novice investor should begin as the first, a property locator and graduate through the levels until you are an experienced investor savvy enough to spot the best properties to build a portfolio. How fast the process goes depends upon your natural talents and ability to learn and implement the various techniques you are exposed to via learning products and seminars.

LEVEL 1 PROPERTY LOCATOR

Property locators in a nutshell, find and research properties for other investors. It’s the best way to get accustomed to finding good deals and by understand the techniques and exit strategies involved you will learn what is a good deal and what is not without having to actually be the one taking the risk of investing. The property locator gathers information such as property addresses, owner names, whether or not the home is currently occupied, take pictures of the properties and research the area home values and the general disposition of the neighborhood.

You may not have immediate access to obtain comparative home prices but you can ask a local realtor to assist you, or use some of the free online resources such as zillow.com and trulia.com. What houses in the area currently are selling for is called a comparative value or “comps”. Realtors use them to determine listing prices and are good resource for other information that they gain access through the Multiple listing service which keeps track of home prices and sales. It is not necessary to obtain a realtor’s license to invest successfully in real estate but it is a good idea to get one to help familiarize yourself with terms used in the industry and help you understand real estate contracts which is invaluable training. While doing property location, you will look at things about the neighborhood like how many houses are currently for sale.

That should give you an idea of the general stability of the area, people moving out in droves is not usually a good sign and it means that a house may take longer to sell since there are so many others up for sale and competing for buyers. Bird dogging for others will help you hone your skills and develop insights into how the industry works. Best of all, as a bird dog you are paid by the investor so you get the opportunity to make some money while learning the business at the same time.

THE FIND AND ASSIGN WHOLESALER

The next level of experience is the find and assigns wholesale real estate investor. A find and assign a wholesaler is similar to a property locator except you secure an interest in the property yourself and then assign the rights to that interest to another investor for a fee. It's much more lucrative than bird dogging because the assignment fee can be as high as 10% of the sales price of the property which you will typically receive at or before the closing when the property is actually sold to the other investor. Being a find and assign wholesaler is great because it doesn't require the cash or credit to close the deal but allows the investor to realize a substantial profit for a small amount of work. Once you become apt at bird dogging you will be able to approach other investors with good profitable deals. It is a combination of your education and experiences that will help you know that you have a good deal on your hands and you will feel more confident as you market your deals to others. The actual marketing is beyond the scope of this discussion but it must be mentioned as it is an intricate part of the process and merits its own separate manual.

The most basic real estate assignment deals involve a series of contracts. One between the seller and yourself, another between you and the secondary investor you have marketed to and lastly between the seller and the secondary investor. These last two are the people who will actually be involved with the exchange of the title and closing of the property.

Your involvement with the actual closing depends upon your arrangement with your investor, but under no circumstances should you allow your investor to pay the fee AFTER the closing. The deal should be structured so that you are paid before or during the closing. Consult an attorney for the best way to structure the documents in either case, preferably one with experience dealing with assignment deals. Whether or not a realtor is involved is optional. The seller may have one, but you are not required as you have a principle interest in the transaction, meaning you are doing it for yourself and not on behalf of someone else. Your contract with the seller is usually a standard purchase and sale agreement with a clause which allows the contract to be assigned usually stated as “and or assigns”. You can also use an option agreement to take a principal interest in a property. An option agreement is a legal contract which gives you the right to purchase the property for a set price within a set time period. If you don’t exercise your option it expires and has no value. Your option agreement, like the standard sales and purchase agreement will contain a clause allowing you to assign it to a third party, i.e. your investor.

Once you have secured an interest in the property via your option agreement or purchase and sales contract you can assign your rights to your investor. When you assign the contract you are selling someone the right to take over the contract from you. All the terms and agreements enforceable upon you and the seller in the agreement now will be enforceable upon the investor and the seller.

For example, you locate a property that if property rehabbed will be worth \$100,000. Due to its poor condition and the owner’s need to sell; he agrees to sell it to you for \$40,000. You know the repairs will cost about \$10,000. You would put the property “under contract”, which means that you secure an agreement with the owner to buy his property at a set price with a predetermined closing date. Once you have the property under contract you sell your investor your contract for \$5000. You have profited \$5000 but did not have the headache of the repairs or the expense of going through a closing. You have quickly and easily made \$5000 for a couple hours work at best—not bad at all.

LEVEL 3 CASH OR CREDIT WHOLESALER

The third level of experience in real estate investing is the cash or credit wholesaler. This is a person who uses their own cash or credit to fund their real estate transactions. They function the same as a find and assign wholesaler, however the crucial difference is that they actually fully execute the sales contract and then wholesale it to another investor at a much larger profit margin than the find and assign wholesaler. This process allows the novice investor to use what he/she has learned to take calculated risk and realize much more substantial profits.

It goes without saying that the first requirement for this type of investing is available cash and or credit. You must have one or the other to proceed and for that reason it is more difficult for some people to function as a cash or credit wholesaler. This is where the larger cash flows start, or in other words, when the big bucks roll in. One of the most important aspects of cash/credit wholesaling is the spread between what you pay for the property and the price at which you ultimately sell it.

You have to procure the property at a low enough price point that you can profit yourself as well as leave room for the investor you sell it to make a profit once he has rehabbed it and it is ready to be retailed. Also there are seasoning issues to contend with at times. Seasoning is when the bank which is giving a loan on the property requires it to be owned by a one owner for a certain time period before being sold. A property that is repeatedly changing hands within a short period of time will raise a red caution flag with the banks. Sometimes you or the investor has to be prepared to hold on to the property for a certain time or either use legal means to circumvent these requirements and achieve this same goal without holding on the property for an extended time. Again the exact mechanisms for doing this are beyond the scope of this discussion and will be covered separately in another publication.

LEVEL 4 THE REHABBER

Rehabbing a property for resale is the fourth level of investing experience. Rehabbing is not really for the novice investor with no previous experience. Rehabbing jobs are best left to those who have a love of renovation, a list of dependable workmen and patience, patience, patience. A rehab job can sometimes seem overwhelming to contemplate but once it's completed the sense of pride and satisfaction is indescribable. To take a run down wreck and transform it into a place people will take pride in living provides rewards not measured in dollars and cents. However, the dollar and cents part of it can be very nice and is like the icing on the cake.

To begin with choosing to rehab and then retail a property requires a detailed inspection and evaluation of the property. Just what will it take to make it something someone would like to live in, how cheaply can it be done and preserve quality and how much will it be worth in that finished state? These are all questions that require expertise to answer. The successful rehabber is one who has mastered answering all of the above. Before we continue, a word of caution---the large-scale, full rehab or gut job should only be undertaken by an experienced person. This is not a project for the faint of heart or a newbie. It can get very expensive, prohibitively so and end up with the rehabber stuck with a house they owe money on but have run out of money to finish renovating. That is a lose-lose situation for everyone involved and should be avoided like the plague.

The key to rehabbing is realizing what features and improvements will add value to the property and which while nice will only add expense and not additional resale value. In most cases, it's the little things that make the biggest difference. You will be surprised what cutting the grass and pressure-washing will do for a house. Both can be done for less than \$250 and if it attracts the attention of a buyer who wants to look inside they are invaluable. As for the interior there are a couple of things you want to do on just about every job, just general rules of thumb. Unless it is new and unstained, you always want to replace or at least deep steam clean the carpet and paint the interior. Stick to neutral colors, shades of beige or gray for the carpet and of white or cream for the walls.

Replace outdated appliances like the stoves and refrigerator. If the refrigerator is not present you might want to consider purchasing one for the sake of the aesthetics if budget constraints allow it. This simple purchase can do wonders for helping people decide if this is the house for them. Other little things that make a big difference are a change in countertops, in the kitchen, of the sink tops in the bath and a change of tile in both these places as well. These things can be done relatively inexpensively and add much value to the resale price. Now larger repairs are a different matter. When deciding upon major items like the heating and air conditioning systems, electrical overhauls or new roofing keep in mind what the added value will be. If there are too many of this large items the repairs will eat into the profit in such a way as to make the deal unrealistic and foolhardy, unless you are intending upon living there yourself. Please note a good rule of thumb when making repairs to a property is that your total cost for the job, including purchase cost expenses and repairs should not exceed 70% of the ARV (After Repaired Value). If you exceed the 70% ARV rule you will begin to run into the principle of diminishing returns where the outcome does not justify the effort or expense.

LEVEL 5 THE BUY AND HOLD INVESTOR

Finally there is the holy grail of real estate investing—the fifth and last level is the buy and hold investor. This type of investor picks winners and holds them indefinitely to generate massive amounts of passive income, meaning you live your life and just wait for checks to come in the mail. A super lifestyle you can enjoy immensely once you learn the secrets of successful investing. The buy and hold investor has ready access to cash and or credit, usually both and by this time you have gained the experience to make wise choices in your use of cash and credit in real estate transactions.

The buy and hold investor will typically purchase distressed or otherwise low priced properties, rehab them as necessary and then rent them out to generate cash flow or eventually a cash windfall if its sold. However selling for a cash windfall is only done with proper market timing to insure the buy and hold

investor maximize their ROI or Return On Investment. Once you are at this level you are looking for good properties in neighborhoods with high rental rates and nearby amenities such as a good school district. Such extrinsic or outside factors can greatly contribute to higher cash flow as people will pay a premium to live decently.

The buy and hold investment strategy is one of the only ones to withstand the tests of market fluctuations, and the tightening or loosening of credit standards. It is the best way, hands down to make and sustain massive amounts of wealth in real estate. It requires a steady mind and a quick decisive attitude. It sometimes requires tough choices and again, is not for the meek, timid or faint at heart. Really, the whole industry operates that way. You need to be sensitive to the needs of people, and yet business-minded. Frankly the best thing to do is hire a property management company to manage your properties. That way you have none of the headaches but receive the financial rewards, a win-win situation.

Conclusion

Real Estate investing can be a rewarding and stimulating venture. You will find that you are always improving because the learning curve is infinite. There is always room for improvement. The five levels of investing we have just described form the basis of a sound-minded and realistic foray into this business. From the first steps as a property locator to the two types of wholesalers, the rehabber and finally the buy and hold investor each present a means to generate cash on several levels and by the time you are functioning as a buy and hold investor you will know several methods and become apt at creating wealth and passive income and cash flow.

LOOK BELOW

I have included copies of the contracts mentioned above as well as an example of a rehab scenario.

Rehab Example:

Differences Types of Rehab Work and Costs

Basic Rehab:

Cleaning or pressure washing of exterior: \$150-250

General Landscaping: \$500

Painting: \$1000-\$1600

Carpeting: \$1000

General overall Rehab:

Replace kitchen and bath fixtures: \$500

Refinish and or replace cabinetry: \$200-600 depending upon material and design

Replace sheetrock in selected areas: \$200-800 depending on location and size

Major Rehab:

Replace roof: \$3000-8000

Replace heating and cooling systems: \$2500-4000

Upgrade electrical: \$2000

Replace plumbing; \$2500

****These are approximate figures and are guidelines only. True costs will depend upon project and contractor used.****