Citibooks' Tips and Ideas on...

Real Estate Management

Volume 1

Published by:
www.BestManagementArticles.com
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Cash Flow Today - The Key To Longevity

Real Estate Investment Club

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When you own the houses, you have your own personal money machine! Obviously, you must maintain the property and provide the necessary management- But, in exchange for doing that, you control the money' It's yours to spend any way you choose. Owning your own widgets is the surest path to financial independence. The basis for wealth behind nearly every rich person can be traced back to the ownership of a patent, a copyright or a deed! Owning income real estate puts you in with the right crowd.

Well-Financed Houses Are Very Little Risk

In terms of investment risk, I'm talking about the risk of losing your assets - Rental properties, like the ones I own, are about the safest kind of investment you can make. Naturally, you must avoid paying too much and taking on too much mortgage debt. Residential renters are a much easier bunch to attract than commercial tenants. Also, everyone needs a shelter. Houses are considered a basic necessity of life. The danger of anyone taking your investment houses, with any equity, is almost nil! If you buy them right and structure the financing so your tenants can pay them off, you'll be very well rewarded for your initiative.

Your Own Personal Money Machine

After many years of trying different strategies to make money with real estate, I can tell you without the slightest "hiccup" - it's not a sound idea to buy houses that don't pencil out on the day you acquire them or shortly thereafter! There's only one reason in the world that I know of to buy investment real estate, THAT'S TO MAKE MONEY. If it don't or can't, then I don't want it regardless of whatever else I may like about it.

Buy Properties That Earn Big Profits TODAY

I have been "sucked-in" on FUTURE VALUE, HIGHER POTENTIAL and PRIDE OF OWNERSHIP so many times, I'm embarrassed to admit it! Fortunately for me, I learned my hardest lessons early in my career before I lost the ranch.

If your goals are similar to mine, which are investing for current income and long- term security (at least until I'm senile), with the least amount of daily management involvement, then my strategies will work for you like they do for me. Naturally there are many things to learn and most of it should be accomplished during the early stages of your investing. On-the-job training is most effective! There are several important things you need to consider without delay.

I Have Been 'Sucked-In' -
Don't Let Big Mortgage Payments Rob Your Profits

When you acquire properties with financing, which most of us do, you should always insist on long-term paybacks. The longer the better, but nothing less than 10 years.

Be very careful when you agree on the amount of the mortgage payments. In my opinion investment properties that have combined mortgage payments higher than 50% of the scheduled income are a bit too risky, unless of course, you have adequate back-up resources to pay for negative cash flow.

I'm always satisfied when my mortgaged properties earn me a small positive cash profit consistently every month. Little profits allow me to buy more properties, which in turn provide additional little profits! First thing you know, little profits add up to big bucks.

Walt Disney was delighted to draw the first cartoons that moved on a big theater screen. He was paid just $12 apiece for each one, but he kept drawing lots of them, over and over again. Needless to say, his $12 drawings eventually made Disney a very wealthy man. It didn't happen overnight, by any means, but when you consistently keep the profits rolling in, you have the money to take on bigger and better opportunities when they present themselves.

There Is No Substitute for Cash Flow

There are several good economic reasons why I favor keeping a flock of rental houses but the reason dearest to me is - they furnish me with a pocket full of cash every month, come rain or shine! Over the years, as the mortgages are retired (paid off) I have extra cash on hand to buy discounted mortgages, including buying back my own debt. It's a very lucrative companion business to my real estate investing.

In my opinion, nothing comes ahead of cash flow! If you have it, you can continue to grow. You can transition from smaller properties to larger ones or fixers to pride- of-ownership. You can use your cash flow to buy mortgages for passive income or take a trip around the world every month when the rents come in. Cash gives you choices!

Article Source :
http://www.bestmanagementarticles.com
http://real-estate-management.bestmanagementarticles.com

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Jay P. Decima, known to many as "Fixer Jay" is a seasoned real estate investor with more than 40 years of hands on experience; nearly half that time has been devoted to Jay's specialty - fixing-up rundown houses and adding value. Fifteen years ago, Jay Decima began teaching others about his money-making strategies at seminars and at his popular house fixer camps in Redding, California. Reprinted with permission from www.reiclub.com

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Become a Failure and Succeed Past Your Wildest Dreams

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Obviously this is not the bit of advice that you would be expecting, but once you get this concept, success will be laid before you. You want to fail in the right ways limiting financial and legal liabilities.

To give you a better idea of exactly what I am talking about you simply must know where I'm coming from and possibly a bit of my personal story will help make sense. Why? That is because over my 10 year real estate career my first five years were anything significant and needless to say 'fun'.

I found myself with 25 properties after the first five years. Not bad right? WRONG!!! I had 25 properties barely cash-flowing AND I also had my corporate job still to keep everything afloat. Definitely not what I had expected.

It all sounds so nice, right?.....become a landlord with no money down deals and you can be taking vacations on the beach six weeks a year while tenants pay you to fire your boss and live the life you've always wanted. Am I the only one here that bought into that? I didn't think so but there is always a silver lining.

So after my first five years of real estate investing I had graduated with an MBA from the school of 'hard knocks'. The only good side from those experiences was a sense of, 'well, I'll never do it that way again'. Believe me its not the easy and profitable way to learn in real estate.

Still determined and passionate about real estate beyond description I literally wrote myself a note which is the focus of principles I sorely want you to learn and burn into your short and long-term memory. This is my motto that I still live by on a daily basis today: 'What is the absolute worst-case scenario that can happen on this deal...and if it does, am I financially and legally prepared for the consequences?'

There is NEVER a no-risk scenario when it comes to real estate investing. Let me quantify that before anyone starts talking about contingency clauses and the such. You will always be risking at the very minimum your time that has value and not to mention even some marketing dollars to find the deals.

Now that doesn't sound as bad now does it. This in summary is what I mean: limit financial and liability issues as much as possible in real estate investing.

For example; if I know ALL there is about how to structure contracts to wholesale flip for quick cash to other investors and limiting any possible negative liability consequences, then what is my risk? Possibly only 'risk' would be a couple hundred bucks mailing to absentee owners. Even if not one deal is made, then that is a consequence I can live with.

Another example; if I finance this rehab project through a hard-money lender do I have enough reserves to make the interest only payments? What happens if I come into some unexpected repairs that are outside the LTV of what the lender will allow for repairs? If the house is still on the market after six months and hasn't sold, what will I be prepared to do? A little bit more serious risk that I need to look at in great consideration.

There is this guy 'Murphy' that shows up a lot of times in real estate deals. You know, 'Murphy's Law'! It means what- ever can happen sometimes does and it is most of the time not to your advantage. Just be prepared and it would be prudent to have some vision in working through all possible scenarios.

Recently I closed on a property making $7,000 as a quick flip. This property I secured through my probate marketing simply gaining an option on the property with no legal liability to perform if I didn't buy it or get someone else to buy it. I knew there was a chunk of equity in the property but it was heading straight to foreclosure. Not enough equity for investor offer, but GREAT deal for a retail buyer. So after tieing up the property under contract I then advertised 'handy-man' special. Then I had $100 in advertising invested. I can live with that risk if I don't make any profit on the property.

From there I found a buyer the next day with an 800 Beacon score! Never had that happen and probably won't again. Went through the loan process controlling the whole approach. Loan went through to underwriting and termite/ inspection report revelealed some moisture damage as required by my state to report. Loan wasn't going to close until repairs done even though was sold 'as-is'.

The house then needed $725 worth of repairs in order for the loan to close. I paid the repair bill and now I've got $825 in the situation. If the loan STILL doesn't close and I lose my $825, I still can live with that risk. Funny things and not in a 'ha-ha' kind of way can happen at underwriting so nothing is still guaranteed.

After all the dust settled, I realized a $7,000 net profit after the repairs and advertising expenses were paid. I had a total of $825 at risk in the entire situation and if the deal never closed then that is an amount I could live with as a loss----definitely NOT be happy with but I wouldn't lose sleep over it at night.

If you're concentrating on deals and real estate holdings that literally keep you awake at night when you should be sleeping.... start asking yourself how you can limit those risks to a bare minimum.

This whole business is about QUALITY of deals and not QUANTITY. Continue to invest in the education of yourself and limiting your worst-case scenario downsides, then build up to a quantity of quality deals! That is called putting your real estate business in overdrive for true financial security that corporate America just can't provide for you like real estate can and does for investors on a daily basis.

To your success and good hunting as luck has absolutely NOTHING to do with it!

Article Source :
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The Hidden Secrets of a Real Estate Technician

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If you wanted to learn how to prepare a deed, perform a title search, draft a strong option contract, or understand how to fix a bad title, where would you go? It's hard to answer, because, frankly, this information is tightly controlled by title companies and lawyers. Go into any bookstore and try to find this sort of highly protected information. You won't find it. Believe it or not, it's tough to find even in most law libraries.

Title companies and lawyers consider this hidden knowledge a major profit center, and they're not about to share it with you just because you're a nice person. For one, lawyers don't have time. They are in one of the most high pressured, time-driven industries. Spending hours explaining a process to you isn't nearly as profitable as punching a few computer buttons - and out comes a boilerplate document that they'll sell for $250. Title companies won't tell you either, because it just doesn't make sense for them to give away trade secrets that earn them many hundreds of dollars per customer!

Title companies and lawyers are good people just like any other group of business people. In fact, they are a part of every investor's team. Always have been, always will. I need lawyers and you need them - they are invaluable to society. What I'm suggesting is that serious investors begin to take a new form of control over their deals by having a strong understanding of the more technical side of investing. Sound boring? Let me tell you why it's not.

Serious investors know that most outrageously underpriced deals are distressed deals. There is some sort of tangled up mess involved. Either the property is trashed, or the finances are trashed, often both: back taxes, judgments, liens, questionable contracts, etc. Most deals, especially those private, sleeper deals, have problems that need to be understood. If you, the aggressive investor, are able to intelligently understand the paperwork, title search, and closing procedures, you can craft deals that the conventional folks may not understand. Colossal deals. High equity. Cash flow.

Let me give you a true example, a few years ago I found a foreclosure deal that was excellent. The terms were pay the owner's back mortgage payments to reinstate the mortgage and give the owner $55 to deed me the house (it was trashed and nasty). Knowing the fundamentals of title searching I immediately