

CONTENTS

Acknowledgments	xix
Prologue: Invest in Property Now	xxi
1 ACHIEVE A PROSPEROUS FUTURE: 22 WAYS YOU CAN EARN PROFITS WITH PROPERTY	1
22 Sources of Profit from Investment Property	2
Will the Property Experience Price Gains from Appreciation?	2
Will You Gain Price Increases from Inflation?	4
Earn Good Returns from Cash Flows	5
Magnify Your Equity Gains with Leverage	5
Magnify Returns from Cash Flows with Leverage	6
Build Wealth through Mortgage Payoff	7
Over Time, Returns from Rents Go Up	7
Refinance to Lift Your Cash Flows	9
Refinance to Pocket Cash	10
Buy at a Below-Market Price	11
Sell at an Above-Market-Value Price	11
Create Property Value through Smarter Management	12
Create Value with a Savvy Market Strategy	12

Create Value: Improve the Location	13
Convert from Unit Rentals to Unit Ownership	13
Subdivide Your Bundle of Property Rights	14
Subdivide the Physical Property (or Space within a Property)	15
Create Plottage (or Assemblage) Value	16
Obtain Development or Redevelopment Rights	16
Diversify Away from Financial Assets	18
Is Property Your Best Investment Choice?	18
2 OPM: BORROW SMART, RAISE CASH, BUILD EQUITY	21
The Birth of “Nothing Down”	22
Should You Invest with Little or No Cash or Credit?	23
What’s Wrong with “No Cash, No Credit, No Problem”?	23
Leverage: Pros and Cons	26
What Are Your Risk-Return Objectives?	32
Maximize Leverage with Owner-Occupancy Financing	33
Owner-Occupied Buying Strategies	34
Current Homeowners, Too, Can Use This Method	34
Why One Year?	34
Where Can You Find High-LTV Owner-Occupied Mortgages?	35
What Are the Loan Limits?	35
High Leverage for Investor-Owner Financing	37
High Leverage versus Low (or No) Down Payment	37
Creative Finance Revisited	37
Are High-Leverage Creative-Finance Purchases Readily Available?	45
Build Confidence with Lenders, Investors, Sellers, and Sales Agents	46
Credit Scores and Credit Record	48
Capacity (Monthly Income)	48
Cash Reserves and Source of Down Payment	50
Collateral	51
Loan-to-Value Ratios	51

Recourse to Other Assets or Income	52
Character	53
Competence and Experience	54
Compensating Factors	54
Automated Underwriting (AUS)	55
3 APPRAISAL: INS AND OUTS OF MARKET VALUE	57
What Is Market Value?	58
Sales Price Doesn't Necessarily Equal Market Value	59
Underwriting Rules Determine the Value in LTV	59
How to Estimate Market Value	60
Property Description	61
Identify the Subject Property	68
Neighborhood	68
Site (Lot) Characteristics	69
Improvements	70
The Cost Approach	71
Calculate Cost to Build New	71
Deduct Depreciation	72
Lot Value	73
Estimate Market Value (Cost Approach)	73
The Comparable Sales Approach	75
Select Comparable Properties	75
Approximate Value Range—Subject Property	76
Adjust for Differences	76
Explain the Adjustments	77
The GRM Income Approach	78
Income Capitalization	80
Net Operating Income	80
Estimate Capitalization Rates (R)	83
Compare Cap Rates	84
Relative Prices: The Paradox of Risk and Appreciation (Depreciation)	85

Valuation Methods: Summing Up	86
Appraisal Limiting Conditions	87
Valuation versus Investment Analysis	87
4 MAXIMIZE CASH FLOWS AND GROW YOUR EQUITY	89
Will the Property Yield Good Cash Flows?	89
Arrange Alternative Terms of Financing	91
Decrease (or Increase) Your Down Payment	92
Buy at a Bargain Price	94
Should You Ever Pay More than Market Value for a Property?	95
The Debt Coverage Ratio	97
Numbers Change, Principles Remain	97
Will the Property Yield Profitable Increases in Price?	98
Low-Involvement versus High-Involvement Investing	99
Compare Relative Prices of Neighborhoods (Cities)	100
Undervalued Neighborhoods and Cities	101
Beverly Hills versus Watts (South Central Los Angeles)	101
Demographics	103
Accessibility (Convenience)	103
Improved (Increased) Transportation Routes	104
Jobs and Economic Base	104
Taxes, Services, and Fiscal Solvency	105
New Construction, Renovation, and Remodeling	106
Land-Use Laws	106
Pride of Place	107
Sales and Rental Trends	107
Summing Up	109
5 PAY LESS THAN MARKET VALUE	111
Why Properties Sell for Less (or More) than Market Value	112
Owners in Distress	113
The Grass-Is-Greener Sellers	114

Stage-of-Life Sellers	115
Seller Ignorance	116
Prepare Screening Criteria	117
Bargain Sellers	118
Networking/Get the Word Out/Social Media	118
Newspapers and Other Publications	119
Cold Call Owners	119
Agent Services	121
Internet Listings	124
Seller Disclosures	124
The Disclosure Revolution	125
Income Properties	126
Summary	126
6 PROFIT WITH FORECLOSURES	127
The Foreclosure Process	128
Lender Tries to Resolve Problem	128
Filing Legal Notice	128
The Foreclosure Sale	129
REOs	129
Buy Preforeclosures from Distressed Owners	130
Approach Owners with Empathy	131
The Difficulties of Dealing Profitably with Owners in Default	131
Prequalify Homeowners and Properties	134
Finding Homeowners in Default (Prefiling)	135
Networking	135
Mortgage Collections Personnel	135
Drive Neighborhoods	136
Find Homeowners (Postfiling)	136
Cultivate a Relationship with Property Owners	137
Two More Issues	137
Vacant Houses	139

Satisfy Lenders and Lien Holders	140
All Parties Are Better Off	141
Win by Losing Less	142
Profit from the Foreclosure Auction	142
Why Foreclosures Sell for Less than Market Value	143
Make the Adverse Sales Efforts Work for You	144
How to Arrange Financing	145
The Foreclosure Sale: Summing Up	146
7 PROFIT FROM REOs AND OTHER BARGAIN SALES	147
Sad for Sellers and Builders, Bargains for You	147
How to Find REOs	148
Follow Up with Lenders after Foreclosure Sales	148
Locate Specialty Realtors	149
HUD Homes and Other HUD Properties	150
Homeowners versus Investors	151
As-Is Condition	151
Potential Conflict of Interest	152
Buyer Incentives	153
The Bid Package	153
Department of Veterans Affairs (REOs)	153
Big Advantages for Investors	154
Fannie Mae and Freddie Mac REOs	155
Agent Listings	156
Investors Invited	156
Federal Government Auctions	157
Buy from Foreclosure Speculators	157
Probate and Estate Sales	158
Probate	158
Estate Sales	158
Private Auctions	159
How to Find Auctions	160

8	PROFIT BY CREATING VALUE	163
	Fix, Sell, Profit!	163
	Your Fixer-Upper Search	164
	The Browns Create Value in a Down Market	165
	Research, Research, Research	166
	Improvement Possibilities	167
	Deep Clean the Property	167
	Add Pizzazz with Color Schemes, Decorating Patterns, and Fixtures	168
	Create Usable Space	168
	Create a View	169
	Capitalize on Owner Nearsightedness	170
	Eliminate a Negative View	170
	Enhance the Unit's Natural Light	171
	Reduce Noise	171
	Required Repairs and Improvements	172
	Plumbing	172
	Electrical System	172
	Heating and Air Conditioning	173
	Windows	173
	Appliances	173
	Walls and Ceilings	173
	Doors and Locks	174
	Landscaping	174
	Storage Areas	174
	Clean Well	174
	Safety and Health	175
	Roofs	175
	Improvements and Alterations	175
	You Can Improve Everything about a Property— Including Its Location	175
	South Beach: From Derelicts to Fashion Models	176
	Community Action and Community Spirit Make a Difference	177
	Neighborhoods Offer Potential	177

What Types of Improvements Pay the Greatest Returns?	178
How Much Should You Budget for Improvements?	179
Beware of Overimprovement	179
Other Benefits	180
No-No Improvements?	180
Budgeting for Resale Profits	181
Estimate the Sales Price First	181
Estimate Costs	181
Future Sales Price – (Costs + Profit) = Maximum Acquisition Price	182
Comply with Laws and Regulations	183
Should You Buy a Fixer-Upper?	184
Too Little Time?	184
Put Your Creativity to Work	185
9 MORE TECHNIQUES TO PROFIT WITH PROPERTY	187
Lease Options	187
Here’s How Lease Options Work	188
Benefits to Tenant-Buyers (an Eager Market)	188
Benefits to Investor-Sellers	190
The Lease Option Sandwich	191
How to Find Lease Option Buyers and Sellers	192
A Creative Beginning with Lease Options (for Investors)	192
Lease Purchase Agreements	193
<i>Seems</i> More Definite	193
Amount of the Earnest Money (Option) Deposit	194
Contingency Clauses	194
Conversions	194
Condominium Conversion	195
Convert Apartments to Office Space	196
Tenants in Common	197
Master Leases	198
Assignments: Flipping Purchase Contracts	200
Summary	202

10	NEGOTIATE A WIN-WIN PURCHASE AGREEMENT	203
	Win-Win Principles	204
	The Purchase Contract	207
	Names of the Parties	208
	Site Description	208
	Building Description	208
	Personal Property	209
	Price and Financing	210
	Earnest Money Deposit	210
	Quality of Title	211
	Property Condition	212
	Preclosing Property Damage (Casualty Clause)	212
	Closing (Settlement) Costs	213
	Closing and Possession Dates	214
	Leases	214
	Contingency Clauses	216
	Assignment and Inspection	217
	Public Records	217
	Systems and Appliances	218
	Environmental Hazards	218
	No Representations	218
	Default Clause	219
	Summary	221
11	STRATEGIC MANAGEMENT BUILDS EQUITY	225
	The 10:1 Rule (More or Less)	225
	Think First	226
	Know Yourself	227
	Know Your Finances	228
	Know Your Capabilities	228
	Smart Strategic Decisions	229
	Tailor Strategy to Local Markets	229
	Craig Wilson's Profit-Boosting Market Strategy	229

How Craig Wilson Used Market Information to Enhance Profitability	232
Results	236
Cut Operating Expenses	236
Energy Audits	237
Property Insurance	237
Maintenance and Repair Costs	240
Property Taxes and Income Taxes	241
Add Value: Closing Words	241
12 DEVELOP THE BEST LEASE	243
The Mythical Standard Lease	243
Your Market Strategy	243
Search for Competitive Advantage	245
Craft Your Rental Agreement	246
Names and Signatures	246
Joint and Several Liability	247
Guests	247
Length of Tenancy	247
Holdover Tenants (Mutual Agreement)	248
Holdover Tenants (without Permission)	248
Property Description	248
Inventory and Describe Personal Property	249
Rental Amounts	249
Late Fees and Discounts	250
Multiple Late Payments	250
Bounced Check Fees and Termination	250
Tenant "Improvements"	251
Owner Access	251
Quiet Enjoyment	251
Noxious Odors	252
Disturbing External Influences	252
Tenant Insurance	253

Sublet and Assignment	253
Pets	253
Security Deposits	254
Yard Care	255
Parking, Number, and Type of Vehicles	256
Repairs	256
Roaches, Fleas, Ants	257
Neat and Clean	257
Rules and Regulations	257
Wear and Tear	257
Lawful Use of Premises	258
Notice	258
Failure to Deliver	258
Utilities, Property Taxes, Association Fees	259
Liquid-Filled Furniture	259
Abandonment of Property	260
Nonwaivers	260
Breach of Lease (or House Rules)	260
No Representations (Full Agreement)	261
Arbitration	261
Attorney Fees (Who Pays?)	261
Written Notice to Remedy	263
Tenants' Rights Laws	263
Tenant Selection	263
Property Operations	265
Evictions	265
Landlording: Pros and Cons	266
Possibilities, Not Probabilities	266
Professional Property Managers	266
13 CREATE PROMOTIONS THAT SELL	269
Design a Winning Value Proposition	269
Yet Generic Prevails	269
USP versus WVP	270

Craft Your Selling Message	272
Use a Grabber Headline or Lead	273
Reinforce and Elaborate	273
Add Hot Buttons	273
Establish Credibility	274
Compare to Substitutes	274
Evoke Emotional Appeal	274
Reduce Perceived Risks	274
Make It Easy for Prospects to Respond	275
Follow Up with Your Prospects	276
Reach Potential Buyers	277
For Sale Signs	277
Flyers and Brochures	277
Networking (Word of Mouth)	278
Websites and Links	279
Sales Agents	279
Should You Employ a Realty Agent?	279
Services to Sellers	279
Services to Buyers	280
Co-Op Sales	282
Listing Contracts	282
14 PAY LESS TAX	285
The Risks of Change and Complexity	285
Homeowner Tax Savings	286
Capital Gains without Taxes	286
Rules for Vacation Homes	287
Mortgage Interest Deductions	288
Credit Card Interest	288
Rules for Your Home Office	289
Depreciation Expense	289
Land Value Is Not Depreciable	289
Land Values Vary Widely	290
After-Tax Cash Flows	290

Emerging Retirement and Second-Home Areas	316
Which Cities and Areas?	316
Income Investing	317
Out-of-Area Caveats	317
Commercial Properties	318
Low Effort Management	319
The Upside and Downside	319
Opportunity for High Reward	320
Commercial Leases Create (or Destroy) Value	320
Triple Net (NNN)	322
Self-Storage	323
Mobile Home Parks	325
Profitable Possibilities with Zoning	327
Tax Liens and Tax Deeds	327
Localities Differ	328
Are Tax Liens and Tax Deeds an Easy Way to Make Big Profits?	328
Discounted Paper	328
What Is Discounted Paper?	329
Here's How the Loan Sale Works	329
Sell the Note at a Premium	330
Delinquent and Nonperforming Loans	330
Due Diligence Issues	331
Should You Form an LLC?	332
Different Strokes for Different Folks	332
Court Rulings	332
One Size Doesn't Fit All	332
16 OPPORTUNITY FOR A LIFETIME	335
USA: Right Time, Right Price, Right Place	335
Personal Opportunity	336