

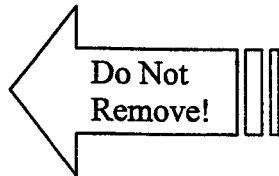
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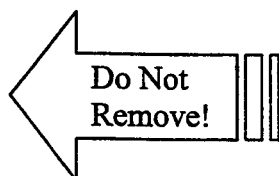
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A Wealthy Investor's Secrets To:

Apartment House Riches!

*How I Became Wealthy Buying And Selling Apartments
And How You Can Too!*

GUIDEBOOK WITH DOCUMENTS

By David C. Lindahl

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DEDICATION

*This course is dedicated to my partners, Robert Campbell,
Tammy Beckwith and Jeff Lindahl*

*Each one has made and continues to make a significant
contribution to my success*

*Everyone should be so lucky to have quality people like
these with whom to surround themselves.*

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Chapter 1

How Apartments Will Make You Wealthy: The Safer, Faster Way

There are many ways to become wealthy in real estate. You can purchase properties that are in need of repair, fix them up and flip them for a good profit. You can lease option and/or make an agreement to take over someone's deed. You can buy and hold single-family houses for long-term appreciation and you can buy and sell apartment buildings.

I have done, and still continue to do, all of these.

Of all the different methods of becoming wealthy in real estate investing, the safest and fastest way is to buy and sell apartment buildings.

I'm not saying that you can't make a lot of money using the other methods. As a matter of fact, using a combination of the other methods may make it easier for you to buy and sell apartment buildings. I'll explain what I mean by this a little later in this chapter.

Apartment Buildings Reduce Your Risk

Imagine that you have a single-family house that you own and are renting out for a small amount of cash flow and long-term appreciation. What happens when your tenant moves out? You lose all of the income that the property is generating! That means that you have to dig deep into your pockets to pay your mortgage, your property taxes and your insurance, until you find another tenant.

Once that money is paid out, you can never get it back. It's gone.

You could cut your risk in half if you owned a two family property and by a third if that property was a three family. The more units you have under one roof, the easier it is to absorb tenant turnover.

Other People Pay Your Mortgage

One of the key benefits of apartment house ownership (similar to single family investment property) is the fact that someone else is paying your mortgage for you - your tenants. Not only are they paying your mortgage, but also after you pay all of your other expenses, there should be money left over for you to go out and have some fun (if you bought the property properly). However, if you are a prudent investor, you will use this positive cash flow to purchase more and more property, especially at the beginning of your career.

If you buy a building that is worth \$200,000 with a twenty-year mortgage, twenty years later your tenants will have paid off that mortgage for you and you will have an asset that you own free and clear that is worth \$200,000 and be collecting a great positive cash flow.

Appreciation

Appreciation is another benefit of apartment house investing. Your property is going to appreciate (increase in value), during those twenty years. As a matter of fact, at a conservative appreciation rate of 3% a year, in twenty years, that building that you bought for \$200,000 would be worth \$361,000. A building that you bought for \$1,000,000 would be worth \$2,235,062!

It doesn't matter how you purchase your first apartment building; the important thing is that you purchase it and begin the cycle of attaining the extraordinary wealth that you will achieve from this process.

Do you feel comfortable with owning a \$200,000 apartment building, but are having a hard time imagining owning a \$1,000,000 building? I can tell you this: it's actually easier to own a \$1,000,000 dollar apartment building than it is a \$200,000 apartment building. The main reason is management. Most investors try to manage all of their smaller units themselves and because they never learn how to control their tenants (taught in Chapter 7) they burn out before they ever get into the bigger, more profitable buildings.

The focus this course is give the beginning real estate investor the ability to analyze, purchase, manage efficiently and build wealth buying and selling smaller sized apartment buildings.

You can use this same information to purchase much larger complexes as well. I started buying small and got big, with this information; you can start big and get bigger! The faster you go big, the wealthier you will become!

I agree with Donald Trump who said, "If you're going to think, you might as well think big!"

How I Built A Million-Dollar Portfolio

When I first started investing in Real Estate I knew that I wanted to start buying apartment buildings. I had read a couple of books on investing and saw a biography on Harry Helmsley (a New York real estate tycoon who made his fortune through the ownership of apartment buildings) and decided that that's what I wanted to do.

I asked several people to partner with me and all said no.

I got many excuses but it all came down to fear. Fear of failure, fear of the unknown, fear of ...

Not only were people afraid for themselves but they kept telling me that I was crazy.

Just because I was a lead singer in a Rock and Roll band for ten years and used to scream my lungs out every weekend for the pure thrill of it in front of hundreds of dance-crazed fans (I wish it was thousands but we never made it that big) didn't mean I was irrational!

Still, everyone I asked said no until I persuaded my best friend Rob Campbell that apartment house ownership had benefits. Given that we had known each other since we were ten years old, I guess he truly knew that I was crazy!

Crazy like a fox - because I had a plan. I was going to go out and buy as many apartment buildings as I could and let the tenants pay off the mortgages while letting extra cash flowing from all of the properties get so large that one day we would be able to live off of them. I envisioned that in 20 years we would own all of the buildings free and clear and be living the good life.

Little did I know that it would only take four years to achieve most of my goals!

Know What To Look For: The 6 Keys To Success

Our objective was to find buildings that had problems:

1. Burnt Out Land Lord
2. Poor Management
3. Properties That Need Repair
4. Low Rents
5. High Vacancies

The Real Estate Success Formula

From everything that I had read, the most profitable approach to investment in real estate is to look for a property with a problem, buy at a discount because of the problem, fix the problem, and sell for a better-than-average profit.

Following that advice was one of the keys to our success. I suggest you do the same.

We would buy a property, fix what was wrong, raise the rents and enjoy a nice cash flow. Mostly what we found back then were buildings that needed some renovation work. So we renovated.

Renovating wasn't easy for us back then because we didn't have any experience. So we went out and sought knowledge from anyone or anything (books, tapes, videos, libraries, etc.) that would give it to us.

We quickly developed systems that allowed us to successfully renovate over 450 houses in just a 6-year period! This is not a rehab course so I'm not going to elaborate on those systems but you can learn more about them at www.rementor.com.

We also bought a lot of property from people who were about to be foreclosed on through agreement for deeds and "Subject To's," and we bought properties that needed no repair from banks that had already foreclosed on the previous owners.

A Journey Of A Thousand Miles (Or A Million Dollars!) Starts With The First Step

When we first started, we went to many seminars, bought a lot of books and tapes and joined two investment clubs. It took us almost 9 months to buy our first deal because ... we were afraid.

That's right. It's the same thing that haunts every first-time investor. Taking the plunge and buying the first property is a huge step. The sooner you make that first step the faster you will become wealthy.

We were afraid, and we didn't have any money either. We went to a seminar that recommended we obtain as many credit cards as possible and get cash advances for down payments.

This sounded like a good idea so we did it and bought our first three properties by paying our down payments with credit cards. As a matter of fact, during those crazy first four years we had gotten so many credit cards that we were able to buy three properties for over \$60,000 each and pay for them 100% with cash advances! No other financing!

The Successful Chunker Strategy

Although this method worked well, we also realized that to be able to buy more and more property, it would be easier to do if we had more cash, so we devised a strategy.

We would buy single-family houses to renovate and resell. We would use half of the proceeds to buy another apartment building and the other half to buy another single-family house and do it all over again.

We call those single-family houses “Chunkers” because of the chunk of cash we got when we resold.

After buying 38 “smaller” apartment buildings (2 – 6 units) and over 105 units, we started selling off the smaller buildings and started trading up to larger properties.

Finding The Deals

To be successful, the first thing you need to do is find the deals. You must create an ongoing system that will continuously expose you to the many deals that are all around you. In Chapter 2 I will explain to you where to find the good deals and different systems that you will want to use to keep the good deals coming in.

Analyzing Each Deal Properly

After you start finding the deals, you must be able to analyze them properly. As the saying goes, “you don’t make money in real estate when you sell, you make it when you buy.”

Evaluating apartment buildings is different from evaluating single-family houses. The value of a single-family house is determined through comparable sales, while the value of apartment buildings is based on the amount of income it generates.

You are going to have to do some math but Chapter 3 will make this process simple and painless. You will walk through all of the key information that you are going to need to analyze a potential property.

By simply filling in the blanks on the Apartment Analysis Form and doing a little simple math, you will know instantly whether or not you have a potential winner.

Determining Where Your Market Is In Cycle

In Chapter 4, you will learn how to recognize what stage of the market cycle that your current market or any market that you are interested in is in. There are four stages of the market cycle. Knowing what stage you are investing in is key to determining your entrance and exit strategies for the properties you are buying.

Your buying strategies should change with each stage and I will explain the most effective strategy for each stage.

There are several key determinants in each market as to where it is in its market cycle. After reading this chapter you will know which cycle your current market is in and what its potential is for change.

Managing Your Properties Profitably

For a property to maintain its profitability, it must be managed effectively. You will learn what to do and what not to do when managing your property yourself in Chapter 7.

The number one reason for success or failure of a property (after it is bought properly) is the management of the property. You should always be on the lookout for ways to increase your management skills.

Using 1031 Tax-Deferred Exchanges

Perhaps the most valuable lesson in the course, if applied properly, is the method of exploding the growth potential of your portfolio and increasing your wealth through 1031 Exchanges. Although at times this tax law can seem complicated, the benefits of learning how to use it are enormous.

When I first learned of 1031 Exchanges while taking a commercial real estate class it was as if I had just unlocked the mystery of the Rosetta Stone. I was so excited, I remember going home and calling 5 or 6 different other investors that I knew to share the good news!

Chapter 10 will walk you through the 1031 Exchange process. Take the time to learn this process thoroughly, apply it and you will become a very wealthy individual.

Preparing The Property For Re-Sale

When you're ready to sell, you're ready to sell! There are certain things that you will want to do and not want to do during the resale process. From working with an agent to selling the property yourself, all of this is covered.

There are other skills that you will want to have in your toolbox as well: how to write offers that get accepted, how to protect what you have through buying in the right entities, and how to negotiate the best deal.

Each of these topics is covered in its own chapter.

The Golden Egg

This course is truly the goose that lays the golden eggs. Everything written and talked about on the tapes comes from first-hand experience. You are learning from someone who has done it and continues to do it today.

Read this manual, listen to the tapes, apply what you learn and you will be on your way to becoming very wealthy through buying and selling apartment buildings.

Feel free to contact me at any time with questions or challenges.

Chapter 2 How To Find The Good Deals

Your objective when looking for apartment buildings is to buy from motivated sellers and/or to find areas where the economy is getting ready to rebound from an economic decline. In areas that are getting ready to rebound, you will find owners who have been holding on to their properties and have seen little or no appreciation in their market.

These sellers have been stuck in a buyer's market with very few buyers looking to purchase. Their apartment buildings have either gotten no offers, or have been getting low-ball offers. These are sellers who are not aware that there is a good chance that their economy will soon be changing. Therefore, they will be happy to sell you their property for a fair price.

Since you will be expecting a rise in the appreciation rate within the next 1 – 3 years, you will be happy to pay today's fair price, as it will be tomorrow's bargain.

How To Find The Real Motivated Sellers

Regardless of the kind of market that you may be in, ideally you want to be dealing with people who for some reason or other either need or want to sell their property. You'll need to weed through a lot of unmotivated sellers to get to the motivated ones but it will be well worth your time when you do.

There is no sense wasting time trying to convince unmotivated people to sell their property. You will find that their prices will be too high for you to pay long after you've spent too much time with them.

A simple question to ask a potential seller is, "Why are you planning on selling?" If he says, "I'm sick of being a landlord," then you have a motivated seller (there are many more answers that constitute motivated seller, we'll go over some of them below). If he says, "I'm not sure if I'm going to sell. I'm just thinking about it," then he is probably not very motivated and it will be difficult to talk price and terms with this seller.

Where does the elusive motivated seller lurk? First, we have to uncover the reasons why someone may be motivated.

The first reason is burnout. If a property owner has never educated himself about property management, and more importantly tenant management, he usually has a hard time controlling his property and his tenants.

Instead of training his tenants to act according to his rules (how to pay rent on time, quiet hours, who is responsible for repairs, cleanliness of property, etc.), the tenants train the landlord to act according to theirs.

Landlording 101: How To Train The Tenant, Lesson 1

Here are a couple of examples. A landlord gets tired of having to chase the rent month in and month out. He goes to collect it on the first day of the month and the tenant is not home. He goes back the next day and the tenant says that he will be “a couple of days late, come back on Friday.” Landlord goes back on Friday and the tenant is not home.

After a couple of years of this abuse, the landlord has had enough and decides that he doesn't like being a landlord.

If he had learned how to train his tenants properly, he would be sending an invoice for the next month's rent on the 20th of this month. In the envelope along with the invoice would be another self-addressed, stamped envelope that the tenant would use to mail back the rent.

If the rent is not received by the 5th of the month, the tenant receives an eviction notice. This doesn't mean that the tenant must be evicted. It simply means that if the tenant does not pay up in full within the next 14 days then the tenant will be evicted. Along with paying the amount of rent due, the tenant must also pay an additional \$25.00 that will cover the cost to serve the eviction notice.

After the tenant pays this “penalty” fee of \$25.00 once (or in some rare cases twice), the rent tends to come in on time.

Can you see how the tenant has been “trained?” And the landlord no longer has to go to the building to collect rents! Headache eliminated.

Landlording 101: How To Train The Tenant, Lesson 2

Here is another example of landlord burnout. Tenant calls landlord for maintenance problem. Landlord goes right over and fixes repair. Repair was probably caused by tenant negligence. Repair is minor so landlord “lets it go” to keep peace with the tenant.

Tenant has “minor” repair need at 11:00 at night - toilet clogged. Landlord goes out to fix. Tenant has “minor” repair on Christmas. Landlord goes out and fixes.

Tenant assumes that landlord is his own personal maintenance company. Landlord hates the landlording business because he is constantly being inconvenienced.

Here's how we train our tenants. Tenant calls with a repair problem. We determine over the phone the cause of the damage. If it is determined that it was tenant damage, a cost of repair is estimated and tenant is told to have payment ready when work is done.

In the case of a clogged toilet, tenant is told that if the cause of the clog is found to be an unnatural item (brush, Barbie doll, etc.), tenant will be expected to make payment when the clog is removed.

It's amazing how many minor repairs and clogged toilets become fixed on their own after the tenant is informed that payment is expected. This is the way to train your tenants.

Burned-out landlords make excellent sellers because they just want to get their lives back.

11 Reasons Why Owners Are Motivated To Sell

Other reasons why a property owner would want to sell are:

- Estate Sale (death of original owner)
- Failing health
- Inherited property
- Lawsuit
- Retirement
- Bankruptcy
- Foreclosure
- Condemned building
- Relocation
- Divorce
- Losing Money

Now that we know who we're looking for, how do we find them? Most of the time, there is no way of telling whether or not a person meets the above criteria. Sure, bankruptcies are published in the financial newspapers and divorces can be found at the courthouses, but you have no idea whether or not these people own properties.

The only item on the above list that you can be sure is a property for sale is a foreclosure, since it is actually the property itself that is being advertised.

So the question is: how do you know when property owners are motivated by one of the above situations? The answer is ... you don't. You must contact these people (owners of property) through a continual direct mail campaign so that when they do decide to sell, you are on their mind.

Timing is everything. They may have received 4 – 5 letters from you with no intention of selling. All of a sudden they find out that they are getting transferred and now they have to sell. Now, everything that you have been saying in your previous letters means something to them and they are ready to take action.

Why It's Important To Buy Larger Properties

The first thing you need to do is compile a list of all of the multi-family owners in your area. If you are just starting out you may try to find owners of buildings that have from 3 – 20 units. You will want to focus on the smaller ones at first so that you can get your feet wet before you start buying bigger buildings.

The sooner you go from the smaller 2 - 6 unit buildings to the bigger buildings and complexes, the wealthier you will become.

There are reasons that it's more advantageous to buy bigger buildings.

Simply stated, consider the economies of scale. The more units that you have under one roof, the less your maintenance repairs will be. For instance, if you own 9 units in 3 buildings, on top of those three buildings are 3 roofs. Sometime in the future, those roofs will need to be replaced.

If you have 9 units under one roof, you will only have to replace one roof sometime in the future.

Another reason: if you own a 3-unit building and a tenant moves out, then you've lost 1/3 of your income. If a tenant moves out of your 9 unit building, you've only lost 1/9th of your income. It's easier to pay the mortgage and your profits aren't affected as much as you own larger and larger buildings.

However, there are advantages to purchasing the smaller units that we are covering in this course. It is a lot easier to get financing for 2 - 4-unit buildings. The banks will give you what they call conventional financing. If the building has less than four units, it is not considered a commercial building; therefore you will be able to obtain financing at a lower interest rate, for a longer amortization period and with a lower down payment.

There are programs available now that will let you put as little as 5% down for the purchase of a 2 – 4 unit building. If you are going to owner occupy the building, you can actually get in with nothing down with 100% bank financing!

The smaller buildings will be easier to manage and you can “cut your teeth” and practice good management principles to prepare yourself to buy larger properties.

After we got over our fear and bought our first apartment building, within three months we had bought two more. In six months we had a total of nine apartment buildings and at the end of that first year, we had bought a total of eleven apartment buildings.

All of our purchases were between 2 – 6 units. Within the next four years we had a total of thirty-eight properties that we kept (we bought and sold many, many more).

We made a lot of mistakes at the beginning, though we learned from them and got stronger. Without this knowledge it would be a lot harder for us to be buying the complexes that we are buying today.

Don't get me wrong; you don't have to buy thirty something multi-families to be able to start buying the bigger ones. All you need are a couple to cut you teeth on and then start looking bigger.

I wish we had, though hindsight is always 20/20 and that's one of the mistakes that we made that you don't have to.

Where To Get The Names Of The Owners

So where do we find the names of the owners of the buildings that you will be buying? The easiest place to get a list is from a list broker. You call a list broker (look in the yellow pages) and specify where you're looking.

You may want to start looking for owners in your county or province and then expand to surrounding counties. The information you will be looking for from the list broker is the following:

- Name of owner
- Address of the property
- Address of the owner
- Number of units
- Last sale date
- Amount of last sale

This is the basic information that you will need in order to track apartment buildings in your area. To make your search for a list broker easier, call your county courthouse and ask them who they sell their information to (if you don't have a county courthouse, call your assessors office).

Sometimes the county courthouse does not sell their compiled lists, so the list broker will not be able to help you. My county does not sell the list to any list providers. If this is also true in your area, then what you need to do is to go to the town or city hall in all the areas that you are interested in.

Prepare a request form from the above information at the assessor's office, although the request will be a little bit different from above. Some Assessor's Offices don't have an actual form; they ask you to write up a request and submit it. You will have to request the "building code" for the type of property that you want on your list.

Ask the Assessor for a list of building codes. Normally they will have a code for 2 – 4 unit buildings and then a code for 5+ units. 5+ means that it can be any number of units over 5 units. That's okay, because when you receive the list it should specify how

many units that each building or address has, and then you can decide if you want to go forward and make contact with the owner.

These lists are going to cost you money. Each town or city hall will charge you anywhere from \$5.00 and up. The most I have seen charged is \$125.00. It usually depends on the size of the list, but sometimes the town or city has a set fee.

When working with a list broker, the list that they compile for you will cost you a certain amount per name. This also varies. I have seen list costs range from \$.10 to \$1.00 per name.

After you get the lists, the next thing you need to do is start a marketing campaign. You want to make some sort of contact with these owners every 3 – 4 months. Remember, with time, every seller's circumstances change and you want to be the one they think of when they are ready to sell.

I usually start off with a letter that has a headline like, "I'm Interested In Buying Your Property" (his letter along with all of the other letters that I will discuss in this chapter are at the end of the chapter). This tells the owner exactly what the intention of the letter is. If he is interested in selling, he will read on. If he isn't, he won't.

What You Absolutely Must Have In Every Prospecting Letter That You Send Out

See the examples that follow. Notice how the letter is constructed - brief, to the point and ending with a P.S. The P.S. is constructed to reiterate the offer. It's been proven that after a person reads your headline, the next part of the letter that's read is the P.S. Always put one in and always put in some kind of benefit that the owner will receive by taking action.

I have given you examples of the first four letters that I send out to owners. I will space these letters two months apart in the beginning and then 3 – 4 months apart after that.

Each follow-up letter is designed to have the owner take action to call me. Basically, the idea is to contact the owner continuously until he sells his property. When the timing is right and he is ready, he will call you.

All of the letters should be designed to say, "Hey, I'm still here, ready to buy your property and provide a solution to your problem." It is when the owner has a problem; usually one of the 11 mentioned earlier, that he will call you.

That is why you must continuously contact the owners, because you don't know when their problem will occur. You just need to be there when it does.

How To Find Properties Through Bankers

Another way to find motivated sellers is to establish a relationship with a banker. You want to find out who is in charge of their Real Estate Owned Department. You'll want to either meet in person if he/she is in your local area, or talk with them on the telephone.

I usually send the bank representative a letter first (see example). In the letter, I explain that I am an investor and the types of properties that I'm looking for (in the example I say "any" because I will buy anything that is a good deal).

My goal is to establish credibility throughout the letter, and I end by telling him/her that I will be calling on a certain date to discuss the possibility of us doing business in the future.

Then I call on that date! When I call, I reference the letter. If I get the secretary, I tell her that he/she (the banker) is expecting my call.

Referencing the letter gives me an "opening" or reason for calling. During the conversation I ask if he/she has any inventory (bank owned property) on hand that I could take a look at.

Don't be discouraged if you hear "no" in the beginning. First of all, the bankers don't know who you are and they get calls from investors all the time. The difference between those other investors and you is that you will keep in contact with this banker. He doesn't know that yet, but if you want to be successful, you will. The other investors will call, get a "no" and they never call back.

It's proven that the average sale is made after the fourth follow up, while the average prospector quits after the second. To get more deals, you must call more often.

During your first call, you may time it just right and the bank has a property or two that they are looking to unload. Congratulations!

Regardless of what happens, after the phone call you write that banker a note (see example) telling him what a pleasure it was speaking with him, reference some point of the conversation (this personalizes the letter) and end it with, "I'm looking forward to doing business with you."

Then put that banker on your contact list and set up a plan to mail to him once every month and telephone every quarter. Is this a lot of work? Once you get the system down it won't be. And remember, banks are foreclosing on properties all the time. You want to be the one that this banker thinks of when he has new property that he wants to get off of his books.

You'll find that bankers are very motivated to sell their properties during the last two months of the year. This is because they don't want them to appear on their year-end reports as this can affect shareholder confidence in the bank.

Step up your contacts with your bankers as it nears the end of the year and be prepared to move swiftly.

Finding Properties Through Evictions

One of the most frustrating experiences that a landlord goes through is the eviction process. He has a tenant that is living in his building and not paying him rent. The mortgage is still due, the utilities still need to be paid and the landlord is being stiffed by one of the tenants.

It is at this time that a landlord is very vulnerable. He is going through a financial hardship. This is when he begins to do some soul searching and begins to waiver as to whether or not landlording is really for him.

I have been very successful at making contact with landlords that are in the process of evicting their tenants. I get their names and addresses from the local Housing Court, District Court, or wherever property owners go to do evictions.

I send them a letter. One of the headlines reads, "There's No Sweeter Experience Than Selling An Investment Property That Has Become A Pain In The Butt." The letter is at the end of this chapter. I have literally had landlords call me up and say "I'm ready to get rid of my pain in the butt!"

You can use this letter or create your own. Remember when writing these letters (or postcards), first you must identify the problem and remind them of the pain that they are going through and then give them the solution (selling the property).

Getting Properties From Your City Officials

Go to your local Board of Health officials and ask them which properties are in need of repair or have outstanding violations. They will be happy to give you the addresses if they think that you are going to buy the property and fix it up.

Boards of Health officials know who the good landlords are and who the bad ones are. They also know which properties are in trouble. Establishing a relationship with these officials will be very beneficial.

Another place you can go while you are at city hall is to the Tax Office to find out which properties have been taken back in tax title or which properties have tax liens on them. You will find motivated sellers amongst the names on these lists.

Go to the Building Department and see if there is a list of condemned properties. Some cities have them, some don't. If they do, contact these owners. These owners are among the very motivated.

Now before you leave city hall, make one more stop at the Assessor's Office. See if you can get a list of all out of state owners of multi-family buildings (see letter example).

Managing from a distance is very difficult and sometimes not very profitable. If they do not have a list, you can go page by page through the property owners book and locate them there. This takes a little time but could pay off in the end.

I have bought buildings in my home city from people that live all over the United States. This method is very effective as well. Like any other method, you need to put these people on your list and contact them every 3 – 4 months.

How To Work Effectively With Real Estate Brokers

When you're looking for smaller properties (2 - 6 units), you can use residential real estate brokers.

You'll want to be prepared when you meet with these brokers. Go to a bank or a hard money lender and get your self pre-approved for a loan before you meet. Bring the pre-approval form with you and give a copy to the agent.

This will show the agent that you're a ready, willing and able buyer and you will go to the top of their list.

When working with an agent, you want to work with one who knows about apartment buildings. The easiest way to find them is to look in the weekend paper and see who is advertising apartments for sale.

Call them on what they are trying to sell and find out if they have others or know of others. With your pre-approval, they will be happy to go onto the Multiple Listing Service and get you a list of what's available.

If the agent specializes in apartment buildings, that is even better because he/she will have their own listings that they can tell you about before they go onto the market.

Don't just limit yourself to one agent. Have several working for you. You never know where their loyalties lie.

I was once working with an agent in Providence, Rhode Island who told me that I was her number one investor and that I would be the first to know when a new property came on the market.

I had seen several properties with her and had offered on a couple, she was nice and I trusted her. On my way out of the city one night, I stopped at a C-21 to see if they had any in house listings (listings not on Multiple Listing Service). They didn't have anything new but the woman said she would call me if something came up.

Two days later I got a call from her. A property just came on the Multiple Listing Service that she thought I would be interested in. I set up an appointment but I felt uneasy because I had expected a call from the other agent as well, especially since the property was in the Multiple Listing Service.

No Call.

I went to the property and there was the other agent showing the property to another investor. She was shocked to see me and gave me all kinds of excuses, but the bottom line was, I was not on the top of the list like she had lead me to believe and I almost lost out on that property. Of course I didn't do business with her again and I contacted several more agents in the area.

One Sure Way To Never Get Another Deal From A Real Estate Broker

Never, ever back out of a closing once you have done your Due Diligence and made a commitment. If you do, you are taking food out the mouths of the people who feed you (the brokers will not get paid). If you do this, they will never give you another deal. Always stick to your word.

Cruising Neighborhoods For Big Profits

Look for run down properties in good areas when cruising neighborhoods. This means that the owner is not taking care of his investment. Sometimes they don't realize how bad their property has gotten. I take a picture and send it to them, especially if they are out of state.

If you are having a hard time finding the owner, or want to save yourself a trip to city hall, go to the door and ask the tenants who the owner is. They will usually tell you. If they ask you why you want to know, tell them that you want to give the owner a bid to do repairs to the place. Now they are more than happy to give you the name, address and telephone number of the owner.

Get a telephone number whenever you can. It's always better to call an owner if you have a choice than it is to send a post card or a letter. You will get a better feel for the owner to see if he is really motivated and if he is someone you should pursue. If he isn't, at least you'll know right away instead of having it in the back of your mind.

If you only get the name of a property management company, give them a call. Explain to them that you are interested in buying the property and if you do, you will "probably" keep them on to continue to manage the building. You must lead them to believe that they will be retained or they will be afraid that they will lose the account and will not tell you who the owner is. Sometimes the management company is the owner.

A lot of management companies have a clause in their management contract stating that if they are the procuring cause of the sale of the property, they are entitled to a commission. This is another incentive for the management company to allow you to contact the owner.

A Classified Ad That Works Like A Magnet In Every Market

There are two ways to use classified advertising. The first is to look under the real estate section for properties for sale. You may find apartment buildings mixed in with the single-family homes that are for sale, or they may be under their own heading of “Investment Properties For Sale” or “Income Properties For Sale.”

Scan through these sections and look for potentially motivated sellers. Some key words to look for are “Estate Sale,” “Seller Motivated,” “Needs Work,” “Owner Relocating,” or “Owner Financing.” Any variation of these will lead you to a potentially motivated seller.

Look in the “Apartments For Rent” section. Any owner that is giving away free rent or free microwaves or vacations for people to rent their apartment may be in trouble and be motivated to sell.

The other thing you can do is to advertise yourself. Put an ad in that says:

**I Buy Apartments
Any Size Any Condition
Call Dave 555-5555**

This is an effective way to get sellers to call you.

In summary, there are many ways to get motivated sellers to call you. You should not focus on just one method, but use a variety and have deals coming to you from different sources. Always look for new ways to find motivated sellers as markets are constantly changing.

Although we always want to work with a motivated seller, if we can pinpoint a market that for some reason is about to rebound economically, we want to pay fair market price and accumulate as much as we can.

In these markets, we can afford to pay fair market prices as we expect the market to being to appreciate, thus making today’s fair market price tomorrow’s bargain.

Handling The Ad Call

Now that you’ve got your marketing in place, your phone is going to start ringing and you need to be prepared. A lot of investors are afraid of the phone ringing because they are not sure what to say, I’ve added in script on the following page.

This script is set up for two purposes. The first is to get the basic information that you will need to determine if the deal is something that you want to pursue.

The second purpose is to keep you in control of the call. You always want to be in control of the call so your not wasting a lot of time with sellers who are not really sellers and because it keeps you in the authority position.

“How did you hear about us?” tells you what marketing is working.

Notice how I get them to tell me their name and number.

Notice I repeat the answers to all questions in the same words that the seller told them to me and give a positive affirmation at the end. This tells that seller that you are listening to him; the positive affirmation keeps you in a positive light in the sellers mind and keeps him answering you key questions.

Also, people want to do business with people who are positive!

As you read through the questions, you will see that I’ve got all of the key information that I’m going to need to determine if this is a deal. Sometimes you will know right then that it is a deal and will want to make an appointment as soon as possible (because if you don’t, I will and will get that deal signed while your dilly dallying!).

Sometimes you will have to take the time and do the numbers through the Multi-Unit Profit Finder Software or the Apartment Analysis sheet and then determine if it’s a deal. This should be done immediately after you hang up the phone and then call the seller right back.

If you think it may be a deal, set up the appointment and then do the analysis. If its not a deal, you can always call the seller back and cancel the appointment.

A lot of times, you will know immediately that it is not a deal (nine times out of ten). Simply tell the seller the reason that it is not a deal for you and thank him/her for calling.

This is a numbers game, you must get your phone ringing, you must get sellers to call you and you must be putting in offers. With out doing these three things, you are not in business.

You should be putting in at least three offers a week.

Seller Call In Script – Apartments

Hello, Lindahl Group Investors can I help you?

Yes, I'm interested in selling my property?

Your Interested in selling your property great! How did you hear about us?

I received a letter in the mail.

A letter, excellent. Oh, by the way, my name is Dave, what's yours?

(All future answers are a repeat of the end of the question with a positive affirmation. See example after next 3 questions)

John Wannasell

John, what's your number there, just in case?

508-555-5555

508-555-5555 terrific, how many units are on the property?

There are 14 units.

14 Units, excellent. How soon are you looking to close?

I'd like to close with in 30 days.

With in 30 days, great! Can you tell me about your property?

What do you want to know?

Can you tell me how many units?

What the unit mix is (how many 1 bedrooms, 2 bedrooms, 3 bedrooms..)?

What are you getting for rents for these units?

How many units are vacant at this time?

Who pays for the utilities, you or the tenants? Heat, electric, water

Do you have lead paint certificates?

What type of repairs need to be done to the property?

Are the tenants on 30 day or one year leases?

How much are you asking for your property?

Answer A - \$250,000

\$250,000 good. How did you arrive at that value?

Answer B – I don't know why don't you make me an offer

Well Mr. Seller, you called me to sell your property, before I come out to take a look at it, I need to have some idea as what your asking for it so I'm not wasting your time and your not wasting mine. That sounds fair, doesn't it?

Yes

If I were to offer you all cash and close quickly, what is the least amount that you would except for the property?

Is that the best you can do?

How much do you owe on the property?

Is your loan assumable?

Will you sell me your property for what you owe on it?

What time would be good for you to show it to me today, 2 or 4 o'clock?

I'm Interested In Buying Your Property! Read On...

David Lindahl
870 N. Main St
Brockton, MA 02301

Mr. Property Owner
345 Center St.
Any Town, State 45667

Dear Property Owner:

I'm interested in purchasing your property. Are you interested in selling?

I currently hold a portfolio of properties similar to yours and am looking to add more.

As a property owner, I realize that there are a number of reasons why someone may be interested in selling. Everyone has his or her own reason and my question to you is, are you now ready to sell? If so, I am ready to buy.

I can close quickly or delay the closing as long as you like.

Please contact me at your earliest convenience so that we can discuss the sale of your building. Call me now at 1-800-478-9972.

I look forward to hearing from you.

Sincerely,

David Lindahl

P.S. To Get The Best Price For Your Property, Call Me Now At 1-800-478-9972.

Local Investor Needs To Purchase A Property Within The Next 14 Days

David Lindahl
870 N. Main St.
Brockton, MA 02301

Mr. Property Owner
345 Center St.
Any Town, State 45667

Dear John,

This is my fourth letter to you. As I stated in my previous letters, I'm an investor looking to buy more property and I'd like to buy yours.

For tax purposes, I must purchase a property within the next 14 days and am wondering if you have been thinking of selling.

I'd like to discuss the possibility of purchasing your building. Are you wondering what it is worth in today's market?

Give me a call and we can discuss it. Even if you don't decide to sell, at least you'll have an idea of what it is worth.

Call me now at 555-5555 as I will be purchasing a property within the next 14 days.

Sincerely,

David Lindahl

P.S. I'm an investor and I'd like to BUY your property. Call me now at 555-5555.

I'm Interested In Buying Your Property

David Lindahl
870 N. Main St.
Brockton, MA 02301

Mr. Property Owner
345 Center St.
Any Town, State 45667

Dear Property Owner

I'm interested in buying your property at 24 State St., Town, State.

I'm a local investor who owns several properties similar to yours. Have you thought about selling? Now may be the best chance that you've had in years.

By selling your property directly to me, you will not have to pay any hefty real estate commissions. That means more money for you.

Call me now and we can discuss a fair market value for your property. There is no risk. If you decide to hold on to your property you will at least know what the fair market value is without having to pay an expensive appraiser.

Call me now at 555-5555. I look forward to hearing from you.

Sincerely,

David Lindahl

P.S. No commission, no expensive appraisal, just a fair price for your property so that you get all of the cash that you deserve. Call me now to discuss the sale of your property at 555-5555.

How To Get Rid Of Your Tenant Hassles Forever!

David Lindahl
870 N. Main St.
Brockton, MA 02382

Mr. Property Owner
345 Center St.
Any Town, State 45667

Dear John,

Are you tired of running a maintenance company for your tenants?

Are you sick of leaving your home on the weekend or in the middle of the night to fix a clogged toilet while your tenant sits comfortably in front of the T.V. eating bonbons waiting for you to arrive

I know how you feel. I'm a landlord myself and I know this might sound crazy, but I'm looking to buy more property.

Have you reached the point where you're ready to sell? If so, give me a call and we can discuss getting you a fair price for your property.

Even if you decide not to sell, at least you will know what your property is worth in today's market.

Call me now at 555-5555

Sincerely,

David Lindahl

P.S. I can close quickly or take as much time as you like. Call me now for a fair price for your property at 555-5555.

I've Bought 2 More Properties. Will Yours Be Next?

David Lindahl
870 N. Main St.
Brockton, MA 02301

Mr. Property Owner
345 Center St.
Any Town, State 45667

Dear John,

I'm still interested in buying your property.

Since I last wrote I have acquired 2 properties similar to yours. Is it time for you to cash out or trade up to a larger building?

Give me a call and we can discuss the possibility of me buying your property. At least you will know how much you will get for it so that you can make an educated decision as to whether or not to keep it.

Call me now at 555-5555. I look forward to hearing from you.

Sincerely,

David Lindahl

P.S. Is now the time for you to achieve the benefits of your next real estate move? Whether you want to cash out or move up to a larger property, call me now at 555-5555. I'd like to buy your property!

David Lindahl
870 N. Main St.
Brockton, MA 02301

Mr. Rick Timmerland
Real Estate Owned Department
Abington Savings Bank
47 Washington St.
Abington, MA 02351

Dear Mr. Timmerland,

I'd like to buy your non-performing assets.

I'm a local investor who already owns a significant portfolio of properties in this area and am looking to buy more.

I'd be interested in talking to you about any properties that you have in your portfolio or any that you see coming in, in the near future.

I can close quickly and am looking to make a fair deal.

I will be calling you on Tuesday, January 15th to discuss the possibility of us doing business together.

In the mean time, feel free to contact me at 555-5555. Call me now.

I look forward to hearing from you.

Sincerely,

David Lindahl

P.S. As an experienced investor, I look forward to purchasing your non-performing assets.

David Lindahl
870 N. Main St.
Brockton, MA 02301

Mr. Rick Timmerland
Real Estate Owned Department
Abington Savings Bank
47 Washington St.
Abington, MA 02351

Dear Mr. Timmerland,

It was a pleasure speaking with you on the phone on Tuesday morning.

I was surprised to learn how much we both have in common, especially that we both went to the same high school!

Although you don't have anything in your portfolio at this point that you are interested in selling, I know that you will receive properties from time to time. Please keep me in mind when you find yourself in a situation in which you have a property for sale.

In the meantime, I will be contacting you from time to time to offer my services and keep you informed of the overall market from an investor's point of view.

Again, it was a pleasure speaking with you and I look forward to doing business with you and your institution in the near future.

Sincerely,

David Lindahl

P.S. Remember, I can close quickly.

There's No Sweeter Experience Than Selling An Investment Property That Has Become A Pain In The Butt!

Dear _____,

Have you had enough of the hassle of evicting tenants? Isn't it ridiculous how slanted Massachusetts housing laws are toward the tenants! Are you tired of making night and weekend trips to your "property" on your free time?

Well, we'd like to buy your property and rid you of your problem. We can pay you fair market value and pay you cash, thus eliminating any fees from any Realtors.

Due to tax reasons, my sister and I (we're partners) need to buy 2 or 3 buildings within the next 12 days. I am sorry for the urgency of this letter, but in order for us to purchase your property, we'll have to agree quickly on the terms of sale.

We are open to either a quick cash sale or can structure a delayed closing.

If you're looking for a way to get rid of your "pain in the ass" property and put cash in your pocket, pick up the phone and call us now at 617-835- xxxx. We look forward to speaking with you!

Sincerely,

David Lindahl and Tammy Beckwith
Providing Apartment House Solutions

P.S. We have been solving problems and buying apartment buildings like yours for over 7 years now. Call us now to get a fair market value for yours!

Is It Time To Sell Your Out Of State Property?

Arthur Fiedler
127 Center St.
Jacksonville, FL 02331

Dear Arthur,

Is it time to sell your out of state property? A lot has changed since you bought the property on 61 Melrose St., Brockton.

Have you had enough of being a long-distance landlord? Tired of being screwed by the Management Company, nickel and dimeing you to death with maintenance calls?

How about your vacancy rate? Why is it so hard for the management company to fill your vacancies? That's their job. If they can't do it, who can?

I'm a local investor and I would like to rid you of your headache. I'd like to offer you a fair price for your property.

You can both take the cash and live in peace (remember when...) or you can take your equity and trade up to a larger property (that's how true wealth is built) closer to you.

I can offer you a quick closing (or take as long as you want) and you don't even have to come back to Brockton to do it. My attorney can FedEx your attorney all of the paperwork and the checks.

I'll try to make it as simple and painless as possible.

Call me at 555-5555 so that we can discuss the possibilities. You have nothing to lose. If you decide not to sell, at least you will know what your property is worth on the current market.

Call me now at 555-5555.

Sincerely,

David Lindahl

P.S. For a quick, painless, and free valuation of your property, call me now at 555-5555.

P.P.S. – I am not a real estate agent. I want to buy your property.

Chapter 3

The Quick And Easy Way To Evaluate Properties

Real Estate Math. Just the saying those words sends shivers through some people's bodies!

It's really not that bad. Actually, I'm going to show you a simple step-by-step system where all you will have to do is fill in the blanks and do some simple calculations on your calculator, and you will be able to determine instantly whether or not you have a potential real estate deal.

Your 3 Main Objectives When Purchasing Apartment Buildings

1. **Put as little cash in the deal as possible.** The less you have in the deal, the more leverage you will have and the higher the returns you will get on your money. Also, it frees up money to go into other deals.

If you took \$20,000 and bought an apartment building for \$100,000 and kept it for the life of the 20-year loan (not taking into consideration appreciation) you would have an asset worth \$100,000.

If you divided up that \$20,000 and bought two \$100,000 dollar properties and put \$10,000 down on each, with the same 20-year financing, at the end of the term, you would have assets worth \$200,000.

Make your money work as efficiently as possible for you.

2. **Get back what you invested as soon as possible.** The sooner you get your money back, the sooner you can use it to purchase other properties with leverage. As in the above example, the more properties you have at the end of the term, the wealthier you will become.

The Cash on Cash Return will indicate how fast your money will be returned to you.

3. Obtain the largest amount of appreciation in the shortest amount of time.

The faster your property appreciates, the wealthier you will become through the increased amount of equity that you have in the building.

You should always be looking to put your money into real estate investments that have the highest potential for appreciation. You will find this appreciation in a rising market. When the market has risen to a certain level (we discuss this level in the chapter on Market Timing). You want to sell this investment and find another market that is coming off the bottom of its cycle.

Another quick way to obtain appreciation is through sweat equity. Seek out properties that need repairs, have poor management or that have low rents. Do the necessary work and enjoy fast appreciation through equity accumulation.

The 7-Minute Accurate Apartment Analysis

The fastest way to do a quick evaluation on a property is to use the Apartment Analysis Form that I have developed. The Apartment Analysis Form is very conservative in its nature.

All you have to do is plug in the numbers and do the simple math that is needed. When you get to the end of the form and you have a positive cash flow, you have a winner.

If you have a break even, you may also have a winner but only at the beginning or the middle of a rising market. If the market is near peak, a break even is a loser because in the near future, the values and the rents in that market are going to go down and then you will be in a negative cash flow situation.

Do not ever; ever buy a property that has a negative cash flow.

If you break this rule, you will be soon out of business. You'll hear plenty of reasons from real estate agents why you can buy with a negative cash flow now and be sitting pretty in a year or two.

The most common reason is that the rents are below market and if you work the numbers with market rents, you have a winner. This is bogus.

Always buy your properties based on the current rents. If the owner wants more for his property then have him raise the rents, otherwise the value of any properties lies in the Net Operating Income based on current rents.

That being said, I will do an analysis based on projected rents and use that information to help me make a decision when comparing one property with another and to project out 3 years while devising my exit strategy. Never buy a building without knowing your exit strategy.

Let's go over the Apartment Analysis Form (see example that follows) and get an explanation for each item.

Property Address

Obviously, the address of the property goes here. If you do an evaluation and decide not to buy the property at this time, I always save the Apartment Analysis Forms in a file because you never know when the property may come around again. Sometimes soon, sometimes a few years later.

Asking/Offer Price

If it is currently on the market, the asking price goes here. I also put the maximum amount that I will offer on this line as well.

Owner

Write down the current owner information here, along with any other contact information, such as address and telephone number.

Current Mortgage Information

You'll want to find out this information and use it while you're negotiating. If the owner has a low mortgage, he may be more willing to negotiate. If the loan has a low interest rate and is assumable, it may be advantageous for you to assume it.

Total Equity

By knowing this number, you'll have an idea of the owner's financial position. Again, you can use this to your advantage when negotiating.

Unit Mix

This is the "mix" of the building. It simply described the mix of the different style apartments. You should be concerned with how many 1 bedrooms, 2 bedrooms and 3 bedrooms and possible more bedroom apartments you have.

You'll hear this term a lot. If you want to sound like a seasoned pro, ask the owner or the broker what the "mix" is. They will know exactly what you are talking about

It's better to have more two-bedroom apartments in the mix. One-bedroom apartments tend to attract transient tenants, meaning that they move often, causing you turnover.

If you have three bedroom apartments, you're going to have a lot of kids that may cause more wear and tear on your unit, and you may have a lot of kids hanging around your property.

People don't like to rent apartments if there are a lot of kids hanging around, especially people who don't have kids. On the other hand, you're going to receive higher rent for the extra bedrooms.

Some people think that the optimum mix is two two-bedroom apartments for every one-bedroom apartment. Preferences depend on every owner's situation and where the property is located.

No. of Units

In **No. of Units** you want to write down the number of units that match the same description. Reading the top line from left to right, you would write down the number of rooms a unit has, number of bedrooms, and number of baths. You would total the number of units that match this description to get the No. of Units.

Cur Rent

Cur Rent is the average rent that is being collected for a certain unit style. We're going to use this figure for a comparison only.

Mkt Rnt

In the **Mkt Rent** grid, put today's market rent, not what the owner is currently getting. You will want to survey other similar buildings in the same area to see what the rent levels are.

You only use these figures to determine where this property's rents are in comparison to its surrounding market. If the rents are low, then you have excellent upside potential. Do not use these figures to calculate Total Gross Income or the Cap Rate.

Annual Operating Expenses

These are all of the expenses that you, as owner, would take out your pocket and pay. It's important to verify all of these expenses with bills and receipts. Sellers are notorious for underestimating their expenses. Your job is to find the "hidden expenses."

Real Estate Taxes

You can get the current bill from the seller or go to the town/city hall to get the information.

Insurance

Call insurance agents in the area to find out what a policy would cost you. In a pinch you can estimate the insurance cost at .005 of the potential sales price.

Water and Sewer

Find out if the dwelling uses city or private water and sewer. Get copies of last two year's bills so that you can see an average. Find out who is responsible for payment of the water. Some states require the owner to provide the water; others separate it off by a metering system.

Snow Removal

If your property is in a cold climate state, make sure you account for this. Obtain invoices and all contracts from the company that is providing the snow removal service now.

Trash Removal

For smaller buildings, 4 units and below, your city or town usually provides curbside pick up. Anything over 5 units is considered commercial and you will have to provide dumpster and trash service. Obtain copies of the contracts.

Electric

Does the owner pay for all of the electricity or does each individual pay for their own? The owner almost always pays for the common area lighting (hallways and basements), so get the last 24 month's electric bills.

Gas

If there is one heating unit, some states require the owners to supply the heat. Others will allow you to divide it up amongst the tenants. Find out the laws in your state.

The owner may also be responsible for the hot water, which may be run by gas and/or the gas going to the stove. Investigate all of these possibilities and get the last 24 month's gas bills if applicable.

Oil

Same goes for the oil. The owner may be required to pay for the oil for the heat and hot water. Do your Due Diligence and get the last two year's invoices for the fuel.

If you are not sure who pays for the oil, the tenant or the owner, simply look at the leases. You will find your answer there.

Legal

Regardless of how well you screen your tenants, you will eventually have to evict someone. The more units you own, the more evictions you will have to carry out. With each eviction comes an expense. Estimate about 1/4% of gross rental income.

Become educated as soon as possible as to the eviction process in your state. Some states are "landlord friendly" and some states are "tenant friendly." I come from a state that is "tenant friendly." It takes a minimum of three months to go through the eviction process.

I know of other states that take three weeks. Get to know the process in your state and if you don't get your rent by the 5th, send out the eviction notice. This doesn't mean that you have to evict them; it allows them a certain amount of time to pay in full and stay. In my state that's 14 days.

The important thing is that you start the process as soon as possible so that if they don't pay, you can get them out fast.

Management Fees

Whether you are going to manage it yourself or hire a company do to the property management you'll want to put a figure here.

Normal management fees on smaller (6 units or below) units are 7 - 10% of gross collected rents. Fees for larger units are negotiated and run from 5 – 9 %.

You'll also want to put the cost of onsite management in this box if your complex is large enough to warrant one, usually 16 units or higher. Using onsite managers may require that you use one of your units as an office and the manager is paid a salary.

Another form of onsite management is the manager who lives in one of the units for free or discount in exchange for management duties. There's more on this in Chapter 9.

If you do decide to manage yourself, you need to account for a management cost even if you are not going to pay yourself, because sometime in the future, you may decide to hire a manager and you will be able to because you have already accounted for one.

Repairs And Maintenance

Average repairs and maintenance will cost you 10% of Gross Annual Income. This is where sellers try to "slip one by you." Many sellers claim that they have virtually no maintenance costs. If this is the case then you will have a lot of deferred maintenance (repairs that have been neglected) to contend with shortly after purchasing the property.

If the apartments are newer, you may have less maintenance costs but the older the apartments are and the lower income your tenants have, the higher your maintenance costs will be. 10 - 15% is a good conservative figure.

Vacancy

Most banks and sellers use 5% for a vacancy factor. Depending on what type of market you are in this may be accurate but a lot of times it's not. Some sellers claim that they are at 100% occupancy. If this is the case, it means that their rents are too low and you will be raising them soon to meet the market.

I use a 10% vacancy rate when I am doing my evaluations. If the property cash flows with a vacancy rate of 10% then you have a winner. 10% is a very conservative number but we are in this to make money, not to take chances and hope for the best.

If I really like the building and I'm on the borderline at 10% then I'll check with the local apartment association and find out what the vacancy rate is from them and plug in that number.

Other

Any other expenses that you might incur when evaluating, put here. Every building is a little bit different than the last and you're bound to run into special costs every once in a while.

Total Gross Income

Now let's look at the positive side of the business: the money coming in. Total Gross Income first takes into consideration all of the current monthly rent. Add up all of the unit rents, based on copies of their leases, and get a total monthly figure. If there are vacant units, add conservative market rents for these units. We have accounted for vacancies in our Total Operating Expenses so we do not want to subtract them twice as this would throw off our numbers.

Multiply the Total Monthly Rents by 12 and get a Total Yearly Rent. Next take into consideration Other Income. This typically includes money earned from laundry machines and vending machines.

Add these figures together and you get the Total Gross Income for the building(s).

Net Operating Income

Now we can calculate the Net Operating Income by subtracting the Total Annual Operating Expenses from the Total Gross Income. This number is used to calculate the value of a property. Earlier in this chapter we reviewed formulas to determine the Cap Rate. One of the three variables that go into the Cap Rate calculation is the Net Operating Income:

$$\text{Cap Rate} = \text{Net Operating Income} / \text{Value (price of property)}$$

Debt Service

The last piece of the puzzle is the Debt Service. The debt service is the mortgage or mortgages that the property can support. Will the availability of financing leave you any money for cash flow?

We break down the 1st and 2nd mortgages into the following categories:

- Rate
- Balance
- Terms
- Payments

We do this because if we do not close on this property at this time, we may reconsider it in the future. In doing so we can look at our Apartment Analysis Form and see what parameters we used to evaluate it and see how those parameters may have changed at a future date.

We also organize all of the information so that we can go back and double-check our work.

After we figure out our monthly payments, we add them up and multiply them by twelve and get the Total Annual Debt Service amount.

Do We Have A Deal?

We've got our key figures, so now we can go down to the summary section and start plugging them into their proper places to see if we should even consider the property.

We take the Total Annual Income and subtract the Total Annual Operating Expenses and Total Annual Debt Service. This gives us our Cash Flow. If this is positive we have a potential winner. If it is negative, don't even consider it.

For buildings between 3 – 6 units, I like to see a Cash Flow of \$10,000 per year or about \$800 per month. The larger the number of units, the more Cash Flow I want to see.

Eight hundred dollars a month may not seem like much but remember our tenants are paying off our mortgage and we are expecting the market to appreciate.

If I'm in an appreciating market, then I may take less Cash Flow, expecting my rents and appreciation to increase. If I think my market is near peak, then I want a larger cash flow expecting my rents to decline. If my market is declining, then I want an even larger cash flow to ensure that I don't get into a negative position as rents decline further (it would have to be an exceptional deal for me to buy in a declining market).

Not only do we make money with positive cash flow, but we also make money from the pay down of our mortgage every month. This is called amortization. As we all know, at the beginning of most loan periods, our mortgage payments are mostly made up of interest and a little principal. Nonetheless, this little principal adds up at the end of the year and is a factor in making our decision as to whether or not we are going to go forward and buy the property.

You can figure out the amount of principal that you have paid down by going to my Real Estate Sales website, www.phprealty.com and clicking on the calculators icon on the left hand side of the site.

By adding total amount of the amortization and the cash flow, you get your net income. Sometimes the amount of the amortization is the deciding factor between an “iffy” deal and a deal that will make you money.

Determining Value

No discussion of valuation of apartment buildings would be complete without mentioning the Capitalization Rate (The Cap Rate).

There are three ways to determine value for a multi-family building (apartment building).

- i. Sales Comparison Approach
- ii. Income Approach
- iii. Replacement Costs Approach

Replacement Cost Approach

The Replacement Cost Approach determines value by calculating how much it would cost to replace an existing structure. This approach is very time consuming to complete as you must obtain pricing for all materials (from 2x4's to outlet covers) used in the construction of a property and then calculate replacement cost. Because of this it is very rarely used.

Sales Comparison Approach

For single-family houses and 2 – 6 unit apartment buildings, the most common approach to determining value is the Sales Comparison Approach. This approach compares similar properties that have sold within the last six months, within a certain geographical radius from the subject property (usually no more than two miles, the closer the better) to determine value.

If you're buying a 3-family apartment and a similar one on the next block over sold for \$220,000 then your property will be valued around that area.

The Income Approach

For six units and more, you would use the Income Approach to determine value of the property. This means that you would determine how much income the property is generating and determine it's value based on that number.

There are several formulas that investors use to determine value though one is more prevalent than others, that is the Cap Rate.

You'll hear people talk about the “Cap Rate.” It's what most investors use when comparing one property to another.

The Capitalization Rate is the rate at which the Net Operating Income (the income that is left over after all the expenses are taken out) repays the purchase price on an annual basis. Sounds technical doesn't it? Don't let it scare you.

The calculation of the Cap Rate is as follows

$$\text{Cap Rate} = \text{Net Operating Income} / \text{Value (selling price)}$$

Knowing this formula, if you know any two of the variables, you can calculate the third:

$$\text{Net Operating Income} = \text{Value (selling price)} \times \text{Cap Rate}$$

$$\text{Value (selling price)} = \text{Net Operating Income} / \text{Cap Rate}$$

If you paid \$100,000 for a property and the Cap Rate was 9 (a 9 Cap Rate would be expressed as .09 when doing calculations; all Cap Rates are percentages), you would get back \$9,000 per year from your investment (\$100,000 x .09). It would take 11.11 years for the Net Operating Income that you receive on a yearly basis to total the amount that you paid for the property ($100,000 / 9000 = 11.11$).

Cap Rates usually range between 8 – 12%. The higher the Cap Rate, the lower the Value of the property, which means you may be getting a bargain.

Properties between 2 – 8 units are often sold using the Comparable Method of valuation, much like single-family houses. When you buy properties with more than 8 units then you start using the Cap Rate for valuation.

Cash On Cash Return – The valuation that I am most concerned about is the Cash on Cash Return. Simply stated, the Cash on Cash Return tells you that for every dollar that you took out of your pocket to get into the deal, how much of that dollar will you get back at the end of the first year.

The equation is:

$$\frac{\text{Cash Flow (Net Operating Income – Debt Service)}}{\text{Acquisition Costs (Down Payment + any money needed for the deal)}}$$

In every market except a Buyers Market Phase II, you want a 15 – 20% Cash on Cash Return. That means for every dollar you put into the deal, you get back .15 - .20 of that at the end of the year.

In a Buyers Market Phase Two, I would be comfortable with a 10% Cash on Cash Return because I know the market is just about to explode!

Return On Investment – After the first year of operation, you know want to look at you return on investment or ROI, this is calculated by using the following formula

$$\frac{\text{NOI} - \text{Debt Service} + \text{Principle Reduction}}{\text{Acquisition Costs}}$$

You will need a computer or a financial calculator to determine principle reduction.

You want to be aware of the ROI so you compare properties with each other and other investments (such as stocks or bonds) with your real estate investment. You then choose the investment with the highest return on you investment.

Gross Rent Multiplier – You may hear other investors or brokers quote the Gross Rent Multiplier. Gross Rent Multiplier is the number of time gross rent goes into the sales price:

$$\text{Sale Price/Gross Rent}$$

I've never liked using this formula because it doesn't take into consideration expenses.

There is a lot of money to be made in buying and selling apartment buildings but like everything in life, you must build a solid foundation as you learn something new. This course is building your foundation while at the same time giving you the ability to earn a lot of money along the way. At some point, you may consider coming to my "Getting Rich In Apartments" Boot Camp.

If you want to be comfortable looking at big numbers, and doing big deals for big income!, we spend a lot of time going through actual case studies of deals that are currently on the market at that time.

I start you off small but then get you comfortable analyzing deals that are in the 2 – 4 Million Dollar range!

Apartment Analysis Form

Property Address _____
 Owner _____
 Current 1st Mort _____ Int Rate _____ Payment _____
 Current 2nd Mort _____ Int Rate _____ Payment _____
 Total Equity _____

Asking/Offer Price _____
 # Units _____
 Assumable Y N
 Assumable Y N

Unit Mix

| No of Units | Rms | Beds | Baths | Cur Rent | Yrly Rent |
|-------------|-----|------|-------|----------|-----------|
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

Total Gross Income

| | | |
|---------------------------------|------|--|
| Total Monthly Rental Income | | |
| | x 12 | |
| Total Yearly Rental Income | = | |
| Subtract Vacancy (10%) | - | |
| Other Income | = | |
| Total Gross Income | + | |
| Total Annual Operating Expenses | - | |
| Net Operating Income | = | |

Annual Operating Expenses

| | |
|----------------------------------|--|
| Real Estate Taxes | |
| Insurance | |
| Water and Sewer | |
| Snow Removal | |
| Trash Removal | |
| Electric | |
| Gas | |
| Oil | |
| Legal | |
| Management Fees | |
| Repairs and Maintenance 10% | |
| Other | |
| Other | |
| Total Annual Operating Expense = | |
| | |

1st Mortgage

Rate _____ Balance _____ Terms _____ Payment _____

2nd Mortgage

Rate _____ Balance _____ Terms _____ Payment _____

x 12

Total Annual Debt Service _____

Summary

| | | | | | |
|---------------------------|---|-------|--|---|-------|
| Total Annual Income | + | _____ | Amortization (loan pay down) 1 st Mtg | + | _____ |
| Total Annual Oper Expense | - | _____ | Amortization (loan pay down) 1 st Mtg | + | _____ |
| Total Annual Debt Service | - | _____ | Net Income | = | _____ |
| Cash Flow | = | _____ | | | |

Cap Rate _____

Cash on Cash Return _____

Net Operating Income/Asking, Offer Price

Cash Flow/Acquisition Cost

Chapter 4

How to Determine Where and When to Buy

There are a couple of different ways to go about purchasing apartment buildings. If you're just starting out and working with a little or no money down strategy, you'll probably want to stay within a one-hour radius of your house.

You're going to be looking for sellers who are in some sort of distress situation and you want to be close to your first couple of properties so that you can learn how to manage them effectively.

When you find one, there should be enough equity and cash flow available in the deal to make it a winner, regardless of the type of market you are in (buyer's market vs. seller's market).

When you are making your buying decision, you must be able to recognize the type of real estate market you are in and make your decisions accordingly.

If you are in a real estate market that is appreciating, then you can afford to get into a deal that has less equity (because you expect the property to appreciate with the market and therefore give you more equity) and a lower amount of cash flow (because you expect rents to rise thus increasing your cash flow).

If you're in a market that is near its peak or in a decline, then your requirements for a deal will be stricter. You will need a lot more equity in the property because you expect the market to go down or it is presently going down. You will also require a larger cash flow because you expect the rents to fall as the market goes through the decline cycle.

The only time you buy in a decline market is if you fall into an exceptional deal.

When you get a little experience, or if you already have cash on hand and are aiming towards buying bigger buildings and complexes, you'll want to target markets that are appreciating, ride the appreciation cycle and get out and move on to another market before the decline sets in.

In this chapter, you're going to learn how to determine what phase of the market your market or any other market is currently in. With this information you will be able to make educated buying decisions.

The Market Phases

Like the night turns into day and the day into night and like the tides of the oceans that rise and fall, the real estate market has its cycle and its phases.

The average real estate cycle lasts anywhere from 10 – 20 years. Every cycle is different and dependent on the economic environment in which it exists.

Although they differ in length, each real estate cycle has three distinct phases. Michael Anderson calls these phases:

1. Expansion-Real Estate market in full swing
2. Decline-Real Estate Market is over-built
3. Absorption-Real Estate Market begins recovery

Within these phases there are dominant supply and demand factors that affect the efficiency of the markets.

In any economics course you will learn that supply and demand strive to be in equilibrium. The price that is charged for any good or service is dependant upon the demand for that good or service.

Let me give you an easy example. You go into the city to park your car for an event at an arena. During the day, the price to park in a lot may be \$10.00. This is the price that supply and demand are in equilibrium for on that lot during that time of day.

On the night of the event at the arena, the price rises to \$15.00. This is because there is a much greater demand for that parking space since there are a lot more people who are demanding parking for the event, but the supply of parking spaces is fixed. There are only a certain number of parking spots and parking lots close to the arena. Thus the price of parking increases to the point where supply and demand are again at equilibrium.

Those who do not want to pay the \$15.00 will choose to park further away from the arena where the price for parking is less. The further away from the arena the parking lot is, the less demand there will be for the parking, because we all want to park as close as we can to the arena. As demand goes down you will see the price for parking go down as well. The same type of supply and demand factors is at work in real estate markets.

The 4 Major Components Of Supply And Demand In A R.E. Market

1. **Supply** - The number of properties available.
2. **Demand** - The number of people qualified who want those properties.

Within the supply side, there are two types of markets that can exist:

3. **Seller's market** – low number of properties on the market, a lot of qualified buyers.
4. **Buyer's market** – large number of properties on the market, fewer qualified buyers.

Within each type of Seller's Market and Buyer's Market, there are two stages that occur. The first stage is dominated by supply and the second stage is dominated by demand.

The Four Stages Of A Market Cycle

Let's take a look at the four stages of the market cycle.

Seller's Market, Stage One. Demand is rising; prices are rising according to the rise in demand. We are leaving the last stage of a Buyer's Market and this is the first transition into a Seller's Market.

Characteristics of this Market:

- Supply of properties on the market dwindles
- Properties selling fast, time on market is at its lowest point
- After a long period of inactivity, speculation and development are in full swing
- Unemployment is low
- Property prices and rents are rising
- Demand for real estate is at its highest point

Buying Strategy-When you buy during this stage you've entered the market half past the optimum time to buy for long-term appreciation. The best time to buy is a Buyer's Market Stage-Two.

There's still a lot of money that can be made buying during this stage, as no one knows how long and how far the market is going to increase. If you buy early in this stage, you can afford to pay market prices as you expect the property to appreciate.

The strategy is to buy and hold long-term or until you see the market entering Seller's Market Stage Two.

Seller's Market, Stage Two. In this stage, due to new construction and owners seeing an opportunity to cash out, supply begins to rise. In this stage demand remains strong and the amount of excess supply is not enough to shift the market to a Buyer's Market.

Characteristics of this Market:

- Time on the market begins to increase
- The number of properties on the market increases
- Seller's are waiting longer but are still getting inflated prices
- Land is being purchased for speculation
- Amount of construction in the pipeline is excessive and the potential for overbuilding is likely
- Demand for construction and materials is rising
- Prices for construction and material rises accordingly
- Business and Job growth begin to slow

Buying Strategy-Sell. Once you recognize that you market has gone into a Seller's Market Stage Two, any property that you own that you do not plan to keep for a long time should be sold.

The profits that you make from the sale of your building(s) should either remain in cash until the market changes to a Buyer's Market Stage Two or should be used to fund a deal that is an exceptional value.

Always try to buy a building that was larger than the last one that you sold. The bigger buildings that you own, the wealthier you will become!

Buyer's Market, Stage One. During this stage, the dominant characteristic of the market is the oversupply of properties now on the market. The market is now overbuilt and both buyers and sellers know it. The market has transitioned from Seller's Market to Buyer's Market.

Characteristics of this Market:

- Excess supply of properties on the market
- Prices are falling, rents are falling
- Demand is falling
- Time on the market sharply increases
- New construction is overpriced and stagnant
- Unemployment reaches its height
- People in the construction fields struggle for work
- Bank foreclosures sharply increase
- Investment property values decline to lowest level of all four cycles

Buying Strategy- This is the bottom falling out of the market! The only thing you want to buy in this market is a deal that has huge cash flow. Otherwise, keep your money in your pocket.

There might look like a lot of good deals on the market but the problem with a Buyer's Market Stage One is you don't know where the bottom is. You don't know how long the market is going to go or how low rents are going to fall.

What looked like a good deal today could be a dog six months or a year from now as the rents have fallen so low that the property no longer pays for itself so you need to come out of pocket to pay the mortgage.

Buyer's Market, Stage Two. The market is recuperating from oversupply. Due to over building, new construction has been virtually halted. The market is absorbing the excess supply with fewer and fewer properties coming on the market. Demand for properties begins to increase sharply as more buyers are qualified to purchase at these low prices.

Characteristics of this Market:

- Market absorbing oversupply
- Time on market decreases
- Job growth increases
- Existing properties are being rehabbed
- Investment properties are at their lowest levels but begin to slowly increase
- Rents are at their lowest level and have begun to slowly increase
- Competition for Bank foreclosures is fierce as their number declines

Buying Strategy- Of the four stages of a real estate market's cycle, the best time to buy is **Buyer's Market, Stage Two**. It is at this time that the market has turned the corner from the bottom and we see prices and rents start to slowly increase.

Time to buy...time to buy everything that you can finance and get your hands on. This is the stage that makes millionaires and multi-millionaires.

Anything that meets our criteria of a good deal (the numbers have to work, property in the type of location that we want, property needs work but not a huge rehab...) you want to buy.

At this stage, you can pay market prices because the values have already begun to rise and today's market price is tomorrow's bargain. You can also afford to purchase properties with just slightly positive cash flow expecting rents to increase and that cash flow to become larger and larger over the next couple of years.

When I say buy every deal you can, I'm serious. If you run out of money and just cannot find anymore, find a partner with some. Fifty percent of a good deal is better than zero percent.

Our Story

We bought most of our long-term hold properties during this stage. We worked hard for 3-3.5 years finding properties, financing properties and rehabbing and repairing properties.

All of the money from cash flows and the profits from single-family houses that we flipped went into buying more apartment buildings. It was hard work and for those 3-3.5 years, we didn't see much of a return.

As a matter of fact, my partner came to me at the 3.5 year point and said that he wanted out. He wanted me to buy out his half of the buildings because he was tired and what I said was going to happen (we would have big cash flows and would become very wealthy) wasn't happening.

I persuaded him to stay on for one more year. We were so close to having a vision become reality and although he couldn't see it, I knew it was just around the corner.

I could have bought him out on the spot and reaped all the rewards for myself but that is not what loyalty, partnership and friendship are all about. He worked too hard to get to where we were, he was going to eat from the fruits of his labor.

Six months later, BOOM! The sky opened up. Our cash flows kicked in, our properties started appreciating rapidly, it started raining money and it hasn't stopped since!

My partner came to me at the end of the fourth year and said, "Do you see how much I have to pay in taxes!!"

I said "Yes, but do you see how much you have in your bank account!!"

At that point, we would have been able to retire and live off the cash flows from our properties. After only four years!

Buyer's Market Stage Two. When you're in it, work night and day, and set yourself up for the rest of your life.

Which Indicators To Look For To Determine The Market Cycle

There are certain key factors in each market that are vital indicators of what the market is doing at any given time. These include:

- Construction
- Employment
- Number of Households
- Household Income
- Vacancy Rates
- Demographics
- Rental Rates

Let's take a look at each of these key indicators so that we can understand what they are telling us.

Construction

You will want to look for areas that have had a spike in construction for the last 1-3 years. You do this by going to the town or city hall and getting information about how many building permits have been pulled for the last seven years. You want to use seven years so that you can have a good look at what the market has been doing.

The number of building permits will tell you when the market entered the Market Phase Stage One. You will be able to tell this by the spike (drastic increase) in the number of permits applied for and gated in comparison to previous years.

The other advantage of obtaining information on building permits is that it allows you to see in advance what will be coming on the market. You will know what you are going to be competing against.

When you see the spike in construction, you know this market will soon be overbuilt. This will be a market that will be going from Seller Market Stage Two to a Buyers Market Stage One.

Here are some helpful resources when forecasting with building permits. You can contact the local building associations, commercial real estate agencies, banks, chamber of commerce, and planning department. All of these groups will have some sort of forecast regarding the local economy. Just ask them for a copy.

You can also contact the Bureau of the Census. A lot of information that you will use for forecasting will come from the Census Bureau. In this particular case you will write and ask for the report "*Housing Units Authorized by Building Permits and Public Contracts.*"

Department of Commerce
Bureau of the Census
Building Permit Division
Washington, DC 20230
301-763-5160

Employment

The best indicator of a market leaving the Buyers Market Stage One and entering the Buyers Market Stage Two is employment. More importantly, job growth.

You want to look for local governments that are giving tax incentives for companies to re-locate into their area. These areas should have a low cost of living, lower cost of labor and a good quality of life. These factors will entice businesses to move in.

Once businesses begin to relocate to these areas, for every job that a new business brings to an area, there will be 3-4 other jobs created in the service sectors. And the upward cycle begins.

Contact the department of economic development in the local government of the city that you are interested. Ask them what they are doing to entice businesses to relocate there. Also ask them which companies have already made a commitment to go there.

When a large company is going to move into an area and build a large operations plant that will employ 5,000 new workers that will in turn create 15,000 service jobs, you want to be buying as they are building the plant, not after everyone is in place.

If you wait until everyone is in place and all the new workers have migrated into the area, you will have missed a great deal of the appreciation that was taking place in the market.

Another good place to find out where companies are locating is to apply to a clipping service on the web. A good one is www.customscoop.com. Tell them that you're looking for articles related to company relocations and they will automatically e-mail them to you. Of course there is a fee involved.

From the Census Bureau, you can request the report on "County Business Patterns" Write to them at:

Department of Commerce
Bureau of the Census
County Business Patterns Branch
Washington, DC 20233
301-763-5430

Number of Households

When the number of households goes up then the potential for rents to increase will go up as well. This is because of the increased demand for a limited supply of apartments.

The opposite is also true. When the number of households is decreasing, the demand for apartments is also decreasing and owners will lower the rent to attract renters to their buildings.

When determining the number of households, be sure you are looking at households and not population. Population is not a good indicator of housing needs.

A publication called Sales and Marketing Management publishes a forecast for Number of Households. You can find it at:

Sales and Marketing Management
VNU Business Media
770 Broadway
New York, New York 10017
646-654-4500

Household Income

As household income rises, the ability to pay higher and higher rent also rises. Higher rents mean higher property values. You'll want to look for areas in which the household income is rising.

You may find these areas by looking in the Sales and Marketing Management report mentioned above. Look for "Effective Buying Income" when determining either increases or decreases in household income.

Vacancy Rates

When vacancy rates are down, this is potentially a good market to be buying in. Although vacancy rates cannot alone determine whether or not you should be buying in a particular market, you may want to seek out markets that are experiencing higher than normal vacancies.

If vacancies are up, that means the net income for the complex is down. If the net income is down then property values are down and you should be buying at lower prices. You want to be sure that you are buying in an Absorption Market. If the market is still in decline, it may be a long time before you can fill those vacancies and make any money.

When vacancies are at their lowest point, this may be the time to sell since this is when you will be getting your highest price for the property.

Check with the local chamber of commerce or local commercial real estate agencies to gauge local vacancy rates.

Demographics

Look at the demographic mix of a community. Factors that you want to see in the market that you are researching that would lead to a higher number of potential renters include:

- Higher female to male population
- Higher population of young and old versus middle age
- More singles versus married

- More smaller families versus larger families
- Higher amount of renters versus non-renters.

Rental Rates

Take a look at the current rents that are being collected. Are they increasing, decreasing or stagnant?

A good market is one in which rents have begun to slowly increase. This is an indication that the market may be in transition into the absorption phase.

Decreasing and stagnant rents are an indication that the market may be in the decline phase.

If you are not sure what the rents are doing in a particular market, contact the local apartment owners association or a local commercial real estate agency.

As you can see, there are a lot of variables that can help you determine what phase or cycle a real estate market is in. Although forecasting is not an exact science, armed with this information you are well on your way to making educated decisions and maximizing your wealth.

Like anything else, the more you do it, the better you will get. So get out there, target an area and forecast. If it looks good, buy! You can't make any money sitting on the sidelines.

Chapter 5

The Buying Process – Step by Step

Buying an apartment building is not like buying a single-family house, especially when you are buying bigger and bigger buildings.

The Offer

When purchasing a smaller building, from 2 – 6 units, you can use an offer that you would normally use for purchasing single-family houses (see example). When you get into larger buildings, the offer is produced through a “letter of intent” (see example).

As you can see, the letter of intent spells out the terms of the agreement. It is the first phase of the buying process. Usually Letters Of Intent will go back and forth until the shell of the deal is hammered out.

This is an actual letter that I am still using in the process of purchasing in Montgomery, Alabama.

The Purchase And Sale Agreement

Once this is done, a Purchase and Sale Agreement is drawn up. This too may go back and forth until the language of each of the clauses is acceptable to both parties.

See the example of the Purchase and Sale Agreement that I first sent over to the seller for the purchase of Danya Gardens. If you read it through, you will notice that is written to weigh heavily in my favor. Of course, I expect the seller to come back and neutralize a lot of the clauses, but if he doesn't, then I'm much better off

Let's discuss each section.

Sections 1 & 2 give us the basics about the property and the purchase price.

Section 3 is the Due Diligence clause. This is where you are asking for proof that all of the claims the Seller is making are valid. He must back up those claims with proof in writing. Never accept what the seller is telling you as fact unless he can back it up.

We will cover how to do Due Diligence in the next section of this chapter.

Section 3.2 gives us 45 days to do physical inspections on the property. We can enter at any time as long as we give a 48-hour notice and respect the tenants.

Section 3.3 gives us 45 days to do our financial due diligence. It also gives us the right to walk away from the deal, with all escrow money returned if the seller does not provide us with all of the information that we requested within 15 days (information that he already agreed to provide to us).

Sections 3.4 and 3.5 are the standard Lead Paint and Flood Zone Disclosures. If there is lead paint, we must be told and if the property lies within the 100-year flood zone, we must be told. Section 3.5 permits us to do water testing, and if we are not satisfied with the results then we will receive our escrow monies back.

Section 3.6 is the Hazardous Waste clause. The seller is representing that there is no hazardous waste on the property, below the property or anywhere near the property.

I bought a property that had an underground oil tank that the seller did not disclose to me. It cost me \$167,000 to clean up the contamination (it had leaked for years) and I'm still chasing the previous owner for retribution.

Section 3.7 states that all equipment (appliances, heating, electrical, etc.) are in working order, that nothing is to be removed from the premises without informing the buyer and that all units are to be in "rent ready" condition unless otherwise notified within 48 hours of the closing.

I was brokering the sale of an apartment building when the seller had removed all of the new stoves that were in the building at the time of the offer with old, used banged-up ones. He had switched the good stoves from the building that he was selling with the banged-up stoves from the building that he was keeping.

Needless to say, he didn't get away with it.

Section 3.8 covers termite inspections while 3.9 and 3.10 basically state that if the Buyer deems that the property is unacceptable and notifies the Seller before the Due Diligence period has expired then the escrow is returned and they both go off on their separate ways.

Section 3.9 is the financing contingency clause. The Buyer must put in an application within 15 days of the signing of the P&S and if he cannot get the mortgage within 60 days then he can terminate the agreement or ask for an extension.

Section 4 basically states that the Seller is to give to the Buyer good title. If the title is not good now then it must be fixed by the Seller before the closing. The Buyer, if the Seller cannot produce good title will have the option to stay in the deal or walk away.

Section 4 also outlines who will be paying for what at the closing. Also nicely put in Section 4 is an Inspection Clause that states that if, for any reason whatsoever, the Buyer decides that he doesn't want the property (doesn't actually say this but that's what the clause means) then the Buyer can walk and get his escrow back any time within the 60-day period.

This means you can tie up the property for 60 days and not buy it. This is usually cut to 30 days but I still try to put it in at the beginning of negotiations.

Section 5 states that the Seller is not a "foreign person" and is indeed a U.S. citizen.

Section 6 simply states that during the sales process, the Seller agrees to do business as usual instead of letting the property "go to hell."

It also states that the Seller cannot enter into any new contracts, including leases without the consent of the Buyer. This prevents the Seller from giving his brother-in-law the pool service contract at twice the normal rate before he sells or giving his "mistress" a long-term lease for under market rent.

Section 6.4 covers contracts that can terminate on the closing date without any penalties. It is up to the buyer to decide whether or not the contracts will be terminated.

Section 6.5 covers the Risk of Loss from a variety of sources, including eminent domain, flood and fire, and what the consequences of that loss will be. Section 6.5 basically lets the Buyer decide whether or not to stay in the deal if there is a loss, and if he does decide to stay in, under what capacity he will continue with the deal.

Section 7 covers taxes and prorations. At every closing there are adjustments for taxes, water, security deposits, utilities, etc., and they must be prorated to the new owner. Section 7 describes a variety of proration situations and how they will be handled by both the Buyer and the Seller.

You will notice that it states that the Seller is responsible for all outstanding rents. Remember, you want to close at the beginning of the month, receive a credit of all of that month's rent to reduce your out of pocket costs.

Section 8 describes a variety of miscellaneous clauses designed to protect both the Buyer and Seller. All are self-explanatory.

Section 9 is a fill-in-the-blank. If you have any special conditions regarding the purchase, this is the place to put them. A special condition could be a number of things. For example, "Seller to store car in garage until 60 days after closing" would be a special condition.

Section 10 explains the agency agreement that each real estate agent has with both parties. Be sure you know who your agent is loyal to. If he is a Seller's agent, don't tell him too much. If he is a dual agent or a Buyer's agent, pump him for as much information about the seller that you can.

Section 11 states what needs to be done in order for the contract to be considered binding and enforceable. In order for the contract to be binding and enforceable, the contract must be signed by both parties.

Section 12 explains that if either party needs to give notice to the other it must be given in writing and sent by personal delivery, U.S. mail, overnight mail, or FAX.

Section 13 explains how the escrow will be handled and what the broker's role will be in the handling of the escrow. It also identifies the brokers involved in the transaction.

Section 14 states the amount of the sales commission, who it shall be paid by, when it shall be paid, and to whom it shall be paid.

If the contract is not accepted within 7 days from the date that it is presented, it will be considered null and void as stated in **Section 15**. This is so the Seller doesn't hold on to your offer indefinitely as he shops it around for better offers.

Many investors involved in larger-sized apartment buildings buy and sell through 1031 Tax Deferred Exchanges. An entire chapter of this course is focused on creating wealth through 1031 Exchanges. **Section 16** is a common clause found in most commercial real estate Purchase and Sale agreements.

All of the Due Diligence contingencies have timelines. Each timeline begins at the "Effective Date." That is the date on which both parties have come to terms and have signed the agreement. Upon the last signature, the Effective Date is inserted in **Section 17**.

Due Diligence: If You Don't Do It You'll Be Sorry

Doing your Due Diligence is the most important aspect of the entire transaction. You must, among other things, verify that all of the financial figures that you have been given are correct. You do this by gathering information

Financial Records That You Must Consider Before You Purchase A Property

1. **Real Estate Property Taxes.** Get the actual tax assessment from the local Assessor's Office. Check to see if the tax rates will be increasing in the near future.

2. **Insurance.** Check to see if coverage is available and get quotes from local agents. If the property is in a flood zone be sure that you are get quotes for flood insurance as well.
3. **Operating Statements.**
 1. Get past two years' statements
 2. Rent Roll - chart all tenants with current rental rates, common area charges
 3. Calculate miscellaneous income such as vending, late fees, telephone charges, forecast future from past trends
 4. Verify all expenses with vendors
 5. Obtain past 12 months utility bills (24 months if possible), heat, electric, water, sewer, trash and cable
 6. Obtain copies of all service contracts
 7. Check with utility companies for any future increases
4. **Mortgage Terms And Conditions.** You'll want to know the following information about the loan that you will be obtaining to purchase the property. Financing can make or break a deal. Know what is available while structuring your offer.
 1. Mortgage Loan Balance
 2. Interest Rate. Is it fixed or variable?
 3. Maturity Date
 4. Original amortization period
 5. Prepayment penalty
 6. Collateral used to secure loan
 7. Transferability of Loan
 8. Recourse or Non-Recourse loan?
 9. Escrows Required?
 10. Closing Costs
 11. Late Charges And Grace Period
 12. Prohibition against secondary financing?
5. **The Complete Checklist Of Due Diligence.** Here is a complete checklist of all of the information that you are going to need from a seller in order for you to make an educated decision as to whether or not you will be purchasing the property. A couple of items are repeated from above. That just tells you how important those particular items are to this process.
 1. Copies of all utility letters from local utility companies showing that service is currently available to the subject property
 - a) Sewer
 - b) Water
 - c) Telephone
 - d) Electric
 - e) Gas
 - f) Cable T.V.

2. Copies of all current service contracts showing
 - a) Term of contract
 - b) Monthly cost for services
 - c) Work to be performed
 - d) Termination penalty
 - i. Pest Control
 - ii. Trash Removal
 - iii. Landscaping
 - iv. Elevator
 - v. Janitorial Service
 - vi. Maid Service
 - vii. Tax Consulting
 - viii. Window Washing
 - ix. Parking Lot Sweeping
 - x. Snow Removal
 - xi. Music
 - xii. Security
3. Legal Description of Property
4. Blueprints and specifications of property
5. As-built surveys showing any improvements to the property
6. Copies of all leases and rental applications
 - a) Rent roll
 - b) Security deposits
7. Copies of all mortgage documents
8. Copies of all insurance policies
9. Copies of the last two years' operating statements
10. Copies of last two years' tax bills
11. Copies of all permitted encumbrances on the property; Liens or liabilities on the property that should be known to the purchaser prior to closing
12. List of all employees with current salary history
13. Letter from current lender(s) showing the current balances and terms of the mortgages
14. Inventory: complete list of all inventory to be transferred with the property.
 - a. Office
 - b. Maintenance
 - c. Pool
 - d. Appliances (including all serial numbers)
 - e. Mechanical (including all serial numbers)
15. Copies of all Warranties
 - a. Appliances
 - b. Maintenance equipment
 - c. Mechanical
 - d. Plumbing
 - e. Electrical
 - f. Roof
 - g. Paving
 - h. Pool

- i. Tennis Court
- j. General Contractor

It sure is a big list, but you want to know everything you can about a building so that there are no surprises that are going to jump out at you from some dark corner and snatch some of your hard earned profits away. See the sample letter at the end of this chapter and use it to hunt and gather your information.

The Tenant Verification Form

After receiving and reviewing all of the leases, you may want to verify those leases with your own Tenant Verification Forms (see example that follows). Send them to the tenants with self-addressed stamped envelopes and compare the information when they come back.

You want to scrutinize the amount of security deposit that the tenant says he/she gave opposed to how much the seller says he has.

As you receive all of the information that you requested to do your Due Diligence, you will want to keep it organized. The following forms will help you organize and analyze the data. See examples.

After securing all of the information if you find that there are discrepancies between what the Seller told you and the information that you have received, now is the time to renegotiate with the seller.

Calculate the effects that the differences will have in your operating income and adjust your offer from there. If the Seller is reasonable, he will negotiate in good faith.

Once you have come to terms, now you are ready to complete your financing and take over the property. Congratulations. One more gem in your portfolio!

OFFER TO PURCHASE REAL ESTATE

TO: _____

The property herein referred to is identified as follows: The land and buildings situated on and together with a lot of land containing _____ Square Feet, more or less, located at _____ and further described in the _____ County Registry of Deeds Book _____ Page _____.

I hereby offer to buy said property, which has been offered to me by _____, as MY Broker, under the following terms and conditions: CHECK ONE _____ Check, subject to collection _____ Cash

1. I will pay therefore exactly \$ _____ of which
 - (a) \$.....Is paid herewith as a deposit to bind this offer
 - (b) \$.....Is to be paid at time of delivery of the Deed in cash, or certified, cashiers, treasurers, or bank check, or seller held note.
 - (c) \$.....
 - (d) \$.....Total Purchase Price Exactly
2. This offer is good until _____ AM/PM on _____, _____, at or before which time a copy hereof shall be signed by you, the Seller and your spouse, signifying acceptance of this Offer, and returned to me forthwith; otherwise this Offer shall be considered as rejected and the money deposited herewith shall be returned to me forthwith.
3. The parties hereto shall, on or before _____ AM/PM on _____, _____ execute the Standard Purchase and Sale Agreement recommended by the Greater Boston Real Estate Board or any form substantially similar thereto, which, when executed, shall be the agreement between the parties thereto.
4. A good and sufficient Deed, conveying a good and clear record and marketable title shall be delivered by 12:00 Noon on _____, _____, at the appropriate Registry of Deeds, unless some other time and place are mutually agreed upon in writing.
5. If I do not fulfill my obligations under this Offer, the above-mentioned deposit shall forthwith become your property without recourse to either party.
6. Time is of the essence hereof.
7. The initialed riders, if any, attached hereto are incorporated herein by reference. Additional terms and conditions, if any:

NOTICE: This is a legal document that creates binding obligations. If not understood, consult an attorney.

SIGNED

WITNESS my hand and seal

BUYER

BUYER

ADDRESS

PHONE NO.

This offer is hereby accepted upon the foregoing terms and conditions and the receipt of the deposit of \$ _____ is hereby acknowledged at _____ AM/PM on _____, _____.

WITNESS my hand and seal

SELLER (of Spouse)

SELLER

ADDENDUM "A" TO OFFER

DATE:

SELLER: **Owner of Record**

BUYER:

PROPERTY:

This **ADDENDUM TO OFFER/PURCHASE and SALE AGREEMENT** is made a part of and incorporated into same.

1) The **BUYER** may at the **BUYER'S** own expense and within (10) days from the date of the acceptance of this Offer, have the property professionally inspected for any or all of the following:

- 1) Home Inspection (Structural, electrical, mechanical, general condition)
- 2) Termite, Wood-boring insects, Pest Inspection
- 3) On-Site Sewer Disposal Inspection
- 4) Lead Paint Inspection
- 5) Radon Gas Inspection
- 6) Asbestos Inspection
- 7) Urea Formaldehyde Foam Insulation (UFFI) Inspection
- 8) Chlordane Inspection
- 9) Hazardous Materials, Groundwater and Soil Test Inspection (may require longer than 10 days to successfully complete)
- 10) Well Test Inspection (water quality and quantity)
- 11) Other

Should any of the above-listed inspections reveal the existence of unsatisfactory or hazardous conditions in the property, then the **BUYER** shall send written notice of same to the **BROKER** and **SELLER** on or before _____ by certified mail, return receipt requested, facsimile or by hand delivery to the **SELLER** and the **BROKER** with a copy of the inspection findings to be provided to the **SELLER** and the Broker within seven (7) days following notification. Upon receipt of the written notification and a copy of the inspection findings by the **SELLER**, this Offer/Purchase and Sale Agreement shall become NULL AND VOID immediately, and upon the issuance of mutually agreeable instructions by **BUYERS** and **SELLERS** and upon the signing of a Release by all parties, then all deposits made hereunder shall forthwith be refunded to the **BUYER**, and all parties to this Offer/Purchase and Sale Agreement shall be released from all liability.

- 2) **FLOOD HAZARD INSURANCE** - If the property is determined to be in a flood hazard zone, a lender may require flood hazard insurance before it will grant a mortgage. Providing such insurance is the sole responsibility of the **BUYER**.
- 3) **AGENCY DISCLOSURE NOTICE** - All brokers/salespersons represent the **SELLER**, *not the BUYER*, in the marketing, negotiating and sale of property, unless otherwise disclosed. However, the

broker or salesperson has an ethical and legal obligation to show honesty and fairness to the **BUYER** in all transactions.

- 4) **LEGAL COUNSEL** - **BUYER** and **SELLER** acknowledge that they have each been advised of the importance of seeking legal advice prior to signing the Purchase and Sale Agreement, and each acknowledges that they have been afforded the opportunity to confer with legal counsel of their choice prior to signing the Purchase and Sale Agreement.
- 5) **ESCROW FUNDS** - All deposits made hereunder shall be held in Escrow by: _____ as Escrow agent, in their non-interest bearing account, subject to the terms of this agreement and shall be duly accounted for at the time for performance of this agreement. In the event of any disagreement between the parties, the Escrow agent may retain all deposits made under this agreement pending instructions mutually given by the **SELLER** and **BUYER**.
- 6) The **BROKER(s)** named herein, and their agents, make no representations, guarantees, or warranties (express or implied) concerning the condition of the premises, or the boundaries of said premises except as herein stated notwithstanding any other terms of the agreement, this paragraph will survive delivery of this agreement.
- 7) **MORTGAGE CONTINGENCY CLAUSE** - In order to help finance the acquisition of said premises, the **BUYER** shall apply for a conventional bank or other institutional mortgage loan of \$ _____ at prevailing rates terms and conditions. If despite the **BUYER's** diligent efforts a commitment for such a loan cannot be obtained on or before _____ the **BUYER** may terminate this agreement by written notice to the **SELLER** and/or the Broker(s), as agent(s) for the **SELLER**, prior to the expiration of such time, whereupon any payments made under this agreement shall be forthwith refunded and all other obligation of the parties hereto shall cease and this agreement shall be void without recourse to the parties hereto. In no event will the **BUYER** be deemed to have used diligent efforts to obtain such commitment unless the **BUYER** submits a complete mortgage loan application conforming to the foregoing provisions on or before _____.

WE, the undersigned, have read and understood all of the above provisions.

(Seller) _____ / ____ / ____
Date

(Seller) _____ / ____ / ____
Date

(Buyer) _____ / ____ / ____
Date

(Buyer) _____ / ____ / ____
Date

Sample-Letter of Intent

David Lindahl
870 N. Main St.
Brockton, MA 02301

Hugh V. Smith
Montgomery, Alabama

RE: Danya Park Garden Apartments
113 Danya Court
Prattville, Al 06067

Dear Mr. Smith,

Based upon the information furnished by you, I have outlined the terms and conditions under which I would acquire the above referenced property.

| | |
|-------------------|---|
| Purchase Price | \$795,000 |
| Cash Down Payment | \$180,000 |
| First Mortgage | Assumption of existing balance of \$280,000, interest rate 7.5%, 16 years Remaining, \$2,524.22 per month |
| Lender | HUD |
| Second Mortgage | \$335,000 @ 6% amortized over 20 years due and payable simultaneously with Buyer's closing on permanent financing and conversion of the property rents from the HUD 236 program to Section 8 vouchers and a market rental rate |
| Closing Date | October 31, 2002 |

It is my intention to purchase Danya Park Garden Apartments under the above stated terms and conditions. If these terms are acceptable, please acknowledge at the bottom of this page and return this agreement within five (5) business days to the undersigned. Upon receipt of the executed letter, I shall instruct my attorneys to draft a purchase agreement.

Sincerely,

David Lindahl

Accepted and agreed upon this _____ day of _____, 20__.

By _____

Purchase and Sale Agreement

THIS PURCHASE AND SALE AGREEMENT is made and entered into as of the
10th day of August, 2002 by and between:

David C. Lindahl and/or assigns (“buyer”) and
Hugh V. Smith (“seller”),

RECITALS:

1. Agreement to Sell and Purchase. For and in consideration of the Earnest Money (as hereinafter stated) in hand paid by Buyer to Lanier Branch (Escrow Agent), the mutual covenants and agreements contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Seller hereby agrees to sell and convey to a Buyer, and Buyer hereby agree to purchase and take from Seller, subject to and in accordance with all of the terms and conditions of this Agreement, the following:

Danya Park Garden Apartment
113 Danya Court
Prattville, AL 06067

Legal Description: Exact legal description to be provided by Seller and to be attached hereto as Exhibit “A”

2. PURCHASE PRICE.

- a. The purchase price for the Property shall be \$ 795.000.
- b. Earnest money. Within five (5) business days after the Effective Date, Buyer shall deliver to Escrow Agent the sum of \$ 20,000 (Earnest Money). During the term of this Agreement, Escrow Agent shall hold the Earnest Money in a non-interest bearing account. On the Closing Date, the Earnest Money shall be applied as part payment of the Purchase Price.
- c. This Agreement is subject to buyer obtaining a loan in an amount not less than \$ N/A upon such rate and terms as are suitable to Buyer in accordance with Paragraph 3.12
- d. The closing date shall be on or about October 31, 2002.
- e. See Addendum A for financing.

3. CONDITION OF PROPERTY, INSPECTIONS, DISCLAIMER AND CONTINGENCIES:

3.1 PROPERTY INFORMATION: Seller shall make available to Buyer, Immediately upon acceptance of the Agreement, copies of the following ("Property Information");

- a. The standard form of apartment lease together with all written addenda, modifications, or extensions pertaining to a particular lease, used by Seller for the property and copies of the existing Leases in the possession of the property manager of the Property;
- b. A list of all unit types, number of each type, square footage of each type and the current street rate or asking rent for a new resident.
- c. The most current rent roll of the Property ("Rent Roll") notarized by Seller, showing residents name, original lease date, lease expiration date, rental rate, security deposit and unit number or address.
- d. Year to date and last two years, if available, operating statements ("Operating Statements");
- e. A list of Personal Property, if any (free standing appliances such as refrigerators, office furnishings and equipment, pool equipment, tools, etc.)
- f. A list and copies of any management service or maintenance agreement, if any, relating to the Property ("Service Contracts");
- g. Any environmental, architectural and engineering reports prepared for Seller and, to Seller's knowledge, in its possession in connection with Seller's purchase, ownership or management of the Property.
- h. Seller will disclose in writing and attach hereto all other property faults, defects, deficiencies, and all matters that may affect health or safety or that may affect the value of the property, including hazardous substances as defined by the EPA, to the best of Sellers knowledge, information, or belief.
- i. The most recent copy of all utility bills paid by Seller including gas, eclectic, water, sewer, trash and cable.
- j. A list of capitol expenditures made to the property for the last two years and current year to date.

If Seller has not provided all necessary information and material requested herein with 15 days from the Effective Date, this contract shall be considered null and void at the Buyers discretion and the Earnest Money shall be considered mutually released by both Buyer and Seller and immediately returned to Buyer. The Property Information and all information furnished to, or obtained through inspection of the property by buyer, its affiliates, or employees or agents relating to the property (other than matter of public record), will be treated Buyer, its affiliates, employees and agents as confidential and will not be disclosed to anyone other than on a need to know basis to Buyer's consultants, and will be returned to Seller by Buyer if Closing does not occur.

3.2 PHYSICAL INSPECTIONS/DUE DILEGENCE PERIOD: Within 30 days from the effective date, Buyer, its agents, and employees shall have the right to enter upon the Property for the purpose of making not such non-intrusive inspections as Buyer may deem appropriate at Buyer's sole risk, cost and expense. All such entries upon the property shall be at reasonable times during normal

business hours and only with at least forty-eight (48) hours prior notice to Seller or Seller's agent, and Seller's agent shall have the right to accompany Buyer during any activities performed by Buyer on the Property. Buyer shall not disturb the tenants on the Property and Buyer's inspection shall be subject to the rights to tenants under their leases and the law. If any inspection or test disturbs the Property, Buyer will restore the Property to the same condition as existing prior to the inspection or test. Buyer shall defend, indemnify and hold Seller, Seller's tenants, agents, and employees and the Property harmless from and against any and all losses, cost, damages, claims, or liabilities, including but not limited to, mechanic's liens and Seller's attorney fees, arising out of or in connection with Buyer's inspection of the property as allowed herein.

3.3 FINANCIAL INSPECTIONS/DUE DILIGENCE PERIOD: During the Financial Due Diligence Period, which shall be 45 days from the Effective Date, Buyer shall have the right to conduct any and all financial due diligence it shall deem necessary. The Seller has agreed to provide all property information required in Paragraph 31. Should Seller fail to provide said property information in the form and substance defined within 15 days from the Effective Date, this contract shall be considered null and void, at the option of the Buyer, and of no further force and effect.

In such event the Escrow Agent is instructed to immediately return the earnest money to Buyer after receiving written notice from Buyer and with no further release requirements from Seller.

3.4 LEAD BASED PAINT/ENVIRONMENTAL INSPECTIONS: During the Physical Due Diligence Period, Buyer at Buyer's expense, shall have the right to enter upon the Property, together with any persons, to inspect and conduct such environmental, soil, air, hydrocarbon, chemical, carbon, asbestos, lead based paint, and other test Buyer deems necessary or appropriate. The inspection may include a non-intrusive Phase I environmental inspection of the Property. If any report discloses a "recognized environmental condition" (as hereinafter defined) affecting the property, the Buyer may terminate this Agreement in its sole and absolute discretion and the Earnest Money shall be refunded to Buyer. For purposes hereof, a "recognized environmental condition" is defined by American Society for Testing and Material standard Practice for Environmental Site Assessment: Phase I Site Assessment.

LEAD BASED PAINT DISCLOSURE. (For Property built before 1978 ONLY): Buyer acknowledges that prior to signing this Contract, Buyer received and read a copy of EPA "Protect Your Family From Lead In Your Home" pamphlet, which explains the hazards of lead-based paint. Seller shall disclose any knowledge of lead-based paint on the property or any results of prior tests for lead based paint, which have been performed.

3.5 FLOOD: Seller represents the property is not within a 100 year flood zone or plain and to the best of Seller's knowledge the Property has not been damaged

or affected by flood, storm runoff water, or storm sewer backup. During the Physical Due Diligence Period, Buyer, at Buyer's expense may enter upon the property to investigate and conduct tests to satisfy himself/herself to the flood and/or water history and water risk attendant to the Property. If, upon Buyer's investigation, the Buyer is dissatisfied with any of the flood and water history and water risk attendant of the Property, the Buyer may cancel and terminate this Contract and receive a refund of the Earnest Money by delivering written notice to the Seller within twenty four (24) hours of the expiration of the Due Diligence Period.

3.6 ENVIRONMENTAL REPRESENTATIONS AND INSPECTIONS: Seller represents to the best of Seller's knowledge that there have been no hazardous substances, as defined by the Federal Environmental Protection Agency, stored, released, disposed, or used on the property, including underground storage tanks' that there have been on special use permits, variances, or other land-use authorizations issued concerning water disposal on the property that the Property is a hazardous waste site and that Seller has received no notice of any legal or administrative proceedings regarding environmental issues affecting the Property.

3.7 EQUIPMENT. All appliances, fixtures and equipment related to plumbing, heating and cooling, electrical systems and any other equipment or systems shall be in normal working order at closing, ordinary wear and tear excepted. No fixtures or appliances shall be removed from the Property after the EFFECTIVE Date herein without notice to Buyer. All units shall be in rent ready condition at the time of closing unless otherwise specified herein or unless vacated within 48 hours prior to closing. Any units vacated within 48 hours prior to closing shall be reported to Buyer prior to closing in sufficient time to allow a final inspection of the vacated units by Buyer. All said vacated units shall be in rentable condition with the exception of normal cleaning requirements or appropriate adjustments shall be made to place the units in rentable condition.

During the Physical Due Diligence Period, Buyer, at Buyer's expense, shall have the right to inspect such items, and shall report, any item not in normal working order, in writing, to Seller in care of the Escrow Agent.

Repair or replacement shall be completed prior to Closing at Seller's expense. Buyer shall have the right to inspect the property within 48 hours of closing.

3.8 TERMITE INSPECTION: The Seller shall cause to be delivered within 45 days from the Effective Date in care of the Escrow Agent, at Seller's expense, a current report by a licensed exterminating company addressed to Buyer reflecting that the buildings on the Property are free and clear of visible infestation or damage caused by any wood destroying organisms (termites, etc.). In the event the report shows visible infestation Seller shall have the Property treated by a licensed exterminating company and provide Buyer with a certificate showing

that there is no live infestation on the Property. In the event of damage caused by wood destroying organisms, Seller shall correct such damage, at Seller's expense.

3.9 TERMINATION DURING PHYSICAL DUE DILIGENCE PERIOD: In the event Buyer determines before the expiration of the Physical Due Diligence Period that the Property is unacceptable for Buyer's purposes, Buyer shall have the right to exterminate this Agreement by giving to Seller written notice of termination before the expiration of the Physical Due Diligence Period. Upon notification by Buyer, both Buyer and Seller hereby agree that this Agreement shall be terminated and of no further force or effect and the Escrow Agent shall immediately refund the Earnest Money to buyer without any additional release requirements, less any Buyer's costs incurred, pursuant to this contract, and neither party shall have any further rights or liabilities hereunder, except for those provisions which survive the termination of this Agreement.

3.10 TERMINATION DURING FINANCIAL DUE DILIGENCE PERIOD: In the event Buyer determines before the expiration of the Financial Due Diligence Period that the Property is unacceptable for Buyer's purposes, Buyer shall have the right to terminate this Agreement by giving Seller written notice of termination before the expiration of the Financial Due Diligence Period. Upon notification by Buyer, both Buyer and Seller hereby agree that this Agreement shall be terminated and of no further force or effect and the Escrow Agent shall immediately refund the Earnest Money to Buyer without any additional release requirements, less any Buyer's costs incurred, pursuant to this contract, and neither party shall have any further rights or liabilities hereunder, except for those provisions which survive the termination of this Agreement.

3.11 FINANCING CONTINGENCY/TERMINATION: Buyer shall have 60 days after the Effective date herein which to obtain such financing(s) as Buyer, in its discretion, shall deem advisable with respect to its acquisition of the Property. Buyer shall make application for said financing with 15 days of the Effective Date herein. In the event Buyer determines, that Buyer is unable to obtain such financing(s) as Buyer deems appropriate, Buyer shall have the right to terminate this Agreement by giving to Seller written notice of termination, the Escrow Agent shall immediately refund the earnest money to Buyer, without any additional release requirements, less any Buyer costs incurred pursuant to this Agreement, and neither party shall have any further rights or liabilities hereunder except for those provisions which survive the termination of this Agreement.

4.0 TITLE, ABSTRACT REVIEW, CLOSING COSTS, AND INSPECTION:

DELIVERY OF TITLE REPORT: Within 30 days of the Effective Date, Seller shall furnish Buyer an updated Abstract covering a period of not less than sixty (60) years, along with a copy of Seller's as-built survey. Within 60 days of the Effective Date, buyer shall examine title to the Property, and give Seller written notice or objections that reader Seller's title to the Property less than good and marketable fee simple title. Seller shall have thirty (30) days following Seller's

receipt of such notice of title objections in which to satisfy all objections specified in Buyer's notice of title objections. If Seller fails to satisfy any such objections within such time frame, then, at the option of Buyer, and as its sole and exclusive remedy on account thereof Buyer may: (1) terminate this Agreement, in which event the Earnest Money shall be refunded to Buyer immediately upon request, all right and obligations of the parties under this Agreement shall expire, and this Agreement shall become null and void or (2) waive such objection and consummate the purchase of the Property.

CLOSING COSTS: Each party hereto shall pay its own attorney's fees. Buyer shall pay for the cost of Buyer's financing, title examination, title insurance binder and premium charges, environmental assessment, transfer taxes on the transfer of the Property and buyer's taking title to the Property, and all recording costs incurred in connection therewith. The Seller shall pay the cost of the Abstract, deed preparation, the as-built survey and termite inspection. The costs referred to therein shall be called the Closing Costs

INSPECTION: Notwithstanding anything contained herein to the contrary, in the event that buyer determines, in its sole discretion, that the Property is not satisfactory for any reason, Buyer shall have the right to terminate the Agreement at any time, without explanation for its reason of termination, on or before 60 days from the Effective Date by delivering to Seller its notice in writing and, in such event, the earnest money shall be refunded to Buyer, and all rights and obligations hereunder shall cease and terminate, except Buyer shall also return the re-dated Abstract to the Seller.

5.0 **NON-FOREIGN SELLER.** Seller represents and warrants that at the time of acceptance hereof and at Closing, Seller is not a "foreign person" as such term is defined in Section 1445 (f) of the Internal Revenue Code of 1986. At the Closing, and as a condition thereto, Seller shall furnish to Buyer an affidavit, in form and substance acceptable to Buyer, signed under penalty of perjury and containing Seller's United States Social Security and/or Taxpayer Identification Number, to the effect that Seller is not a foreign person within the meaning of Section 1445(f) of the Internal Revenue Code.

6.0 **OPERATIONS AND RISK LOSS:**

6.1 **ONGOING OPERATIONS:** During the pendency of this Agreement, Seller shall carry on its business and activities to the Property substantially in the manner as carried out on the date thereof.

6.2 **PERFORMANCE UNDER LEASES AND SERVICE CONTRACTS:** During the pendency of this Agreement, Seller will perform its material obligations under the Leases and Service Contracts and other agreements that may affect the Property.

6.3 **NEW CONTRACTS:** During the pendency of this Agreement, Seller will not enter into any contract that will be an obligation affecting the Property subsequent to the closing, except contracts entered into in the ordinary course of

business that are terminable without cause on 30 days notice, without the prior consent of the Buyer, which consent shall not be unreasonably withheld. New tenant leases shall be for a term of no more than six months and at a rate no lower than the stated street rate as provided by Seller per paragraph 3.1 (b).

6.4 TERMINATION OF SERVICE CONTRACTS: On the Closing Date, Seller shall terminate those Services Contracts which are terminable without any cost or liability to Seller, unless Buyer notifies Seller during the Due Diligence Period as to which of such Service contracts should not be concealed and which will be assumed by buyer. All service Contracts not terminated by Seller shall be assigned to and assumed by Buyer at Closing

6.5 RISK OF LOSS: Risk of loss resulting from any condemnation of eminent domain proceeding which is commenced or has been threatened prior to the Closing, and risk of loss to the Property due to fire, flood or any other cause prior to the Closing shall remain with Seller. After Closing or transfer of possession such risk shall be upon Buyer. In the event, prior to Closing the Property is damaged or destroyed, then and in either such event Buyer shall have the right, exercisable by giving notice of such decision to Seller within twenty (20) calendar days after receiving written notice of such damage, destruction or condemnation proceedings, either to accept the Property in its "then condition," or to terminate this Agreement, in which case neither party shall have any further rights or obligations hereunder, and the Earnest Money shall be promptly refunded to buyer. If Buyer elects to accept the Property in its "then condition" and this sale is consummated as provided hereon, then and in such event all proceeds of the insurance payable to Seller by reason of such damage or destruction of the Property shall be paid or assigned to Buyer at Closing; provide, however, notwithstanding anything to the contrary provided herein, it is understood and agreed that, in the event such damage or destruction, the seller shall have the right (but not the obligation) to restore said Property to substantially its condition prior to such damage to destruction; in the event Seller elects to repair said Property the time for the Closing of this sale shall be extended for a period of up to but not to exceed sixty (60) days, and Buyer shall not have any right to terminate this Agreement or to receive any portion of said insurance proceeds if the Seller repairs said Property so substantially its condition prior to such damage or destruction within said period of sixty (60) days.

- 7.0 TAXES AND PRORATIONS. The Seller shall pay in full: (i) all special assessments against the Property upon date of Closing, whether or not payable in installments; (ii) all taxes, other than general ad valorem taxes for the current calendar year, which are a lien on the Property upon the date of Closing, including the cost of documentary stamps to be attached to the Deed; and (iii) the cost of any item of workmanship or material furnished on or prior to the date of Closing which is or may become a lien on the Property. Unless otherwise specified in Paragraph 14, the following items shall be prorated between Seller and the Buyer as of the date of Closing; (iv) all rents for the current month for every rented unit; (v) general ad valorem taxes for the current calendar year, provided that, if the amount taxes has not been fixed, the proration shall be based upon the rate of levy for the previous calendar year; and (vi) utilities, including water, sewer, electric

and gas, and upon the last reading of meters prior to closing; and (vii) fees and charges under Service Contracts as are being assigned to and assumed by Buyer at Closing. Utilities shall be transferred as of the Closing date. Seller shall obtain final readings on the day prior to closing and Buyer shall have new accounts established to become effective as of the Closing date. In the event that final prorations cannot be made at Closing for any item being prorated, the Buyer and Seller agree to allocate such items on a fair and equitable basis as soon as invoices or bills are available, final adjustment to be made as soon as reasonably possible after the Closing. Payments in connection with the final adjustment shall be due within thirty (30) days of written notice. Security deposits shall be delivered and transferred by separate check to Purchaser at closing. Any and all uncollected rents or other amounts due payable at the closing shall be the responsibility of the Seller.

8.0 MISCELLANEOUS:

8.1 PARTIES BOUND: This agreement shall be binding upon and inure to the benefit of the respective legal representatives, successors, assigns, heirs, and devisees of the parties.

8.2 CONFIDENTIALITY: Buyer or Seller shall not record this Agreement or any memorandum of this Agreement.

8.3 HEADINGS: The article and paragraph headings of this Agreement are for convenience only and in no way limit or enlarge the scope of meaning of the language hereof.

8.4 INVALIDITY AND WAIVER: If any portion of this Agreement is held invalid or inoperative, then so far as is reasonable and possible the remainder of this Agreement shall be deemed valid and operative, and effect shall be given to the intent manifested by the portion held invalid or inoperative. The failure by either party to enforce against the other any term or provision of this Agreement shall not be deemed to be a waiver of such party's right to enforce against the other party the same or any such term or provision in the future.

8.5 GOVERNING LAW: This Agreement shall, in all respects, be governed, construed, applied, and enforced in accordance with the law of the state in which the Real Property is located

8.6 SURVIVAL: Unless otherwise expressly stated in this Agreement, each of the covenants, obligations, representations, and agreements contained in this Agreement shall survive the Closing.

8.7 NO THIRD PARTY BENEFICIARY: This Agreement is not intended to give or confer any benefits, rights, privileges, claims, actions, or remedies to any person or entity as a third party beneficiary, decree, or otherwise.

8.8 DISCLAIMER: It is expressly understood by the Seller and Buyer that the Listing Realtor or their Agents and the Seller Realtor or their Agents do not warrant the present or future value, size by square footage, condition, structure or systems of any building, nor do they hold themselves out to be experts in quality, design and construction, and further agree to hold the Listing Realtor or their Agents and Selling Realtor or their Agents harmless in any of these events.

Agents, however, agree that they will disclose of Purchaser any known defects or problems with the property that is the subject of this contract.

8.9 ENTIRELY AND AMENDMENTS: This Agreement embodies the entire agreement between the parties and supersedes all prior agreements and understanding relating to the Property except any confidentiality agreement binding on Purchaser, which shall not be superseded by this Agreement. This Agreement may be amended or supplemented only by an instrument in writing executed by the party against whom enforcement is sought.

8.10 TIME: Time is of the essence in the performance of this Agreement.

8.11 ATTORNEY'S FEES: Should either party employ attorney to interpret or enforce any of the provisions hereof, the party against whom any final judgment is entered agrees to pay the prevailing party all reasonable costs, charges, and expenses, including attorney's fees, expended or incurred in connection therewith.

8.12 NOTICES: All notices required or permitted hereunder shall be in writing and shall be served on the parties at the addresses set forth in Exhibit B. Any such notices shall be either (a) sent by certified mail, return receipt requested, in which case notice shall be deemed delivered three business days after deposit, postage prepaid in the U.S. mail, (b) sent by overnight delivery using a nationally recognized overnight courier, in which case notice shall be deemed delivered one business day after deposit with such courier, (c) sent by facsimile, in which case notice shall be deemed delivered upon transmission of such notice, or (d) sent by personal delivery, in which case notice shall be deemed delivered upon receipt. A party's address may be changed by written notice to the other party; provided; however, that no notice of a change of address shall be effective until actual receipt of such notice. Copies of notices are for informational purposes only, and failure to give or receive copies of any notice shall not be deemed a failure to give notice.

8.13 CONSTRUCTION: The parties acknowledge that the parties and their counsel have reviewed and revised this Agreement and any ambiguities shall not be resolved against the drafting party, both parties being deemed to have drafted this Contract.

8.14 CALCULATION OF TIME PERIODS: Unless otherwise specified, in computing any period of time described herein, the day of the act or event after which the designated period of time begins to run is not to be included and the last day of the period so computed is to be included at, unless such last day is a Saturday, Sunday or legal holiday for national banks in the location where the Property is located, in which event the period shall run until the end of the next day which is neither a Saturday, Sunday, or legal holiday. The last day of any period of time described herein shall be deemed to end at 5:00 P.M. local time of the Property described herein.

8.15 EXECUTION IN COUNTERPARTS: This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, and all of such counterparts shall constitute one Agreement. To facilitate execution of this Agreement, the parties may execute and exchange by telephone facsimile counterparts of the signature pages and/or any other pages as deemed necessary to reach a final agreement.

9.0 Special Conditions _____

10. AGENCY DISCLOSURE:

Print the name of the listing company Sullivan & Willis

The listing company is an agent of (check one):

Seller X

Buyer _____

Both parties as a limited consensual dual agent _____

Neither party and is acting as a contract broker _____

Print the name of selling company if any RE/MAX of Montgomery

The selling agent, if any, is an agent of (check one):

Seller _____

Buyer X

Both parties as a limited consensual dual agent _____

Neither party and is acting as a contract broker _____

11. BINDING EFFECT AND ENFORCEABILITY OF CONTRACT: Before this Contract shall be binding and can be enforced by either party, the following acts of execution and deliveries shall be completed:

Execution and Delivery of Contract Documents, Counterparts. The parties agree that the Contract between them shall be evidenced by either a single executed Contract upon which each of them shall place their signatures, or by each of them placing their signatures on separate complete (carbon, photo or fax) copies "counterparts" of the Contract documents. The contract shall be binding only upon the delivery to each party, or their agent, of either (i) a Contract containing the original or copy of the signature of both parties or (ii) a counterpart containing either the original or a copy of the signature of the other party.

12. NOTICE. Any notice provided for herein shall be given in writing, sent by (a) personal delivery, (b) United States Mail, postage prepaid, (c) overnight mail, prepaid, or (d) by FAX, to the Escrow Agent, with copied to the other parties or to such other parties and address as shall hereafter be designated in writing as indicated on Exhibit B attached hereto. Any such notice shall be deemed to have been given upon receipt by the Escrow Agent.

13. BROKER(S) RECEIPT AND AGREEMENT: The Buyer and Seller mutually warranty and represent that the undersigned Broker(s) is/are the only Broker(s) involved in this transaction. The Broker (s) and/or Escrow Agent shall be entailed to accept buyer's personal check for the Earnest Money and endorse it for deposit

without recourse. If Seller does not approve the above Contract the Earnest Money shall be returned to buyer.

14. SALES COMMISSION: At closing, Seller shall pay to the Real Estate Broker(s) identified herein, as compensation \$ 45,000.00 to be shared equally provided, however, the sales commission shall be due and payable if, as and only when, the transaction contemplated hereby is fully consummated. Any cooperating or referring brokerage fees due will be responsibility of the brokers and paid only by separate agreement between the Brokers.
15. ACCPETANCE: If this contract is not accepted within seven (7) days from the date presented to Seller, this contract shall be considered withdrawn, null and void and of no further force or effect.
16. SECTION 1031 EXCHANGE: Seller and/or Buyer may consummate the sale of the Property as part of a so-called like kind exchange (the "Exchange") pursuant to Section 1031 of the Internal Revenue Code of 1986, as amended ("the code"), provided that: (i) The closing shall not be delayed or affected by reason of the Exchange nor shall the consummation for accomplishment of the Exchange to be a condition precedent or condition subsequent of Seller's or Buyer's obligations under this Agreement; (ii) Seller or Buyer shall effect the Exchange through a qualified intermediary, and (iii) buyer and Seller shall not be required to make an assignment of the purchase agreement for the Exchange property or be required to acquire or hold title to any property for the purposes of consummating the Exchange. Buyer or Seller shall not by this Agreement or acquiescence to the Exchange (1) have its right under this Agreement affected or diminished in any manner, or (2) be responsible for compliance with or be deemed to have warranted to Seller or Buyer that the Exchange in fact complies with Section 1031 Code.
17. EFFECTIVE DATE: The Effective Date of this agreement shall be inserted after complete acceptance of this agreement by both Buyer and Seller and receipt has been acknowledged by the Escrow Agent herein.

EFFECTIVE DATE: _____

IN WITNESS WHEREOF, the parties hereto have set their hands and seals on the day and date herein stated.

APPROVED AND AGREED BY
BUYER(S)

APPROVED AND AGREED BY
SELLER(S)

This ____ day of _____, _____

This ____ day of _____, _____

David Lindahl
870 N. Main St.
Brockton, MA 02301

Hugh V. Smith
Montgomery, Alabama

Dear Hugh,

In order to complete my due diligence on the property located on Danya Park Gardens, I will need the following information sent to the above address.

1. Copies of all utility letters from local utility companies showing that service is currently available to the subject property
 - b) Sewer
 - c) Water
 - d) Telephone
 - e) Electric
 - f) Gas
 - g) Cable T.V.
2. Copies of all current service contracts showing
 - e) Term of contract
 - f) Monthly cost for services
 - g) Work to be performed
 - h) Termination penalty
 - i. Pest Control
 - ii. Trash Removal
 - iii. Landscaping
 - iv. Elevator
 - v. Janitorial Service
 - vi. Maid Service
 - vii. Tax Consulting
 - viii. Window Washing
 - ix. Parking Lot Sweeping
 - x. Snow Removal
 - xi. Music
 - xii. Security
3. Legal Description of Property
4. Blueprints and specifications of property
5. As-built surveys showing any improvements to the property
6. Copies of all leases and rental applications
 - c) Rent roll
 - d) Security deposits

7. Copies of all mortgage documents
8. Copies of all insurance policies
9. Copies of the last two years' operating statements
10. Copies of last two years' tax bills
11. Copies of all permitted encumbrances on the property; Liens or liabilities on the property that should be known to the purchaser prior to closing
12. List of all employees with current salary history
13. Letter from current lender(s) showing the current balances and terms of the mortgages
14. Inventory: complete list of all inventory to be transferred with the property.
 - a. Office
 - b. Maintenance
 - c. Pool
 - d. Appliances (including all serial numbers)
 - e. Mechanical (including all serial numbers)
15. Copies of all Warranties
 - k. Appliances
 - l. Maintenance equipment
 - m. Mechanical
 - n. Plumbing
 - o. Electrical
 - p. Roof
 - q. Paving
 - r. Pool
 - s. Tennis Court
 - t. General Contractor

Thank you in advance for your timely response.

Sincerely,

David Lindahl

Tenant Verification Form

Dear Sir or Madam:

Please fill out this form and send back in the enclosed, postage paid envelope.

Name _____

Unit Address _____

Telephone Number _____

My Lease Began On _____

My Lease Expires On _____

The amount of my Security Deposit is _____

The amount of my Pet Deposit is _____

The amount of my Monthly Rent is _____

Name and Type of Pet(s) _____

My Rent includes the following – please circle –

Heat Water Electrical Sewer Cable Nothing

Thank you in advance for your cooperation.

Sincerely,

| Due Diligence Checklist | | | | | |
|--|----------------|---------------|-------------|----------|--|
| Property Name | | | | | |
| Address | | | | | |
| Description | Date Requested | Date Received | Reviewed By | Comments | |
| Year Built | | | | | |
| Last Sale Price/Date | | | | | |
| Leasing Information | | | | | |
| Copy of Current Leases | | | | | |
| Copy of Current Rent Roll | | | | | |
| Copy of Current Security Deposits | | | | | |
| Pet Policy | | | | | |
| All units with pets | | | | | |
| Financial & Operating | | | | | |
| Annual operating statements – 2 years | | | | | |
| Audited Financial Statements – 2 years | | | | | |
| Signed document all statements are accurate | | | | | |
| List of miscellaneous income items | | | | | |
| Operating Expense Items | | | | | |
| General and Administrative | | | | | |
| Copies of current office equipment leases | | | | | |
| List of local memberships | | | | | |
| Management Payroll | | | | | |
| List of staff names, employment history/salaries/ benefits | | | | | |
| Maintenance Payroll | | | | | |
| List of staff names, employment history | | | | | |

| Due Diligence Checklist, pg 2 | | | | |
|---|----------------|---------------|-------------|----------|
| Description | Date Requested | Date Received | Reviewed By | Comments |
| Utilities | | | | |
| Utility Invoices – Last 2 years | | | | |
| Utility names/telephone #, Acct #'s | | | | |
| Repairs and Maintenance | | | | |
| Last 3 years work order history | | | | |
| List of Recurring Maintenance Problems | | | | |
| Real Estate Taxes | | | | |
| Current R.E. Tax bill | | | | |
| Last two years R.E. Tax bill | | | | |
| Insurance | | | | |
| Copy of current insurance policy | | | | |
| List of claims – last 3 years | | | | |
| Reserve Replacement | | | | |
| List of current items replaced last 3 years | | | | |
| Inventory | | | | |
| Office Inventory | | | | |
| Club House Inventory | | | | |
| Maintenance Shop Inventory | | | | |
| Pool Inventory | | | | |
| Financing | | | | |
| Loan Documents | | | | |
| Loan prepayment calculations | | | | |

| Due Diligence Checklist, pg 3 | | | | |
|---|----------------|---------------|-------------|----------|
| Description | Date Requested | Date Received | Reviewed By | Comments |
| Studies | | | | |
| Phase I Environmental Study | | | | |
| Phase II Environmental Study | | | | |
| Appraisal | | | | |
| Soils Test | | | | |
| Pest Inspection Report | | | | |
| Structural Inspection Report | | | | |
| Drainage Inspection Report | | | | |
| Legal Documents | | | | |
| Legal Description | | | | |
| Copy of Zoning Letter | | | | |
| Copies of Utility Letters | | | | |
| Sellers certification that property meets all state and local codes | | | | |
| Rent Control Ordinances | | | | |
| Construction Documents | | | | |
| "As Built" Survey | | | | |
| Site Plan | | | | |
| Copy of Original Building Plans w/specs | | | | |
| Copies of all Warranties | | | | |
| Site Diagram with Unit Numbers | | | | |
| List of all Subcontractors/Telephone #s | | | | |

| Due Diligence Checklist, pg 4 | | | | |
|----------------------------------|----------------|---------------|-------------|----------|
| Description | Date Requested | Date Received | Reviewed By | Comments |
| Contract/Service Agreements | | | | |
| Landscaping | | | | |
| Sweeping Service | | | | |
| Snow Removal | | | | |
| Chimney Cleaning | | | | |
| Pest Control | | | | |
| Vending Machines | | | | |
| Laundry | | | | |
| Security System | | | | |
| Security Patrol | | | | |
| Cable TV | | | | |
| Pool Service | | | | |
| Pager Service | | | | |
| Answering Service | | | | |
| Copier Service | | | | |
| Fax Service | | | | |
| Telephone Equipment Service | | | | |
| Eviction Service | | | | |
| Tenant Check Service | | | | |
| Apartment Association Membership | | | | |
| Yellow Page Listing | | | | |
| Advertising Contracts | | | | |
| Business Permits | | | | |

Chapter 6

Negotiation – How To Do It Successfully

The Five Keys To Negotiation

1. **Do Your Homework.** Knowledge is power. The more you know about the property, the local economy, the neighborhood, and the seller, the better a negotiator you will be.

The reason we do all of the Due Diligence presented in the previous chapter is to give us the knowledge that allows us to negotiate.

2. **What's Motivating The Seller?** Find out all that you can about the seller, his background, his financial situation...The more you know about the seller, the better you will be able to negotiate. Try to get to know the seller, find out what his “hot buttons” are and use them to your advantage.

You want to be working with motivated sellers or sellers that are in markets that are coming off of a Decline Phase.

The following are the six main reasons that a seller would be a motivated seller:

- Burnout – The seller has simply had enough of dealing with tenants and/or management companies. Burn out occurs because owners never learn how to properly manage a property.
- Needs proceeds to buy another property – A seller may have found a better deal and is not looking to trade up. In order to get that next deal, he must sell this one first.
- 1031 Exchange – If you're dealing with an active investor, he may be in the middle of a 1031 exchange in which he must adhere to strict time considerations.
- Retirement – Time to sell the properties and ride off into the sunset.
- Financial conditions – Seller may have to sell to raise cash for financial reasons. The quicker the better.
- Life changing event – Seller may have to relocate quickly, had a death in the family (maybe his own, i.e. estate sale), or is getting a divorce. There are several things that could happen in one's life that necessitate a quick sale.

If you're working with a seller who is selling at the beginning of an Absorption Phase, you want to look at the numbers, compare them with the market and then offer market price.

Your main goal is to get the property under contract. You can negotiate price some more when you receive all of the Due Diligence paperwork back.

You realize that prices are on the verge of increasing, you know this because you've done your homework as described in Chapter 4, and your goal is to get into this market and ride the appreciation wave that is about to hit.

These sellers are usually motivated to sell because they have been in a Decline Phase for the past few years and there have not been many buyers in the market; therefore, they have not been able to sell.

They may be holding on to a property that they wanted to sell a long time ago and are unaware of the economic changes that are occurring. Studies show that it takes a market at least 6 months to realize that something positive is happening economically.

Your goal is to get as many properties as you can during those 6 months and any good deals that are still available until the market transitions into a Seller's Market Stage Two.

3. **Be Prepared With Alternative Plans.** Sure, it would be great if they accepted your first offer without countering, but you know that the chances of that happening are slim. Besides, if they did, you would be thinking that you paid too much!

Your initial offer should be geared toward making your "A" plan work. When it becomes obvious that "A" plan is not going to happen then be prepared to go to plan "B." If plan "B" is not going to happen then go to plan "C," and keep going until the counter offers that you are getting back from the Seller fit into one of your plan.

Of course, to do this you must structure a deal that is going to benefit both parties, a "win/win." You knew that you were going to hear that phrase somewhere in this chapter on negotiation.

The reason you heard it is because the more win/win situations you create, the more properties you are going to buy.

4. **Justify Your Offer With The Seller's Operating Statement.** The seller is a rational human being and has a reason for wanting to sell the property. If you feel he is asking too much, structure an offer that you think is fair (of course you don't

start out with your maximum allowable offer first) and show the seller how you took his figures to come up with your offering price.

This is where doing your homework makes you a better negotiator. Show the seller what similar properties have sold for in his area. Show him what the market Cap Rate is for a property with his characteristics (size, neighborhood, condition, etc.).

Do this by giving him actual comparables of properties that have sold. Then plug in the numbers that he gave you and justify your reasons for offering the amount that you are offering.

If he is reasonable, he will give you a counter offer close to what you are offering; if he does not...NEXT. Perhaps you will get a call a month or two down the road when he is ready to be reasonable. This has happened to me several times.

5. **Have An Escape Clause.** Set yourself up with escape clauses from the Purchase and Sale Agreement. Your goal is to get the property under agreement and not put any of your money at risk while you do your Due Diligence. If the property needs more work than you thought, time to negotiate a better price.

You will notice in the Purchase and Sale Agreement that I use, Section 4:

“INSPECTION. Notwithstanding anything contained herein to the contrary, in the event that buyer determines, in its sole discretion, that the Property is not satisfactory for any reason, Buyer shall have the right to terminate the Agreement at any time, without explanation for its reason of termination, on or before 60 days from the Effective Date by delivering to Seller its notice in writing and, in such event, the Earnest Money shall be refunded to Buyer, and all rights and obligations hereunder shall cease and terminate, except buyer shall also return the re-dated Abstract to the Seller.”

You will notice that I have up to 60 days to decide whether or not I want the property. For any reason whatsoever, I can terminate the agreement “without explanation.”

This protects me if I find out any negative information that may affect the outcome of my investment.

If I were selling, I would not allow that clause to go over 30 days.

6. **Know When To Walk Away.** This was briefly touched on in number 4 however it is worth repeating and emphasizing. Don’t get caught up in the “bigger fool theory.”

Have a predetermined maximum price and do not exceed it. There is always a “bigger fool” who will pay more for a piece of property. If this happens, go on to the next one.

Remember, he who cares least wins. Meaning if you don’t care whether or not you are going to buy the property less than the seller cares about the fact that he wants to sell then you win.

The only thing you should care about is your profits. Any amount of money that you offer that is higher than your predetermined price is money out of your pocket.

Beware of emotion. There will be numerous ways that your mind will trick you into justifying a higher offer. Don’t do it.

Here is a good analogy. You know you need to loose a couple of pounds. It’s late, you’ve had a hard day, you come home and a ½ gallon of your favorite ice cream is in the freezer. Oh, how good that would taste right now ... but wait! You’re on a diet. But you’ve worked hard today. You deserve a reward. You’ll work out more or eat a little less tomorrow. You eat the ice cream.

You know what happens ... you wake up chubbier. You were led by your emotions and lost. If you do this in real estate, you will wake up broker and soon be out of business.

Here’s a saying that I learned early in my investing career:

Some Will, Some Won’t, So What ... NEXT

Always remember this phrase when starting a negotiation.

6 Costly Mistakes To Avoid While Negotiating

1. **Offering Too Much Too Soon.** You know what you want to pay for the property and you can justify it with the numbers but if you offer what you want to pay, or close to what you want to pay, you won’t get it.

We are all conditioned to negotiate. Just like the seller usually doesn’t expect to get his full asking price, buyers don’t expect to get their initial offer accepted.

You want to start a good chunk below where you want to be and start negotiating up from there.

One warning: don’t start so low that you insult the seller. He may not counter your offer and may not accept another offer from you. I know this because it’s happened to me.

2. **Accept Seller's First Asking Price** – One of your goals should be to have the seller name his price first. There is a rule in negotiating: he who names price first loses.

If you name a price and it is more than the seller was looking for, then you lose. If the seller names the price and it is less than you were willing to pay, then he loses and you're a winner. I get the seller to name the price first.

Having said that, never accept the seller's first asking price, even if it is lower than what you were willing to pay!

It took me a couple of deals to figure this out. What happens is after you accept the seller's asking price he starts to think that he sold too low. Seller's remorse starts to set in. Next thing you know, the seller is trying to get out of the deal figuring he can do better elsewhere.

Always counter. Make your counter offers far enough apart so that you both can negotiate a middle ground. If the seller is adamant about getting his asking price then you must give objections and resistance and finally give in, but you'll be better off if you get the seller to concede to a lower price. Even if it is just a few thousand dollars lower.

This is simple seller psychology.

Of course if the property is listed with a broker then you already know what the asking price is.

3 Ways To Get A Seller To Name Price

1. Ask the seller how much he wants
 2. Ask the seller what similar properties are going for in his area
 3. Ask him during the beginning phase of questioning how much he owes for mortgages, and then later on in the conversation ask him how much equity he is looking to walk away with.
3. **Purchasing Based On Market Rents** – This is a big mistake. The market is appreciating, rents are increasing. The seller decides that he is going to price his property based on what other properties similar to his are getting for in rents.

Meanwhile his current rents do not substantiate such an asking price.

All smart investing is based on Net Operating Income. Investors know this. If the seller wants to get an asking price that is based on market rents then have him increase the rents to the market level.

If you buy a property based on future rents you will have a hard time getting financing since banks tend to be conservative and base their lending on facts and not hopes.

You will also risk a downturn in the market and never see the rents that you projected, leaving with you with a property that is underperforming. In a worst-case scenario, you may have a property that has a negative cash flow.

If the seller insists on selling at projected rents, move on. Let him wait for the “bigger fool” to come along.

4. **Projecting What The Seller Wants** – Going into negotiating with the assumption that you know what the seller wants is called projecting. It is the fastest way to get negotiated out of a deal.

Even if you have done your homework and you know what the seller’s background and situation is, never assume that you know what the seller is looking for.

Always keep an open mind. You can base your strategy on the information that you have but be prepared with other plans if Plan A is not working.

Here’s an example. I was negotiating for an apartment building where the owner was about to go into foreclosure. He didn’t know that I knew that he was going into foreclosure because it hadn’t been made public yet.

I found out from a contact that I had at a bank. If you play your cards right, make the right contacts and perform when asked, you will get calls from bank insiders about properties that are in “trouble.”

This is secret information. If you share it with anybody (why would you want to?) you will lose the contact. What the bank is doing is trying to avoid going into the foreclosure process because it costs the bank a lot of money.

Dialogue – Properly Asking For A Bank Referral If He Wants To Sell

The bank’s hope is that you will make contact with the owner, and buy the property. Here’s a tip: Never say the bank told me to call! Always be very discrete. I call and say:

“Mr. Smith, my name is David Lindahl and I buy real estate in your area. Someone mentioned that you might be interested in selling your property at 123 Main St. I was wondering if I might drive by and take a look at it.”

Sometimes the seller will respond back, “Who told you that?” to which I reply, “To be honest with you, I’m really not sure. I talk to a lot of people about real

estate and I just remember that your name came up. Are you interested in selling?”

So I knew this seller was in trouble and needed to sell. He gave me an asking price that I was willing to pay but I thought I could get it for a lot less. Not only did I find out from the bank that the property was in trouble but I also found out that he was in the process of getting a divorce and wanted to sell quickly.

I decided to hold out for my price for a little while to see if he would come down. I called him a week later and he had sold it to a friend at work at a price that was between what he was asking and what I was offering.

I lost. I would have been happy to pay his original asking price. I would have been happier to pay the price that his coworker got it for.

I knew he had to sell quickly, the market was slow and although my offer was on the low side, it was still reasonable. What I didn't know was that he needed to bring a signed offer to the probate court for a divorce proceeding that was taking place two days after I met with him.

My assumption that I had time (one week) and that I was his only option was wrong.

5. **Making A Concession Without Getting Something In Return.** The seller decides that he wants to close earlier than stated in the Purchase and Sale agreement. All of your financing is in line and you don't have a problem with it. Agree to close earlier but ask for something in return. Doesn't have to be big, something small might do like some equipment that was on the property that didn't go with the sale.

Why? Because you must associate a little pain with the seller's request. If you agreed to close earlier without asking for something in return you have just opened the door for another request because the seller now knows that you're a nice guy.

Pretty soon he will be asking for all kinds of little things that will all add up to one big thing.

Let your actions tell him that any request for a concession will be met by an equal or greater request for a return concession and he will get the message that there are no free handouts.

6. **Not Being Prepared.** You must anticipate objections before they arise and be prepared to answer them. You must know exactly where you want to start negotiating and where you want to end up.

Lack of preparation is the single most common reason for getting into a bad deal. If you are negotiating against a seller who is prepared and is skilled at negotiating, he will be leading you down the path that he wants you to go down instead of vice versa.

Take the time to review all probable objections. Realize where you want to end up at the conclusion of the negotiations of each objection and know what your limit is on price. Stick to your plan and you will be successful.

Success doesn't always mean buying the property. Some of the best deals you can make are the deals that you walk away from.

Negotiation Tips

1. **Trade Cash For Terms.** If a seller is stuck on getting a certain price, then negotiate favorable terms for yourself, such as owner financing. The premise is, the seller gets his price, but doesn't get all of the cash immediately.

You can state, "I can pay you the price that you want, but in order to do so I would need you to carry back owner financing. Would that be a problem?"

If sellers need all of their cash immediately then they must accept a lower price. The benefit is that they get all of their cash now, although the drawback is that they get a lower price.

2. **Make Small Moves When Negotiating Price.** The typical thought is that when negotiating, you will meet somewhere in the middle. If you offer 475,000 for a property that is on the market for 525,000 and the seller counters back at 515,000, your next move should be to 478,000. Hopefully the seller will move another 5 – 10 thousand.

While they are making 5 – 10 thousand dollar moves, you're moving 3 – 4 thousand at a time. In the end you will meet closer to your offering price than the seller's asking price. You win.

3. **The 4-Part Formula To Success**

1. Agree and repeat
2. Answer
3. Ask a closing question
4. He who speaks first loses

When negotiating, follow these four easy steps to success.

Agree and repeat. No matter what sellers say, agree with them and repeat what they said. Agreeing with them tells them that you agree with what they are saying. People like people who are like them.

Repeating what they said tells them that you are listening. People need to know that you heard what they said. Also, if you repeat back to them something that they said that was ridiculous, they will realize just how ridiculous it was and will often correct themselves.

Answer them and inside the answer lead them to your position.

Ask a closing question and then shut up. **He who speaks first loses!**

Here's an example:

Seller: "I must get \$525,000 for my property."

You: "Yes, I understand you must get \$525,000 for your property."

You: "Mr. Seller, if I could show you a way that I could pay you the majority of the \$525,000 and also provide you with a tax shelter and a monthly annuity, could we go ahead and start the paperwork?"

You: – silent –

Seller: "Well, I guess so. How exactly would you do that?"

Congratulations, you just got a commitment for owner carry back financing.

4. **Feel, Felt, Found**

Here's a great way to handle objections. It's called **Feel, Felt, Found**.

Seller: "I don't want to do owner financing. I'm afraid that I won't get paid."

You: "I know how you **feel**. Many other sellers have **felt** the same way and they **found** that if they put a second mortgage note of the property then their money is secured by the property. This is what protects you from losing any money"

This is what you're saying:

- I know how you **feel** – I have empathy for you
- Others have **felt** the same way – You are not alone
- This is what they **found** – others have used this solution and you will feel comfortable doing it, too

Summary

There are many techniques that you can use when negotiating with a seller or with a buyer. This chapter has given you the 5 Keys to negotiating real estate successfully and the 6 most common costly mistakes that you should avoid.

Remember when you are negotiating: he who cares least wins and always be prepared to walk away and start negotiating the next deal.

Negotiating is a skill that you should always be looking for ways to improve. The better you are at negotiating, the more money you are going to put in your pocket and the faster you will reach your goals. There are many good books and courses on negotiation; you would be wise to add a couple to your library.

Chapter 7

How To Write Offers That Get Accepted

When writing offers you should have one thought embedded in your mind: “Use as little cash as possible to control as much property as possible.”

What does this mean? You want to put as little money down as possible. Sometimes you can even come in at no money down, but if you’re relying on making a fortune by chasing after deals with no money down, you’ll get there, but it is a much longer and harder journey.

You may need to do this in the beginning because you have no money. That’s fine. Go back to the chapter on how to find sellers and use the techniques that will put you in front of distressed sellers. This group holds the highest probability that will allow you get into a deal with no money down.

Once you’ve started doing some deals and acquiring some apartment buildings you’ll have the ability to start putting money down on your properties. When you can do this, you’ll open yourself up to a lot more opportunities to buy good properties at good prices.

In the beginning, if you have no money you may want to consider getting a partner who has some cash. The partner could be a private investor from your real estate investment group (if you’re not in one, you should be), a relative, friend, local businessman, or co-worker. There are a lot of possibilities.

How the Elephant Helps The Mouse To Become Wealthy

It’s called the elephant and the mouse. When you first start investing, you’re a mouse. You scurry around for any tasty looking crumb that might be a deal. Problem is, you’re broke and can’t finance it.

Along comes the elephant. The elephant has experience investing and has done well for himself. He has cash. He is willing to provide you with the cash as long as you do all the work. At one time, the elephant was a mouse and went through the same process that all mice go through - getting help with financing and help with getting the deal through.

The benefit of working with an elephant is he will finance the deal, usually for 50% of the profits and he will guide you along the process so that you don't make any mistakes that could put you and his profits in jeopardy.

So not only do you get the money, but you get an experienced teacher as well.

After you do 3 or 4 deals with an elephant, you'll have the cash to fund your own deals and then you're on your way to becoming an elephant.

Which Down Payment Will Make You Wealthier Faster

If you're going to put money down, I suggest that you put as little down as possible. Although it is true, the more money you put down, the more deals that will be open to you. It is also true that the more money you put down, the lower your return will be and you'll have less money to buy more property.

Let me give you an example:

1. The purchase price is \$300,000
 2. Assume a very conservative 3% appreciation rate for 3 years
 3. Compare down payments of 5%, 10%, 20%
- a) 5% = \$15,000 ($\$300,000 \times 5\%$)
 - b) 10% = \$30,000 ($\$300,000 \times 10\%$)
 - c) 20% = \$60,000 ($\$300,000 \times 20\%$)

| | 5% | 10% | 20% |
|-------------|-----------|-----------|-----------|
| Pur price | \$300,000 | \$300,000 | \$300,000 |
| Deposit | \$15,000 | \$30,000 | \$60,000 |
| Sales Price | \$328,00 | \$328,000 | \$328,000 |
| Profit | \$28,000 | \$28,000 | \$28,000 |
| Return | 62% | 31% | 16% |

The return is calculated by taking the profit (\$28,000) and dividing it by the number of years that the investment was held ($\$28,000/3 = 9,333$) thus giving us an average yearly return (\$9,333).

Divide the average yearly return (\$9,333) by the amount of the deposit ($\$9,333/\$15,000 = 62\%$)

(This example does not take into account closing costs and costs to do due diligence. It is made simple so that it is easy to understand.)

As you can clearly see, the less money you put down on a property, the higher your returns will be.

The second reason that you want to put down less money is because you want to control as much property as possible with the limited amount of cash that you have.

Using the above example, if I had \$60,000 for investments and bought two properties at 10% down, instead of one property at 20% down, in the same three-year cycle, I would have \$52,000 (\$28,000 profit return at 10% x 2) in my pockets instead of just \$28,000.

Not only that, I would be controlling \$600,000 in assets (2 buildings at \$300,000 each) instead of just \$300,000 in assets. All things being equal and I didn't make any more moves with my investments, when the loans are all paid off, I would be twice as wealthy by putting less down and owning more, than I would if I put all my money down on one building.

This is the power of leverage. This is how other people's money makes you wealthy. The sooner you learn this and start incorporating this principle, the faster you will acquire wealth.

How You Can You Get A 5% Down Payment Loan Through A Bank

When buying smaller multi-family buildings (less than 4 units), I have seen lending institutions offer 5% down mortgages to investors. These are pools of investors, combining their funds and offering them to real estate investors. In essence they are acting like a bank, but they are not a bank.

Once you go above 4 units, it's considered a commercial property and although you cannot get 5% down, there are companies that are offering 10% down mortgages.

You will not find a bank giving 5% or 10% down mortgage to an investor. Banks are conservative. They should be. They are using our savings to make their loans and I don't want my hard earned money going into high-risk deals (remember the Savings and Loan crisis?). They like to see at least 20% down and sometimes require as much as 25% and 30%.

The way to find the 5% and 10% down programs is to go to a mortgage company. Mortgage companies are not banks. They work with many financial investors and banks to write mortgages for individuals. They match the needs of the individual with the products offered by either the investors or the banks.

They play matchmaker. They have a lot more flexibility than the banks, although there are some unscrupulous mortgage companies. So shop and compare and check references when you decide to do business with a mortgage company.

The Benefits Of Taking “Subject To”

When looking for deals on which you can put less money down, first look for deals that you can take Subject To. What that means is that you are purchasing the property “Subject To” the existing financing that is already in place.

Sometimes the bank will allow it and sometimes they won't. You'll have to look at the Note to see if there is a clause addressing a change in ownership or a transfer of the deed that will cause the note to be called.

I've done this many times and I have even taken properties subject to even when the payoff clause is in there. I have not had one bank call in the note. For legal reasons, I'm not suggesting that you do this but what I have found is that if the bank continues to receive its mortgage payment on time they stay content and do not call the loan.

The worst thing they can do is to initiate the foreclosure process, which would force you to refinance the property. This is the last resort for the banks because this process is very expensive for them.

If you bought the property correctly, then you should have a good chunk of equity and refinancing shouldn't be a problem.

The benefits of taking the property Subject To:

- **No Bank Qualifying** - You don't have to apply for a loan. You're taking over an existing mortgage.
- **No Bank Fees** – You won't have to pay expensive points or bank closing costs.
- **Reduced Closing Costs** – You basically want to have an attorney or title company certify that the title is clear and have your property inspection done and close.
- **Faster Closing** – You don't have to wait for the bank to gather all its paperwork, do its inspections, appraise the property and send your loan to underwriting. You're in control; you use your people (attorney, title company, inspector) and therefore have the ability to close the deal much faster.
- **Possibility For Seller Second Mortgage And 100% Financing** – Banks don't like to see you go into a deal with out taking any money out of your pocket. The more you put down the happier they are. Since you will not have to work with a bank, it is possible that the seller will make up the difference between the amount of the loan taken subject to and the purchase price (this is the seller's equity) in the form of a second mortgage.

It all depends on the motivation of the seller. Based on the seller's needs, you could structure the deal any way that would make the seller happy.

- **Possible Lower Interest Rate Than The Current Market Rate** – Other than the fact that you do not have to get bank financing, there is the possibility that the interest rate on the mortgage that you will be taking subject to will be less than the current interest rate.
- **Higher Rate Of Return** – If you are paying out of pocket less money than you would if you had to get bank financing, then the rate of return that you will receive on your investment will be greater. This is because the investment costs you less.

If you're confused about this, look back at the example. Do you see that when we put out less money for deposit, our return was greater? It's the same with closing costs, the less we put out, the more we get back.

Assuming The Mortgage

Assuming the mortgage is almost the same as taking a Subject To, but with 3 key differences:

- **The Loan Goes Into Your Name** – The loan actually transfers into your name and it will be you that they come after if you default. This is called "recourse" financing.
- **You May Have To Qualify** – Some mortgages can simply be assumed into your name. In recent years lending institutions have been requiring that the person who is assuming the mortgage fill out a qualifying application so that they know that you are qualified to take over the mortgage and the property. If they don't feel that you are qualified you don't get to assume the mortgage.
- **You May Have To Pay Fees** – Lending institutions will probably charge you certain fees to qualify you to assume the mortgage, the least of which will be a processing and underwriting fee. I have recently seen some banks begin to charge points to qualify you for an assumption. As we have already learned, the more money you take out of your pocket, the less the investment returns.

Other than those three points, assuming the mortgage will give you the same benefits of purchasing the property Subject To.

The Key Question To Ask Any Seller

The key question to ask any seller is if he is willing to take back paper (hold a second mortgage). Which means the seller is willing to give you a second mortgage.

If the seller is willing to give you a second mortgage, you will have to put less down. This means that your returns will be higher and you will have more money to buy more properties.

If you're working with a real estate broker, ask the broker up front if the seller is willing to take back paper. If you are presenting an offer directly to the seller, include it in the offer.

The Master Lease with Option To Purchase

Just like a single-family house that you can lease option, you can also lease option an apartment complex. You do this with a Master Lease with Option to purchase.

The Master Lease and the Option should be two separate documents. The Master Lease is shown on the next page.

Why A Master Lease Option

- ✓ When the seller needs to keep the property in his name for a certain period of time, perhaps for tax purposes or pre-payment penalties.
- ✓ When you are looking to gain management experience.
- ✓ When you are not sure if you can turn a property around.

Remember, with a Master Lease with Option to purchase, you do not have to purchase the property. The deed stays in the seller's name until you exercise the Option. Always have the deed put in escrow at an attorney's office or a title company. This ensures that the deed will transfer when and if you want it to.

You take control of the property. You collect the rents, pay the bills, including the mortgage, you collect the cash flow and give the owner an agreed upon amount. A lot of times, you don't have to give them anything.

If you are buying a distressed property, I would not offer a monthly payment over and above expenses.

Don't allow the seller to pay the mortgage, agree to have it sent to an escrow agent or simply pay it yourself and set up an online account so that the owner can verify that it has been paid.

You should try to get option for a minimum period of 5 years with an automatic extension. You shouldn't pay more than ten dollars for an option fee to a distressed seller. The ten dollars will be "consideration" to make it a binding contract.

Master Lease Agreement

THIS LEASE, dated for identification purposes as of the ____ day of _____, 200_, between _____ (hereinafter referred to as the Landlord) and _____ (hereinafter referred to as the Tenant);

WITNESSETH: That the Landlord hereby demises and leases unto the Tenant, and the Tenant hereby hires and takes from the Landlord for the term and upon the rentals hereinafter specified, the building(s) known as _____, ("the Premises"). See description attached and incorporated herein as Exhibit A. The Premises are shown on Assessors Map _____ as Plot _____.

The initial term of this demise shall commence on _____ ("the Commencement Date") and end on _____ (the "Termination Date"). The monthly base rent for the first _____ (____) months of the demised term (the "Initial Period") shall be _____ and 00/100 (\$_____) Dollars payable on the Commencement Date and thereafter in monthly installments, in advance, on the same day of each month thereafter. The base rent for the period subsequent to the Initial Period, if any, is set forth in Exhibit "B".

Rent is to be payable at _____ or as may be otherwise directed by the Landlord in writing.

The above letting is upon the following conditions:

1. **LANDLORD'S OBLIGATIONS.** The Landlord covenants that the Tenant, on paying the said rental and performing the material covenants and conditions in

this Lease contained, shall and may peaceably and quietly have, hold and enjoy the demised Premises for the term aforesaid.

2. **USE OF PREMISES.** The Landlord and the Tenant agree that the Tenant will be subleasing the property or individual units therein to third parties. Rents and other use and occupancy charges shall be due to the Tenant and any sums received by the Landlord shall promptly be remitted to the Tenant.

3. **DEFAULT.** The Tenant shall pay to the Landlord, or Landlord's agent, the base rent and any additional rent at the times and in the manner above provided. Upon failure to pay any rent or other sum due in good funds within twenty (20) days after receiving written notice from Landlord or failure to discontinue any other material violation, if applicable, of this Agreement within thirty (30) days after receiving written notice thereof then (except as otherwise provided below with respect to extensions beyond said thirty (30) day period) the Tenant shall be considered in default and the Tenant's right's under this Lease shall thence forth, at the option of the Landlord, be terminated, and the Landlord may reenter and may re-let without further notice or demand, but such termination of rights, entry and/or re-letting shall terminate the Tenant's obligation for any rent to be paid or covenants to be performed during the remaining term of this Lease* The Tenant is making a substantial investment in the Property and the parties shall, in recognition thereof, deal in good faith regarding any alleged default and provide a reasonable opportunity to cure any default. In the event that Landlord has alleged any non-rent violation of the lease by Tenant, and in the event that cure of said violation reasonably requires more than thirty (30) days, then Tenant shall have such additional period beyond thirty (30) days as reasonably necessary to cure and/or address said violation.

**In the event the Landlord does not agree with the language releasing the Tenant for all liability in the event of Termination, then add the following.* The Landlord shall use reasonable efforts to mitigate any alleged damages by collecting all rent and other

charges due from subtenants and reletting the premises or any part thereof. For the purpose of letting or re-letting, the Landlord shall be authorized to make such repairs or alterations in or to the leased Premises as may be necessary to place the same Premises in as good order and condition as at the commencement of this Lease. The Tenant shall be liable to the Landlord for the cost of such necessary repairs or alterations. If the sum realized from the Landlord's mitigation is insufficient to satisfy the monthly rent provided in this Lease, the Landlord, at its option, may require the Tenant to pay the deficiency. The Tenant shall be entitled to a credit against any liability to the Landlord from any surplus accruing as a result of the re-letting. Notwithstanding any provision to the contrary, the Tenant shall always have the right to cure any alleged default at any time and to re-enter and occupy under the terms of this Lease provided the Tenant shall first pay the Landlord for all rent and costs due and reimburse the Landlord for the Landlord's out of pocket costs incurred in attempting to mitigate and to prepare the premises for reletting, with a credit for all sums received by the Landlord for rent and other charges..

In the event of any violation of this Agreement by the Tenant or by the Landlord the other party shall be entitled to recover their costs and fees incurred as a result of such breach, including reasonable legal fees and expenses and sheriff or constable fees.

4. **TENANCIES, ASSIGNMENT and SUBLEASING.** The Premises are leased with the understanding that the premises and parts thereof will be leased or let to others, subject to the limitations that (i) no lease or occupancy agreement shall be for more than one year and (ii) no unit shall be rented for less than ninety (90%) percent of the prevailing fair market rent for similar units in the market area. The Landlord certifies that the rent roll attached hereto as Exhibit C fully and accurately depicts the current rental rate applicable to each unit; the rent, if any, owing; and any security deposits or last month's rents held by the Landlord and any interest due thereon. The Landlord warrants that no tenant is in violation, to Landlord's knowledge, of any lease or occupancy agreement and the Landlord has received no notice that any tenant considers the Landlord to be in breach

of any lease, occupancy agreement or governmental requirement. Copies of all leases and occupancy agreements are attached hereto. The Landlord agrees to cooperate with and indemnify the Tenant in the event of any disputes with a subtenant relating to facts or conditions arising prior to the date of this Lease.

5. **CONDITION OF PREMISES.** Except as provided below, the Tenant shall keep the entire demised Premises all in good condition, and shall maintain the said Premises as may be necessary to keep it in repair and in good appearance. The Landlord shall be responsible to repair the structure of the building(s), and the tenant shall be responsible for the equipment, fixtures or appliances serving the same except for the following: _____

_____. In the event either party fails to maintain the Premises, in accordance with this agreement, then the other party shall notify the defaulting party in writing and provide a reasonable opportunity to address the alleged matter, and in the event that said matter is not addressed, then the non-defaulting party may conduct such maintenance and repair at the expense of the other and the cost shall be paid by the defaulting party. Any reimbursement due the Tenant may, at the Tenant's election, be by a reduction in rental payments due the Landlord. The Tenant shall not make any material alterations, additions or improvements to said Premises without the prior written consent of the Landlord, which consent shall not be unreasonably delayed or withheld.

Existing conditions at and/or upon the Property at the Commencement Date, shall be the Landlord's responsibility and the cost for bringing the Premises into compliance with all laws, regulations and codes including environmental laws, regulations and codes, applicable at the Commencement Date shall be the Landlord's responsibility. The Landlord warrants that, as of the Commencement Date, there is no lead paint, no violation of any health safety or environmental requirements and no underground petroleum storage tanks on the Premises.

6. **MECHANIC'S LIEN.** In the event that any mechanic's lien is filed against the Premises as a result of alterations, additions or improvements made by the Tenant, the Landlord, at its option, after thirty (30) days' written notice to the Tenant, may declare the Tenant in default if the lien has not been released or the Tenant has not taken good faith efforts to contest the lien or to secure the lien release within thirty (30) days after the Tenant's receipt of such notice.

7. **GLASS.** The Tenant agrees to replace at the Tenant's expense any and all glass, which may become broken in and on the demised Premises.

8. **INSURANCE.** Tenant shall procure and, during the term of this lease, maintain Comprehensive General Liability Insurance covering its operations at the Premises. The insurance shall name the Landlord as an additional insured. Tenant shall furnish Landlord with certificates of such insurance. The Landlord shall maintain fire and extended insurance coverage on the premises at replacement value. The Landlord's insurance shall name the Tenant as an additional insured.

9. **UTILITIES.** Utilities and services (without limitation, heat, trash removal, hot water, water, sewer, electricity, phone) shall be the responsibility of the Tenant or subtenants of the Tenant. In the event the Tenant requires additional utilities or equipment, Tenant may install said utilities and equipment and Tenant shall maintain said utilities and equipment at Tenant's expense. Real estate taxes shall be paid by _____. Personal property taxes, if any, shall be paid by _____.

10. **ENTRY ON PREMISES.** The Landlord, or its agents, shall have the right to enter the demised Premises at reasonable hours in the day or night, upon reasonable advance notice to the Tenant except in emergency situations, to examine the same, or to make such repairs, additions or alterations as it shall deem necessary for the safety, preservation or restoration of the improvements (there being no obligation, however, on the part of the Landlord to make any such repairs, additions or alterations).

11. **DAMAGE OR DESTRUCTION.** If, through no fault of Tenant, the Premises or any part thereof is destroyed by fire or casualty, or if the Premises or any part thereof is destroyed by action of war, enemy action or civil defense, or if any of the foregoing causes damage in excess of _____ (\$_____) Dollars to any material portion of the Premises, then Tenant may terminate this lease upon promptly giving written notice to the Landlord. Until the lease is terminated, a proportionate adjustment to the rent due the Landlord shall be abated to reflect rents not collected from any subtenant and other loss or expense incurred as a result of such damage or destruction.

12. **LEGAL REQUIREMENTS.** The Tenant agrees to observe and comply with laws, ordinances, rules and regulations of the Federal, State, County, and Municipal authorities applicable to the Premises and the business to be conducted in the demised Premises.

13. **RECORDING NOTICE OF LEASE.** The Landlord shall execute a memorandum or Notice of Lease, prepared by Tenant and in form satisfactory to Tenant referencing essential terms of the Lease, for recording by Tenant with the appropriate governmental registry.

14. **NOTICES.** No notice, approval, consent or other communication permitted or required to be given by this Lease will be effective unless the same is delivered during normal business hours; (i) by hand, (ii) by overnight carrier, or (iii) send postage prepaid, by United States certified mail, return receipt requested, or by any other manner permitted by law for service of process to the other party at the following addresses (or, to such other address as any party may designate by written notice as aforesaid):

If to the Landlord:

If to the Tenant:

15. **BANKRUPTCY AND INSOLVENCY.** It is further agreed that if at any time during the term of this Lease either party shall make any assignment for the benefit of creditors, or be decreed insolvent or bankrupt according to law, or if a receiver shall be appointed for a party, then the other may, at his option terminate this Lease, exercise of such option to be evidenced by notice to that effect served upon the assignee, receiver, trustee or other person in charge of the liquidation of the property of the party or the their estate, but such termination shall not release or discharge any payment or sums then due hereunder or any liability then accrued by reason of any agreement or covenant herein contained.

16. **EXPIRATION OF LEASE.** In the event that the Tenant shall remain in the demised Premises after the expiration of the term of this Lease without exercise of any option to extend or having executed a new written Lease with the Landlord, such holding over shall not constitute a renewal or extension of this Lease. The Landlord may, at its option, elect to treat the Tenant as one who has not removed at the end of his term, and thereupon be entitled to all the remedies against the Tenant provided by law in that situation, or the Landlord may elect, at its option, to construe such holding over as a tenancy from month to month, subject to all the terms and conditions of this Lease, except as to its duration. In any event, the Landlord acknowledges the Premises shall be occupied at the termination of the Lease by subtenants and occupants, and agrees to accept the same and the Tenant's responsibilities and rights hereunder. From and after the Termination Date, the Tenant shall have no further liability with respect to this lease or to any subleasee or subtenant.

17. **CONDEMNATION - EMINENT DOMAIN.**

In the event of any taking, Tenant shall receive any amount attributable to any portion of the improvements constructed, installed or paid for by Tenant. Tenant shall

have the option to terminate this Lease if any material portion of the demised Premises is taken, or any material portion of the access to the demised Premises is taken. This Lease will automatically terminate, effective as of the taking, if all of the demised Premises is taken.

18. **EXTERIOR MAINTENANCE.** The Tenant shall be responsible to keep the Premises in good order. The Tenant shall properly maintain all landscaping and place all rubbish and refuse of any description in sanitary and not unsightly receptacles for that purpose, said receptacles to be provided by the Tenant. The Tenant shall be responsible for plowing snow from the Premises and for removal or sanding of ice.

19. **COMMENCEMENT OF RIGHTS.** No rights are to be conferred upon the Tenant nor obligations imposed until this Lease has been signed by the Landlord, and an executed copy of the Lease has been delivered to the Tenant.

20. **RIGHTS NOT EXCLUSIVE.** The foregoing rights and remedies of Landlord and Tenant are not intended to be exclusive but as additional to all rights and remedies the Landlord and Tenant would otherwise have by law.

21. **PARTIES BOUND.** All of the terms, covenants and conditions of this Lease shall inure to the benefit of and be binding upon the respective heirs, executors, administrators, successors and assigns of the parties hereto.

22. **MODIFICATION.** This instrument may not be changed orally, but only by written instrument signed by the parties.

23. **BROKER.** The Landlord and the Tenant each represent and warrant to the other that it has dealt with no broker in connection with this transaction except _____ and agree to defend, indemnify and save the other harmless from and against any and all claims for a commission to any other party arising out of this Lease and alleged to have been as a result of dealings with the other party.

24. **ESTOPPEL CERTIFICATES.** Within ten (10) days after each request by the Landlord, the Tenant shall deliver an estoppel certificate as described herein to the Landlord. Estoppel certificates shall be in writing, shall be acknowledged, and shall be in proper form for recording. Each estoppel certificate shall be certified to the Landlord, any mortgagee, any assignee of any mortgagee, any purchaser, or any other person specified by the Landlord.

Each estoppel certificate shall contain the following information certified by the person or persons executing it on behalf of Tenant: (i) whether or not the Tenant is in possession of the Premises; (ii) whether or not this Lease is unmodified and in full force and effect (if there has been a modification of this Lease, the certificate shall state that this Lease is in full force and effect as modified, and shall set forth the modification); (iii) whether or not the Tenant contends the Landlord is in default under this Lease in any respect; (iv) whether or not there are then existing set offs or defenses against the enforcement of any right or remedy of the Landlord, or any duty or obligation of the Tenant (and if so, specify the same); and (v) the dates, if any, to which any rent or charges have been paid in advance.

25. **GOVERNING LAW.** This Lease is made pursuant to and shall be governed by and construed in accordance with the laws of the State of _____.

26. **INDEMNITY.** Each party will indemnify and hold harmless the other, its agents, employees, shareholders, officers, successors and assigns from and against any and all claims, actions, damages, remediation costs, liability, suits and expenses (including, without limitation, court costs and reasonable attorney's fees) in connection with the loss of life, personal injury and damage to property or other damages, relating to or arising from or out of, whether in whole or in part, (a) the occupancy or use by the other of the Premises, (b) the conduct of its business therein, or (c) any act, misrepresentation herein

or otherwise or omission of the party, its agents, contractors, employees, servants, suppliers, invitees, guests or customers, or (d) breach of this agreement.

27. **OPTION TO EXTEND.** The Tenant shall have the option to extend, if any, as set forth in Exhibit “D”.

IN WITNESS WHEREOF, the said Parties have hereunto set their hands and seals the day and year first above-written.

TENANT:

LANDLORD:

By: _____

By: _____

EXHIBIT "A"
(Description of Premises)

EXHIBIT "B"

(Rent Schedule)

EXHIBIT "C"

(Current rent roll, rents due, deposits and prepaid rents)

EXHIBIT “D”
(Option to Extend)

How To Structure A Second Mortgage

The four most common second mortgages given by a seller are:

1. Interest only, monthly payments, 5-year balloon
2. Principal and interest payments, 5-year balloon, amortized over 20 years
3. Interest only, no payments, 5-year balloon
4. No payments, no interest, 5-year balloon

Let's familiarize ourselves with what some of these terms mean

Interest Only – Your monthly payments would be paying interest only. None of the monthly payments would take any principal off your 2nd mortgage balance. The entire balance would be due at the end of the term.

Principal and Interest – This is the way that most home mortgages and car loans are structured. The payments are applied to both principal and interest with the majority of the money being applied to interest at the beginning of the term.

5-Year Balloon – A Balloon mortgage is a mortgage in which the entire principal is due in its entirety on a certain date, before the amortization period. In this case, although the loan is amortized over 20 years, the entire principal is due at the end of the 5th year.

Amortization – To amortize means to reduce over a period of time. The principal and interest is calculated based on the number of periods in the amortization period. The longer the amortization period, the smaller the required payments.

This is why you'll see a note amortized over 20 years with a five-year balloon. If you were to amortize the same note over 5 years, the payments would be substantially higher and would reduce the return that would be realized by the investors.

The return may be reduced so much that it no longer makes sense for the investor to be in the deal.

A Quick Evaluation of The Four Most Common Second Mortgages

Interest Only Monthly Payments Five-Year Balloon – The interest is calculated using simple interest. If the second mortgage was for \$40,000 at 10% then multiply \$40,000 by 10% and divide by 12. This will give you a monthly payment of \$333.33 ($\$40,000 \times 10\% = 4000 \dots 4000/12 = \333.33)

The monthly payments would be made until the end of year five, and then the entire principal would be due. In this example it would be \$40,000.

Principal and Interest, 5-Year Balloon, 20-Year Amortization – Principal and interest payments would be made monthly. The payment amount would be calculated using a financial calculator. This would come out to \$382.62. Do you notice that this is higher than the Interest Only payment of \$333.33? That is because principal is included.

At the end of year five, when the balloon payment is due, there would still be \$35,623.96 outstanding of the amount of principal owned.

Interest, No Payments, Five-Year Balloon – No monthly payments, principal plus interest due at the end of five years. Usually it is calculated by using simple interest. The amount due at the end of 5 years would be \$59,999.80. That's $\$40,000 \times 10\% = 4000 \dots 4000 \times 5 = \$20,000 \dots \$40,000 + \$20,000 = \$60,000$

No Payments, Five-Year Balloon – There would be no interest due and the full amount of the principal, \$40,000, would be due at the end of 5 years. I know this sounds crazy. Why would anyone accept this? I don't know, but I do know that it has happened, so keep your mind open to all the possibilities and don't pre-qualify any seller as to what terms they will accept. They always find a way to surprise you.

What's the best scenario for us investors? **No Payments, Five-Year Balloon**. Remember, the more money we keep in our pockets, the more we can use to control other investments.

If we don't have a monthly payment, we can put that money to use in other areas. The next best choice is **Interest, No Payments, Five-Year Balloon**. This is because the payments aren't as high as the Principal and Interest, 5-Year Balloon, 20-Year Amortization option.

Assess the situation that you're in and structure the offer with the second mortgage that will best suit the seller and yourself.

Another note on Balloon Mortgages: Balloon Mortgages are typically written for 1 – 5 years, with 3 and 5 years being the most common. As an investor, you want to that balloon pay off due as far out as possible, so that you can be using other people's money to build your fortune.

A Shrewd Investor's Methods For Keeping His Money

When you're looking to put the least amount of money down as possible, you want to cover every angle possible and you really need to be thinking when you structure your offer.

Here are some methods that, if you structure your deal properly, can reduce the amount of acquisition costs that you need to put down on a property.

Repair Allowance – You're negotiating the deal and it's obvious to you and the seller that there are repairs that will need to be made to the property. Could be a roof, could be carpeting in the units, perhaps a majority of appliances need to be replaced.

You have the seller agree to give you "x" amount of dollars at the closing for repairs. This is called a "Repair Allowance." This money goes directly into your pocket, thus reducing the amount of money that you will need to put down at closing.

Don't you have to use the money for repairs? Not necessarily; you eventually will, but you don't have to do it right away. You can do it on your own timetable, unless, of course, it's for emergency repairs, like a heating system.

Perhaps you will wait and use the cash flow from the property to pay for the repairs. Do you see how this technique works in your favor?

Closing At The Beginning Of The Month – Have the closing at the beginning of the month but not on the first. The best time is from the 3rd to the 5th. By doing this you will be able to receive a big chunk of the rent that is due for the month in which you are closing.

This is because it is the seller's responsibility to collect the rent on the first of the month. Since he will not be the owner of the property for the entire month, then he must give up that portion of the rent for the month that he is not the owner.

If you close on the 3rd, you get 27 days of rent (30 days in the months – 3 days = 27). Multiply that by the total amount of rent due (total number of units x total monthly rent) and you can use that money towards the money that you will need to take out of your pocket to close on your property.

The deeper you close into the month, the less money you will get because the number of days that you will have ownership of the property for that first month will be less.

Here's a tip. Always make the seller be responsible for the rent that any tenant has not paid rent for the month that you are taking over.

You should receive a full credit for every tenant whether they paid or not. Rent is due on the first. The seller owned the property on the first. It is the seller's responsibility to get that rent.

If the seller comes to closing and says that there at a certain number of tenants that have not paid yet, but they are good for it (they've lived here for years....I've never had a problem....yada, yada, yada), kindly say, "Then you won't have any problem collecting that rent."

Security Deposits – When you close on the property, you will be taking over the security deposits for the tenants. You will be credited this amount of money, thus reducing the amount that you will have to take out of pocket at closing.

You must verify the security deposits for each tenant in writing. You will send a "Verification of Occupancy" letter to all of the tenants prior to closing while you are doing your Due Diligence.

This will give you the proper amount that is being held. Do not rely on the seller for the amount; if you do, you run the risk of the amount that the seller tells you being less than what it should be and then you lose.

"Trust But Verify." Always check your state's laws regarding security deposits. If you do not follow them, there could be stiff penalties.

The "Nibble" – The Nibble is a negotiating tactic. Once you have the deal signed and finalized, if there is anything that comes up that you weren't aware of prior to the signing of the contracts, you go back to the seller and ask for a credit at closing.

The most common Nibble occurs after you have done your property inspection. If you learn that there are additional repairs that you were not aware of prior to your negotiating of sale of the property, then you go back and ask the seller for a credit.

Another common Nibble is when you receive your verifications back. Maybe the rents aren't as high as the seller stated, or perhaps some of the expenses are higher than you were told.

Since your offer was based on information given to you by the seller, you have the right to go back and get a credit.

Beware – the reason it's called a Nibble is because you're asking for an amount that is an inconvenience but not a deal breaker. Nibbles are done after the seller is emotionally tied to the deal. The further along the negotiating process you go before you ask for your Nibble or Nibbles (don't be afraid to go back 2 or 3 times) the more likely the seller will agree.

This is because the seller is already spending his proceeds in his mind. Now he wants to close this deal.

If you've got a good deal, take care in handling your Nibbles. Don't lose the war because you wanted to win the battle.

The Golden Rule When Negotiating

“Trade price for terms - pay more for the property so you can put less down.”

The Most Common Financing Techniques and How To Perform Them

Here are the most common financing techniques that you will use to build your apartment portfolio:

- Taking Property Subject To The Mortgage, Low Down Payment
- Assumption of Mortgage, Low Down Payment
- Seller Carry First Mortgage
- Seller Carry Back Second
- Hard Money Lender
- Government Programs

Taking Property Subject To, Low Down Payment

Method – As discussed earlier, you will take over the property subject to the existing financing. The loan stays in the sellers name until the property is resold or refinanced.

You will take over the existing financing and depending on the motivation of the seller, you will give little or no money down.

If there is a substantial amount of equity in the property then the seller may take back a second mortgage to be paid at a later date to be compensated.

Who Is Most Likely To Go For It

- Sellers who are behind on mortgage payments
- Sellers who are “burned out”
- Sellers that for some reason or another want out fast

Negotiating Points To Bring To Seller

- Gets his equity, although not immediately, sometime in the future
- Avoids foreclosure
- Buyer makes new payments on time, seller's credit rating is restored
- Seller gets cash now

Why You Would Do It

- No bank financing
- Little money down, possibly none
- Not personally liable for the mortgage
- Fast closing

How To Set It Up

Assume that you have already negotiated with the seller and have struck a deal to take over the property subject to the existing financing.

To take a property “subject to” its existing financing, you first have the seller put the property into a trust. After it is put into the trust, he/she assigns the beneficial interest over to you and changes the trustee to you or someone in your organization.

Remember, the trustee holds all the power. Even though he/she may not have any beneficial interests, he/she can still sell the property at any price that they desire so be careful who you put down as trustee. I have always put my self or my partner.

Before taking over the property there are several disclosures that you will want the seller to sign. Among these are the seller’s disclosures of property, telling you everything and anything that is wrong with the place.

You will need a “cover your ass letter” that basically states that you are taking over the mortgage “subject to” and that the lender may call the mortgage due. If the lender does, you will pay if you can. If you can’t the lender may foreclose.

This is the last thing that you want to happen. Doing this gives all of us ethical and moral real estate investors a bad name. Although this is an absolute last resort, you want to make sure that the seller can’t come back at you for making false promises.

You’ll want to notify the mortgage company that you will be “managing the property” and that any excess escrow funds should be taken off of the principal of the mortgage. Also, any future correspondence regarding the property should be sent to your address.

The golden rule is to get everything in writing. If you are going to be purchasing properties using “Subject To” financing you should take a course on how to do it properly. Call me or e-mail me and I will refer you to a couple of the best courses available.

Assumption of Mortgage, Low Down payment

Method – Assume the existing mortgage, seller carry back second if necessary, give seller low down payment.

This technique is very similar to the Subject To technique. The major difference is that you must assume the mortgage and sign personally for the seller's current financing. You are now responsible.

Who Is Most Likely To Go For It

- Sellers looking to sell quickly
- Sellers who are “burned out”
- Buyer looking for a lower interest rate than current market rate

Negotiating Points To Bring To Seller

- Fast closing
- No longer personally liable for financing
- Some cash now
- Will not lose all equity if they carry a second mortgage

Why You Would Do It

- Fast Closing
- Financing cost less than a new loan
- Low down payment
- Possible lower interest rate than current market rate

How To Set It Up

To assume a mortgage, simply contact the lending institution that is holding the mortgage at this time. They will send you an assumption package and simply follow the steps and send them the information that they are requesting.

The lending institution will process the information and usually between 30 – 60 days you'll be approved and will now own the property.

There are two things you should remember.

1. Not all mortgages are assumable, so read through the mortgage and look for the section titled “Pre-Payment.” This is where you usually find the language that tells you if the mortgage is assumable.
2. The bank does not have to approve you, so respond to their requests for information the best that you can.

Seller Carry Back First Mortgage

Method - There is no existing mortgage on the property, the seller carries back the entire amount of financing in the form of a first mortgage which is secured by the existing property. Seller may require a small down payment (they may ask for a larger one but negotiate a small one).

Who Would Go For It

- Sellers who own their properties free and clear
- Sellers who don't want to take a big tax "hit"
- Buyers who want to save money by not qualifying for bank financing

Negotiating Points To Take To Seller

- Do not have to claim the entire capital gain in one year
- Can receive a monthly cash flow in the form of principal and interest payments from the property with out the headaches of ownership
- Fast closing
- Mortgage guaranteed by the property

Why You Would Do It

- Fast closing
- Low down payment financing
- No bank qualifying
- No bank fees
- You can write a non-recourse note (no personal liability for you)
- Negotiate a good interest rate
- You can negotiate your own terms

Seller Carry Back Second Mortgage

Technique – This is the most common form of financing used by typical investors when purchasing apartment buildings. Since we are not typical investors, we'll try the other angles before we fall back on this technique, though it is also effective.

Who Would Go For It

- Most sellers, since they are familiar with it and they probably used it to purchase the property
- Buyers, since it is another method to lower their out of pocket costs to do the deal

Negotiating Points To Take To Seller

- Secondary financing makes the property more marketable
- Entire capital gain is not realized in the same tax year, it is spread out thus decreasing the tax burden on the seller
- Seller receives a monthly cash flow (if a monthly cash flow is negotiated)
- Seller no longer has the problems of owning property

Why You Would Do It

- Reduces the amount of money the buyer has to come out of pocket to do the deal.
- Higher return on your investment
- Ability to buy (control) more property

How To Do It

Go through the regular paperwork for financing a purchase.

- Offer
- Purchase and Sale
- Due Diligence
- Closing

Have the closing attorney (if using one, if not hire an attorney) write up the second mortgage as defined by the terms that you negotiated. The second mortgage is recorded after the deed and the first mortgage.

Hard Money Lender

Technique – When you get into a deal in which you will receive a great deal of equity, you can go to a hard money lender and borrow the funds that you need.

You will receive between 65% and 70% of the after repaired value of the property. When you fix it up and raise the rents, refinance it into regular financing.

Who Would Do It

- Buyers with no cash and a great deal

Negotiating Points To Take To Seller

- They get all their cash
- They are no longer involved with the property
- Their loan is paid in full

- Fast closing

Why You Would Do It

- No bank requirement of a down payment
- Fast closing
- Gets you into the deal in which you will make a great deal of money on the back end
- Doesn't matter if your credit is good or bad
- Can get additional money out when you refinance

How To Do It

Hard money lenders have their own way of doing business. They will dictate to you the procedures that you must follow.

Government Loans and Grants

Technique – Many times the federal or local governments pinpoint an area that they want to revitalize. They will offer special financing to entice investors into the area to renovate and rehab run down and abandoned buildings.

A lot of times you can get grants, which means you don't have to pay the money back, or loans with very favorable terms if you take advantage of these programs.

Call your city or town and talk to their economic development advisor. If they don't have one, speak to the housing authority. Ask them if there are currently any programs like these available. If not, ask for a referral to another city that might have them.

Cities usually know where money like this has been allocated. Contact your county, state and federal offices as well.

Why You Would Do It

- Free money
- Low cost financing
- Low interest financing, sometimes 0%!
- No credit checks

Chapter 8

How To Protect What You Have – Buying Properties In The Right Entities

You never want to buy anything in your own name. Putting properties in your own name tells the world that you own something and puts what you own at risk.

There is a phenomenon that describes the difference between the Haves and the Have-Nots in this world. The Haves have taken the time to educate themselves, work hard and make a better life for themselves. Like everyone else, they had a choice. Watch T.V. or try to make money. They chose to get off their butts and make some money.

My hat is off to all of you who are starting with nothing and through sheer determination, sacrifice and will, have decided to create a better life for yourself. If you stick with it and get back up each time you are knocked down, you will succeed.

I know this because I too started with nothing and am happy to say that I have joined the ranks of the Haves and the “Have-A-Lots!”

Here is the phenomenon. The Have-Nots, though they have done nothing to better themselves, spend their lives complaining about the way things are, and for no apparent reason other than greed, see a Have and decide that since the Haves have so much, they are somehow entitled to some of what they have.

What they do is find some sort of convenient excuse through a lawsuit to try to take away from you what you have worked so hard to attain.

This is why you do not want to own any property in your own name. So when the Have-Not’s come a-calling, you don’t have to answer the door. If you own property in your name, not only will you be opening the doors, but you will be inviting them to your table to feast upon your family’s food.

You need to protect yourself. The following are different entities in which you can buy properties. You can decide which one is best suited for you and your situation.

The C-Corporation

C-Corporation status is granted by each individual state. The entity is a separate legal and tax entity that is owned by one or more shareholders. Shareholders own the corporation and the corporation owns the property. Income and expenses from the property are reported on the corporation's tax returns.

You may be the only shareholder and own all the shares. You may also hold all of the corporate offices such as President, Vice President, Secretary and Treasurer.

Each corporation has its own Articles of Incorporation and bylaws. The shareholders receive cash distributions in the form of dividends.

Advantages

- Limited liability – shareholders are not responsible for the debts of the Corporation and shareholders can only lose the amount of their equity investment. No personal liability exists for shareholders.
- If it is a large corporation, shares are more liquid than the real estate (this is not usually the case with investors).
- The corporation does not expire upon the death of any one shareholder or all shareholders.

Disadvantages

- Expensive to form. Must report to the state and federal governments annually
- Double taxation – corporation pays taxes on the profits obtained from the real estate and the shareholder is taxed personally from dividends received from the corporation.
- Corporation cannot pass-through losses to shareholders.
- **Not eligible for 1031 Exchange.**

S-Corporations

An S-Corporation is a separate legal entity but not a separate tax entity. An S-Corporation can be owned by an individual or a group of investors.

Advantages

- No Double Taxation - Income is reported by shareholders on their individual tax returns. If certain requirements are met, the income of the property is not taxed at the corporate level.
- Limited Liability

Disadvantages

- Income from real estate rentals cannot exceed 20% of gross income. Not a common form of ownership entity for the purchase of apartment houses for long term holds.

General Partnerships

General Partnerships are non-taxable ownership entities for two or more investors. Each General Partnership is regulated by the individual state in which it resides. A partnership agreement is needed and should be drafted by an attorney.

Each partner is a general partner and shares equally in the management of the property. Title to the property is held in the name of the partnership and not individually.

Each partner owns a share of the partnership. They do not own interests in the property itself, just the assets of the partnership. This becomes an issue if one of the partners needs to leave the partnership. To protect everyone's interests, terms of exiting the partnership should be clearly spelled out in the general partnership agreement.

Advantages

- Easy to run and low cost associated with start up.
- No Double Taxation – the partnership is not a tax paying entity. Each partner reports his or her share of taxable income on their personal tax return through a “K-1” filing.

Disadvantages

- Unlimited Liability – Each partner is responsible for all the debts of the partnership regardless of the amount of money invested.

Limited Liability Partnerships

A Limited Liability Partnership is formed when two or more investors create a partnership agreement for the purpose of a Limited Liability Partnership. Limited Liability Partnerships are regulated by each state in which they exist. This is a very common form of ownership for real estate investment.

They differ from General Partnerships in that one partner takes on all management responsibilities and all of the liability of the partnership. The other partners are shielded from risk and therefore have limited liability. Because of this, the managerial person is compensated for taking on the role as managing partner and taking on unlimited risk.

Advantages

- Limited Liability Partnerships allow for additional compensation for the general partner who takes on the additional risk.
- Limited Liability for limited partners.
- No double taxation – distributions are reported on individual tax return via “K-1” reports

Disadvantages

- Limited partners have limited control.
- They can be costly to form and operate.
- Obtaining financing in the form of the partnership can be difficult.
- The general partner has unlimited liability.
- Lack of liquidity for partnership interests – there is virtually no resale market for limited liability partnership interests.

Limited Liability Corporations

Although relatively new and not recognized in all 50 states, Limited Liability Corporations are fast becoming the most popular entity of choice for investors to own real estate.

The main difference between a Limited Liability Partnership (LLP) and a Limited Liability Corporation (LLC) can be seen in the name of each. A LLP is treated as a partnership while and LLC is treated as a corporation.

An LLC allows each member to be involved in management activities. The documents that must be created are the articles of organization and the operating agreement.

Some states allow the formation of an LLC with only one investor, while other states require two or more investors to form an LLC. One of the key benefits is that limited liability is allowed for each member of the group.

Advantages

- LLCs are allowed to operate with fewer corporate formalities than are required for C- and S-Corporations.
- No double taxation.
- All members are active in management of the asset.
- Limited liability given all group members.

Disadvantages

- Low liquidity.
- Costly to form and operate.
- May be difficult to obtain financing.

Trusts

Trusts are formed by two or more individuals known as beneficiaries. The property is managed by a Trustee who may or may not be a beneficiary. Trusts are a very common form of ownership for smaller apartment buildings.

Advantages

- No double taxation – income is reported on a personal tax return via a “K-1” Report.
- Limited Liability.

Disadvantages

- Trustee holds absolute power and has the ability to sell the property without consent of the beneficiaries.
- May be difficult to finance.

Sole Proprietorship

Sole proprietorship is a single person owner. This is the worst kind of ownership entity for real estate if you want any form of protection for your assets. That being said, there are some benefits to sole proprietorship.

Advantages

- Easy to finance.
- Tax reporting is on the individual’s return.
- No management conflicts.

Disadvantages

- Unlimited liability – courts may go after other assets to settle disputes.

When I first started investing, I owned all of my apartment buildings in trusts. At one time I had thirty-eight different trusts with thirty-eight different bank accounts. This protected me in case there was some sort of accident at one of the buildings.

If there were some sort of accident at one of my properties and I was found at fault, by holding all of my properties in trusts, only that building would be affected and not all of the others that I had worked so hard to attain.

As I started buying bigger buildings, I started buying through Limited Liability Corporations if I knew the other investors well.

I will buy using Limited Liability Partnerships if I am getting involved with a group of investors whom I don't know but know I can trust the General Partner.

If I am buying a property to "flip," whether it is a single-family home or an apartment building, the easiest entity for me to own the property in is in a trust.

Early in my investing, sometimes I would have to buy a building in my own name in order to get bank financing but then I would transfer the building into a trust.

Everyone's situation is different. Take a look at yours and decide which entities are best suited for you and the particular investment that you are looking at, at any given time.

Chapter 9

Management for Profits

In this chapter we are going to discuss two types of management. The first type is managing your properties yourself. The second type is hiring a management company, then managing the management company.

When you first start out, especially if you're buying smaller apartment buildings, you should buy buildings within an hour of your home and manage your buildings yourself.

This will give you excellent experience and skills regarding property management. When you are ready to hire a management company for properties you've bought further away from your home, maybe across the country, you will know if a management company is performing properly for you.

This chapter is meant to be an overview of property management. I will provide insights and systems that I have developed from managing over 105 of my own units. This is by no means an end all when it comes to property management information.

Property management is a skill that is learned. You should increase your skills by continuing to seek knowledge regarding property management. Perhaps through books, courses, and/or joining a property owners association, seek additional knowledge.

The average person "burns out" of property ownership within 4 – 5 years. This is because they have been "kicked around" and "abused" by their tenants and they finally give up in a desperate attempt to get their life back.

The main cause of this burnout is that the owners never educated themselves as to how to manage tenants and manage the building properly.

Don't make this mistake. Use this chapter as a guide to controlling your tenants and then go out and seek additional knowledge. (I've state that three times on this page. Do you think I think that it is really important? IT IS!)

How To Make Money Managing Your Property

The only two ways to increase your profits is by increasing your revenues and/or decreasing your costs.

You can increase your revenues by increasing the amount of rent that is paid to you and you can increase your revenues by keeping vacancies at a minimum.

Your occupancy rate should run about 95%. If they are lower, that means you need to sharpen your skills for attracting new tenants to your building. If they are higher, that means your rents are too low.

Always be aggressive about increasing your rents. You want to be in the top 10% of amount of rent charged in your area.

The best time to aggressively increase your rent is when one tenant moves out and the next one moves in.

You want to be careful when increasing rents for existing tenants. If you increase it too much, they will become disgruntled and move out. Tenant turnover will be one of you biggest expenses. You want to keep tenant turnover to a minimum.

At the same time you always want to be increasing rents, so during the anniversary of your lease you'll want to increase the rent by at least \$15 - \$25. This is called a "nuisance" increase. The tenants may be annoyed by the increase but it is not enough to make them move out.

Increasing the rent not only increases your revenues and profits but it also increases the value of your property. When you are ready to sell, if you have a system for consistently increasing your rents, you will get maximum value for your property.

The other method of increasing your revenues is by decreasing your costs.

The area of costs that usually takes most of your budget is repairs and maintenance. Keep these costs low by always getting three bids for each job that you need done.

Four Important Reasons Why You Should Do Timely Repairs

Do not forgo repairs to keep costs down. If you do, the following will occur:

- Decrease in the value of your property.

- Increase the costs of the repair in the long run (because the problem will get worse).
- Upset the tenants enough to have them move to a building in which the landlord “cares about the place.”
- Make it harder for you to rent to new tenants.

9 Easy Ways To Reduce Expenses

1. Install incandescent lighting in the halls.
2. Install motion lighting in the common areas.
3. Put your common area lighting on a timer.
4. Install water saving showerheads and faucets.
5. Put a brick or a full gallon container in the toilet tank (this will reduce the amount of water needed to full the tank after each flush.
6. Put your heat on a controlled thermostat.
7. Charge the tenant for any repairs or maintenance that are their fault at the time of the repair.
8. Get three insurance bids.
9. Challenge your tax assessment (especially if you’re buying after a Decline Phase).

Most of these methods of reducing expenses are self-explanatory. Some of the methods I’ll discuss more, as we get further into the chapter.

Easy Methods For Controlling Your Tenants

Controlling your tenants is one of the keys to effective property management. Some owners fall into the trap of responding to the tenants every beck and call for fear of losing the tenant.

Because of this, the tenant has trained the owner to respond to their needs, however exaggerated, instead of the owner training the tenant. This is the number one cause of ownership burn out.

To train a tenant effectively, you must start at the very beginning of the relationship.

My Six Rules Of Tenancy

After the application has been accepted, the tenant is contacted to sign the lease. At this point you must clearly state the rules of living in your building. Mine are simple. I tell the tenant that they must:

1. Pay their rent on time.
2. Respect their neighbors.
3. Respect the apartment (meaning do not damage the apartment).
4. Respect quiet hours.
5. Keep their unit and their exterior trash area clean.

6. Absolutely no drugs.

In return I will provide:

1. A roof over their family's head.
2. A safe place to live.
3. A clean place to live.
4. I will respond to any maintenance emergency within 24 hours.

It's a fair trade and I always keep my end of the bargain. I also spell out what will happen to them if they do not keep up their end of the deal.

If their rent is not paid by the 5th of the month, they will receive an eviction notice. In my state they have 14 days to pay in full and then they can stay (check your own state laws regarding this). If they do pay their rent, an additional \$25 is due to pay for the serving of the eviction notice.

If they do not respect their neighbors, quiet hours, the apartment or keep their spaces clean they will be given one warning. If they do not respond to the warning, they will be evicted.

The key to training the tenants is to do what you say you are going to do. If that rent is late, send out the eviction notice and letter. If you don't, you have just trained the tenant to pay their rent late.

If they are not respectful, send them a stern warning and if they do not heed the warning, get rid of them and make sure all of the other tenants know that you are in the process of getting rid of them and why.

This will reinforce to the other tenants that you respect them and are providing them with a nice place to live. They in turn will stay longer, and when that apartment opens they may refer a new tenant to you.

Let them know what will happen if you or anyone in the neighborhood suspects that they are dealing drugs. I tell the tenant that I will immediately notify the State Police Drug Task Force, the local police and the Department of Social Service (give them fear that their kids will be taken away).

I tell them that upon notification of the State and local police, I will give them keys to all of the doors to the apartment and give them permission to enter at any time. And this is exactly what I do.

I do this because I've had the State police take a battering ram and an ax to several doors in one of my buildings during a drug raid. Of course, I'm responsible for the damage costs! It's cheaper to give them the keys and they appreciate it.

You must not allow drug dealing in your units. Sure, they pay cash and they pay on time but what will happen is all the good tenants will move out and more bad tenants will move in and you will lose any control that you once had of your property.

The Smart Investors Application Process

Always have potential applicants fill out an application. See the example application at the end of this chapter.

Make sure all of the questions are filled out, especially the last 3 places they rented and the references section. Then do a follow up and check their previous landlords and references.

When checking previous landlords, always ask information that you know is wrong. For instance, if the applicant says that she paid \$600 a month in rent, ask the previous landlord if it is true that the tenant paid \$650 per month. If the previous landlord corrects you, then you know that it probably is the previous landlord that you're talking to. If they agree, that tenant may have conspired with a friend to act as a previous landlord so that she can get the apartment.

They may not be able to give you an actual previous landlord because they have been thrown out of every place that they have ever lived.

Be wary of anyone who has been living at home or at a friend's place for an extended period of time. This is another method that applicants employ for getting around owners talking to previous disgruntled landlords.

I tell the tenant that I must establish a 3-year housing history. If they have not been renting for the last three years then they do not qualify to live in my building.

Always do a background check with a tenant check service. I have always used National Tenant Network. They are quick and reasonably priced.

I am mainly concerned if a tenant has been evicted. If they have been evicted once then they know how to play the "game" and I don't want them. If they have been evicted in the last five years then they are not qualified to live in my building.

Most people living in apartments have bad or spotty credit so I'm not as concerned about that. However, I do want to see a two-year work history, preferably at the same job or in the same field.

Tenant screening from National Tenant Network costs from \$10 - \$20 per adult. Therefore, I charge a \$20 - \$30 dollar application fee per adult. This pays for the tenant check and there is a little left over for me.

If the applicant does not want to pay the fee, then they can't have the apartment. This usually means that they have a troubled past and don't want to waste their money. That's okay, because I don't want to waste my time either.

You will get a lot of excuses of from people who "don't have the money now" (forgot it, bank closed, etc.) and they will "be glad to pay tomorrow, just run the report and let me know if I have the apartment." Don't do it. Don't run the report until you have the money no matter how nice they may appear.

The Kick Butt, No Holds Barred Lease

After you've accepted your applicant, you'll notify them and set up a time for them to come in and sign the lease.

This is the time to set the parameters of your relationship. You tell them what you expect from them and what they can expect from you. This was discussed earlier in the chapter.

Go over each page of the lease; have them initial each page showing that they indeed did review it (I have had tenants in court claim that a certain page wasn't in the lease when they signed it. This is why you want them to initial every page).

Then collect a deposit to hold the property off the market. One month's rent should be sufficient. Collect it in either cash or a money order, but never a check.

Why You Should Never Accept A Check For First And Last Months Rent

When tenants give you first, last and security deposit, this should be either in cash or money order. Why? There are people out there whose sole purpose is to live in apartments for free. They are called professional tenants and this is one of their tricks.

They bounce the checks and tell you how sorry they are. They write you another check to make up for it. This is after you have spent days trying to get in contact with them.

They are very nice and their excuses sound sincere (remember, they are professionals). Before you know it, you are out three months rent and in the middle of an ugly eviction process.

Always get cash or money order up front. When you have a tenant who has been living in your apartment bounce a monthly rent check on you, do not allow them write you another check ... ever.

When one of my tenants bounces a check, they lose their check writing privileges and every payment after that has to be by money order or cash.

Prior to the move in and the handing over of the keys, you will want to do a walk-through.

Have a walk-through form with you so that you can note down any repairs or deficiencies in the apartment. When you are through, have the tenant acknowledge the condition of the apartment by signing the form. You will need this form if there is ever a dispute regarding the security deposit.

Check the security deposit laws in your state and abide by them. Some states are strict and if you don't abide by the letter of the law, the penalty is treble damages, which is usually equal to three months rents!

When And Only When To Give The Keys To The Apartment

Only give the keys to the apartment to the new tenant only when the following has been completed:

- First, last and security have been exchanged.
- Lease has been signed.
- Property Condition Form has been signed.

If you hand over the keys before any of the above has been completed, you will be sorry.

The Golden Rules Of Property Maintenance

Let the tenant know up front that if they damage the unit they will be expected to pay for the repairs.

Let them know that you will respond within 24 hours to a maintenance call, but upon doing the repair, if it is determined that the problem arose from tenant damage, that you will expect payment at that time.

The famous maintenance call is the clogged toilet in the middle of the night, on a holiday, or on a weekend. We tell the tenant that if we find anything unnatural that has clogged the toilet then we will expect payment of "x" amount of dollars upon completion.

80% of the time we get a call back stating that the problem has been solved before we go out there. This means they got off their ass and went to the store to get some Drano and fixed the problem because they didn't want to pay!

We have found brushes, Barbie dolls, utensils and many other things in the toilet. Each time the tenant paid for the maintenance call.

If you do not adopt this attitude, your tenants will consider you their personal maintenance company and you will be at their beck and call and you will be miserable.

You want to perform maintenance calls in a speedy manner, especially if it's just wear and tear or damage from some other source. This keeps the tenants happy, and happy tenants stay longer.

Tracking

There are many good landlording software systems available to track information for you. They have all kinds of bells and whistles. When looking for software you want one that is going to remind you when someone is late paying their rent and when rent increases are due.

You'll also want to track work orders and maintenance requests showing a repair history of any particular unit or building. This is always good to have if you ever end up in court with a tenant.

There are systems that will have pre-printed letters for you for evictions and rent increases.

We have used a combination of Quicken, Microsoft Excel and Microsoft Word to track all of our information. We don't have any "auto reminders" but our systems have worked very well for us.

As we get into bigger and bigger properties, we are investigating different software packages that are available. When we find a good one, we'll email you (we've got your contact info!).

The Easy Way To Collect Your Rent

When we first started buying apartment buildings, we would spend the first week of the month collecting rents.

We would go door to door and collect the rents. Not only did this take a while but also at times it became dangerous because we might have thousands of dollars on us.

At the beginning of our buying, we would buy buildings that were infested with drug dealers and then work on getting them out. It was in these types of neighborhoods that we were carrying that kind of cash!

Sometimes we would go to an apartment two or three times before we would get the rent. Either they weren't home or we were told to come back later, and then they weren't home.

Finally we got smart. On the 22nd of each month, we send out an invoice for the rent. Along with that invoice is a self addressed stamped envelope. Now all of our tenants mail the rent back and 90% of them are mailed back by the first.

It took a couple of months for the tenants to get used to it but it works great.

Now we spend that first week of the month working on other deals to buy instead of wasting our time collecting rents.

How To Choose the Right Management Company

If you have the opportunity to manage your own properties, do it. Just for the experience. If you have no desire to manage your own buildings or if you buy buildings that are too far away to manage then you'll want to hire a management company.

Management companies are a key component of your team and a lot of times are the deciding factor as to whether or not your property is going to be successful. Therefore you should go to great lengths to ensure that you hire the best management company in the area.

Your management company is not the place to try to save money. Pay the fair market rate for the services provided.

How should you select a management company? The first thing I do is go to the www.cpm.com website. The CPM stands for Certified Property Manager. It is a designation given out by the Institute of Real Estate Management, to those that have taken a required amount of courses and have passed written tests associated with the material in the courses.

www.cpm.com will give you a list of all the management companies whose owners or managers have achieved a CPM designation in the area that you are buying the property. Just because they have achieved the CPM doesn't mean they are the best. This is just the starting point to getting to the best.

Next you want to check references. Call the Better Business Bureau and the state licensing boards to see if any complaints have been filed against them.

Get a list of properties that they are managing in your area, and ride by and check out the condition of the properties. I have even gone to the doors of the tenants and told them that I was doing a survey regarding the management of the building and would like to get their feelings.

If the overall attitude of the tenants is positive then that's a plus. If the overall attitude is negative then that's a problem. If the tenants are unhappy with the management company, the result is usually higher turnover, which means less profit for you.

The Key Questions To Ask A Property Management Company

You've narrowed your search down to a couple of good candidates. Next you want to determine what services will be provided by the management company.

You'll want a management company that will be responsible for the leasing of the space as well as the management. There is usually a fee involved. A full month's rent is typical.

Management should provide you with a rent survey to determine the direction of rents in similar buildings. You should also take the time to do your own. This keeps the management company "honest."

The management company should have an application, lease agreement, move-in reports, security deposit forms and all other documents that a new tenant would need to fill out before moving into your unit. You want to review these documents to ensure that they meet your approval.

You'll want to set parameters for how you want your tenants screened. Will you require a criminal background check, a credit report, and/or eviction search? How do you expect the management company to verify references and employment history?

Who is required to pay for the advertising for the building to attract tenants? What forms of advertising are expected? If the management company is getting a full month's rent for finding tenants then they should be responsible for the costs associated with attracting tenants (advertising).

These requirements should be spelled out in your management agreement.

How To Keep The Management Company Honest

Maintenance responsibilities and procedures should also be outlined in the management agreements.

Expected response times to tenant requests should be within 24 hours. There should be periodic inspections to assess repairs that may be needed and the handling of sub-contracted work.

Most management companies will have their own salaried maintenance people. In the contract will be the negotiated rate for certain types of labor. For example, electrical work will be charged at a rate of \$45.00 per hour; carpentry work will be charged at a rate of \$30.00 per hour.

You must always review the maintenance costs that are charged to you from your management company. Management companies sometimes make more money from maintenance than from property management fees.

Make sure that you are not being gouged. You must require written approval if a maintenance job is going to exceed a certain amount of money. I like to keep this number low, \$100, until I feel comfortable and confident with the management company.

You should always keep an eye on maintenance expenses, as they tend to creep up.

Always have the management company take a picture of any repairs and submit it with the bill.

When work needs to be sub-contracted out, require 3 bids. The winning bidder should provide a copy of his/her license, workman's comp policy and liability insurance. Lien waivers should be signed when the work is paid for. Pictures should be submitted with the bids.

Management Companies And Rent Collection

The management company will be responsible for collecting rents and other sources of revenues, such as laundry room machines.

It is advisable to have the rents go into an account that you the owner have signed onto in addition to the management company. If you do not do this and you have a dispute with the management company, you have no access to your account and funds.

You'll want to watch out for a common management company scam: reporting a unit as vacant while collecting and pocketing the rent or underreporting a rent and keeping the extra. You can prevent this by requesting a tenant rent roll with tenant names, unit numbers, amount being paid and telephone numbers. Obtain an updated rent roll each month. Either call or send a written survey to the tenants requesting rent information.

If there is a vacant unit that you think may be occupied, call the abutting tenants on the phone and ask them if there is someone living there, and if so, for how long.

Management should be responsible for paying all of the operating expenses on the property although some people do not like to give up this type of control and do it themselves. They rely on the management company for the maintenance and leasing of the property.

4 Essential Reports To Keep Your Property Profitable

Management companies should provide you with the following reports

1. Updated Rent Rolls - monthly
2. Income and Expense Reports - monthly
3. Operating Budgets – annually
4. Income Forecasts – annually

Property managers should be required to interview insurance companies, review the coverage to ensure that it is adequate, work with private adjusters and insurance adjusters when claims arise, and file the necessary reports with insurers.

This is an important function of a management company and should be spelled out in the management agreement.

What You Should Pay Your Property Management Company

As I stated earlier, your property managers are one of your key components to success. You want pay them the fair market rate for their services.

For smaller properties, from 4 – 10 units, property management fees range from 7% - 10% of gross collected income. For larger units, from 10 – 100, the rate drops to 5% - 8%.

The difference in rates depends on several factors. These include the area that your buildings are in, the type of tenants that you have, and the normal fees that are charged in the city or town that your property is in.

What these fees include is what you will negotiate in your contract as discussed previously.

When Hiring A Resident Manager Is An Option

If your building is between 16 and 40 units, you may decide to hire a resident manager instead of a property management company.

This person would live on site (in one of the units) and manage the property. This person would not be responsible for collecting rents or security deposits. The rents and security deposits would be sent directly to you.

When using this type of management, you maintain control over all income and expenses. You collect the rents (they are mailed to you) and you pay the expenses.

The Resident Manager's responsibilities include

- Showing vacant apartments
- Apartment turnover – make ready for next tenant
- Common area maintenance and cleaning
- Contractor supervision
- Tenant complaints/needs

The duties of the Resident Manager, just like those of the property management company, should be spelled out in a written contract.

A Resident Manager should be allowed to make certain emergency repairs up to a pre-determined amount (\$100.00) without getting approval. Anything over that should be approved by you.

Pictures should always be taken of the repairs so that you can follow up with a phone call to the tenants to verify extent of the repairs needed.

You want to avoid having the Resident Manager doing bigger repair jobs as this might result in a conflict of interest. If the Resident Manager is also bidding on a repair, how do you know if he's being honest about the extent of the repair?

It's always best to get 3 bids from outside contractors. Be wary if the same contractor is being used for a lot of jobs, as there is the possibility that "kickbacks" may be taking place.

You can compensate your Resident Manager a variety of ways. You might offer a salary plus a reduction in the amount of rent paid, set prices for certain repairs or services such as showing apartments, or a percentage of gross collected rents.

You want to avoid giving a free apartment as part of the compensation. After a time, Resident Managers come to expect the free apartment and it isn't perceived as a bonus.

Also, when you increase the rents, you aren't able to increase the rent on that apartment, but the compensation that you're paying the manager just went up because the apartment is now worth more. The manager just got a raise for doing nothing and will not recognize it.

Summary

Like many aspects of real estate investing, the more you learn the more you earn.

To protect yourself from landlord "burnout" continue to educate yourself in regards to property management. There is always a new and better way to do something.

Keep searching and implementing your new property management and real estate investing methods and soon you will be reaping all of the rewards for your efforts.

You may want to check out my home study course Management For Maximum Profit on www.rementor.com. This is a complete home study course on all of the systems that I set up that allowed me to delegate all of the management of my properties and my tenants to a staff member who I hired and trained!

This allows me more time to find more deals!

RENTAL APPLICATION

PROPERTY ADDRESS: _____
Projected Move-in date if Accepted ____/____/____ Today's Date: _____

1st Applicants Name: _____ D.O.B. _____
Social Security #: _____ Driver's License #: _____
2nd Applicants Name: _____ D.O.B. _____
Social Security #: _____ Driver's License #: _____

Present Address: _____ Telephone #: _____
Present Landlord: _____

| Name | Address | Phone # |
|--|---------|---------|
| How Long at this address? _____ | | |
| Reason for leaving: _____ Was Notice Given? Yes ____ No ____ | | |

Previous Address (Within past 3 yrs): _____ Tel. # _____

Previous Landlord: _____

| Name | Address | Phone # |
|---------------------------|---------|---------|
| Reason for leaving: _____ | | |

Previous Address (Within past 3 yrs): _____ Tel. # _____

Previous Landlord: _____

| Name | Address | Phone # |
|---------------------------|---------|---------|
| Reason for leaving: _____ | | |

Previous Address (Within past 3 yrs): _____ Tel. # _____

Previous Landlord: _____

| Name | Address | Phone # |
|---------------------------|---------|---------|
| Reason for leaving: _____ | | |

Previous Address (Within past 3 yrs): _____ Tel. # _____

Previous Landlord: _____

| Name | Address | Phone # |
|---------------------------|---------|---------|
| Reason for leaving: _____ | | |

1st Applicant Employed By: _____ Tel.#: _____

Position: _____ How Long: _____ Salary: _____

Address: _____

Person to Contact: _____ Tel.#: _____

Previous Employer: _____ How Long? _____ Salary: _____

2nd Applicant Employed By: _____ Tel.#: _____

Position: _____ How Long: _____ Salary: _____

Person to Contact: _____

Previous Employer: _____ How Long? _____ Salary: _____

List all other sources and amounts of income: _____

Vehicle #1: _____

| Make | Model | Color | Year | Reg # State |
|------|-------|-------|------|-------------|
| | | | | |

Vehicle #2: _____
Make Model Color Year Reg # State

Personal References (Not Related) – List 3:

1. _____
2. _____
3. _____

Have you ever been served an eviction notice or been asked to vacate a property you were renting?

_____ Have you ever willfully and intentionally refused to pay rent? _____

_____ Have you ever been convicted of a crime other? _____

_____ Have you ever had a judgment entered against you? _____

_____ Are you presently an illegal abuser of a controlled substance? _____

_____ Have you ever been convicted of illegal manufacture or distribution of any controlled substance? _____

_____ Do you own a waterbed? _____

Name and Relationship of every person living with you _____

_____ In case of Emergency contact: _____

This application is made with the understanding that it is contingent upon acceptance and execution by the owner/manager/employee/agent.

Release: In consideration for being permitted to apply for this apartment/house, I, Applicant do represent all information in this application to be true and accurate and that the owner/manager/employee/agent may rely on this information when investigating and accepting this application. With my signature below I hereby authorize all credit reporting agencies, employers, credit and personal references to release all pertinent information about me. A photocopy of this shall be as valid as the original. I understand that the credit report, rental history, tenant performance, conviction records and/or retail credit history will be done through the facilities of the National Tenant Network, (978) 858-0756.

I do also hereby authorize the owner/manager/employee/agent to make periodic additional inquiries on the above-mentioned information without further permission by me.

I do state the statements given above are correct under Penalty of Perjury. I further agree that Lessor may terminate any lease if any false statements have been made.

It is understood that the above information will be held strictly confidential.

1st Applicant Date

2nd Applicant Date

Return this completed application with a \$20.00 non-fundable fee to:

This fee covers the cost of the credit report.

PHP, INC
870 N. Main St.
Brockton, MA 02301
Tel 508-580-5554 FAX 508-580-3133
LANDLORD VERIFICATION

In order to assist us in our selection process, we would appreciate your answering the following questions completely.

The listed named individual has applied for an apartment with our company and has listed you as a past/present landlord at the following address. Thank you for your assistance.

Name of Applicant: _____
Current Address: _____

Name of Landlord: _____
Applicant Previous Address: _____
Current Landlord () Previous Landlord () Other ()

How long did this tenant reside at the above address? From: _____ To: _____
Does the applicant have a lease? () Yes () No Lease expiration date: _____

How much is/was the rent? _____ Did this include heat and electricity? _____

Was this resident ever late in making rental payments? _____
Has the tenant been late two (2) or more times during any 12-month period? _____

Does the resident have any outstanding rental or damage charge? _____ If yes, how much? _____
During the residency, was the landlord/agent required to take legal action for either nonpayment of rent or occupancy agreement/lease noncompliance? _____ If yes, what action? _____

Does/did this resident have pets? _____ What type? _____

Did this tenant get along with other residents or neighbors in the area? _____ If no, please explain _____

Is this resident a GOOD, FAIR or POOR housekeeper and resident? _____

Did the resident terminate their residency without proper notice? _____

Why did the resident vacate your apartment? _____

| | | | |
|-----------|-------|------|------------------|
| Signature | Title | Date | Telephone Number |
|-----------|-------|------|------------------|

PHP, Inc does not discriminate against any person because of race, color, religion, sex, sexual orientation, handicap, familial status or national origin.

RESIDENTIAL LEASE
Apartment – Condominium – House

BY THIS AGREEMENT made and entered into on _____
(year), between _____ herein referred to as Lessor, and
_____ herein referred to as Lessee, Lessor leases to Lessee the
premises situated at _____, in the City (town) of
_____, County of _____, State of _____, and
more particularly described s follows:

Together with all appurtenances, for a term of _____ years, to commence on
_____(year), and to end on _____(year), at _____ o'clock
____.m.

1. **Rent.** Lessee agrees to pay, without demand, to Lessor as rent for the demised premises the sum of _____ Dollars (\$ _____) per month in advance of on the _____ day of each calendar month beginning _____(year), at _____, City of _____, State of _____, or at such other place as Lessor may designate.
2. **Definitions.** The words “Lessor” and “Lessee” as used herein shall include their respective heirs, executors, administrators, successors, representatives and assigns, agents and servants; and the words “he,” “his,” “him,” “she,” and “her” where applicable shall apply to the Lessor or Lessee regardless of sex, number, corporate entity, trust or other body. If more than one party signs as lessee hereunder, the covenants, conditions and agreements herein of the Lessee shall be the joint and several obligations of each such party.
3. **Security Deposit.** On execution of this lease, Lessee deposits with Lessor _____ Dollars (\$ _____). Receipt of which is acknowledged by Lessor, as security for the faithful performance by Lessee of the terms hereof, to be returned to Lessee, without interest, on the full and faithful performance by him of the provisions hereof.
4. **Quiet Enjoyment.** Lessor covenants that on paying the rent and performing the covenants herein contained, Lessee shall peacefully and quietly have, hold, and enjoy the demised premises for the agreed term.
5. **Use Premises.** The demised premises shall be used and occupied by Lessee exclusively as a private single family resident, and neither the premises nor any part thereof shall be used at any time during the term of this lease by Lessee for the purposes of carrying on any business, profession, or trade of any kind, or for any purpose other than as private single family residence. Lessee shall comply with all the sanitary laws, ordinances, rules, and orders of appropriate government al authorities affecting the cleanliness, occupant, and preservation of the demised premises, and the sidewalks connected thereto during the term of this lease.

6. **Number of occupants.** Lessee agrees that the demised premises shall be occupied by no more than _____ persons, consisting of _____ adults and _____ children under the age of _____ years, without the written consent of Lessor.
7. **Conditions of Premises.** Lessee stipulates that the has examined the demised premises, including the grounds an all building and improvements, and that they are, at the time of this lease, in good order, repair, and a safe, clean an tenantable condition. Lessee has completed a “Unit Condition” report.
8. **Assignment of Subletting.** Without the prior written consent of Lessor, Lessee shall not assign this lease, of sublet of grant any concession of license to use the premises of any part thereof. A consent by Lessor to one assignment, subletting, concession, of license shall not be deemed to be a constant any subsequent assignment, subletting, concession, or license. An assignment, subletting, concession, or license without the prior written consent of Lessor, or an assignment or subletting by operation of lease, shall be void and shall, at Lessor’s option, terminate this lease.
9. **Alterations and Improvements.** Lessee shall make no alterations to the buildings on the demised premises or construct any building of make other improvements on the demised premises without the prior written consent of Lessor. All alterations, changes, and improvements built, constructed, or placed on the demised premises by Lessee, with the exception of fixtures removable without damage to the premises and movable personal property, shall, unless otherwise provided by written agreement between Lessor and Lessee, by the property of Lessor and remain on the demised premises at the expiration of sooner termination of this lease.
10. **Damage to Premises.** If the demised premises, or any part thereof, shall be partially damaged by fir or other casualty not due to Lessee’s negligence or willful act or that of his employee, family agent, or visitor, the premises shall be promptly repaired by Lessor and there shall be an abatement of rent corresponding with the time during which, and the extent to which, the leased premises may have been untenantable; but, if the leased premises should be damaged other than by Lessee’s negligence or willful act or that of this employee, family, agent or visitor tot he extent that lessor shall decide not to rebuild or repair the term of their lease shall end and rent shall be prorated up to the time of the damage.
11. **Dangerous Material.** Lessee shall not keep or have on the leased premises any article or thing of a dangerous, inflammable, or explosive character that might unreasonably increase the danger of fire on the leased premises or that might be considered hazardous or extra hazardous by any responsible insurance company.
12. **Utilities.** Lessee shall be responsible for arranging for and paying for all utility services required on the premises, except that _____ shall be provided by Lessor.

13. **Right of Inspection.** Lessor and his agents shall have the right at all reasonable times during the term of this lease any renewal thereof to enter the demised premises for the purpose of inspect the premises and all building and improvements thereon.
14. **Maintenance and Repair.** Lessee will, at his sole expenses, keep and maintain the leased premises and appurtenances in food and sanitary condition and repair during the term of this lease and any renewal thereof. In particular, Lessee shall keep the fixtures in the house or on or about the leased premises in good order and repair, keep the furnace clean, keep the electric bills in order; keep the walks free from dirt and debris; and, at his sole expense, shall make all requited repairs to the plumbing, range, heating, apparatus and electric and gas fixtures whenever damage thereto shall be resulted from Lessee's misuse, waste, or neglect or that of his employee, family, agent, or visitor. Major maintenance and repair of the leased premises, not due Lessee's misuse, waste, or neglect or that of his employee, family, agent, or visitor, shall be the responsibility of lessor or his assigns. Lessee agrees that no signs shall be placed or painting done on or about the leased premise, Lessee or at this directions without the proper written consent of Lessor.
15. **Animals.** Lessee shall keep no domestic or other animals on or about the leased premises without the consent of Lessor.
16. **Display of Signs.** During the last ____ days of this lease, Lessor or it's agent shall have the privilege of displaying the usual "For Sale" of "Vacancy" signs on the demised premises and of showing the property to prospective purchasers or tenant.
17. **Subordination of Lease.** This lease and Lessee's leasehold interest hereunder are and shall be subject, subordinate, and inferior to any liens or encumbrances now or hereafter placed on the demised premises by Lessor, all advanced made under any such liens or encumbrances, the interest payable, on any such liens or encumbrances, and any and all renewals to extensions of such lens or encumbrances.
18. **Holdover by Lessee.** Should Lessee remain in possession of the demised premises either the constant of Lessor after the natural expiration of this Lease, a new month-to-month tenancy shall be created between Lessor and Lessee which shall be subject to all the terms and conditions hereof but shall be terminated _____ days;' written notice served with Lessor or Lessee on the other party.
19. **Surrender of Premises.** At the expiration of the lease term, Lessee shall quit and surrender the premises hereby demised in as good state and condition as they were at the commencement of this lease, reasonable use and wear thereof and damages by the elements executed.
20. **Default.** If any default is made in the payment of rent, or any part thereof, at the time herein before specified, or if any default is made in the performance or compliance with a any other term of condition hereof, the lease, at the option of Lessor, shall terminate and be forfeited, and Lessor may re-enter the premises and remove all person there from. Lessee shall be given written notice of any default or breach, and

termination and forfeiture of the lease shall not result if, within _____ days of receipt of such notice, Lessee has corrected the default or breach or has taken action reasonable likely to effect such corrections within a reasonable time.

21. **Abandonment.** If at any time during the term of this lease Lessee abandons the demised premises or any part thereof, Lessor may, at his option, enter the demised premises by any means without being liable for any prosecution thereof, and without becoming liable to Lessee for damages or for any payment of any kind whatever, and may, at his discretion, as agent for Lessee, relet the demised premises, or any part thereof, for the whole or any part of the then unexpired term, and may receive and collect all rent payable by virtue of such reletting, and, at Lessor's option, hold Lessee liable for any difference between the rent that would have been payable under this lease during the balance of the unexpired term, if this lease had continued in force, the net rent for such period realized by Lessor by means of such reletting. If Lessor's right of re-entry is exercised following abandonment of the premises by Lessee, then Lessor may consider any personal property belonging to Lessee and left on the premises to also have been abandoned, in which case Lessor may dispose of all such personal property in any manner Lessor shall deem proper and is hereby relieved of all liability for doing so.

22. **Additional Charges.**

- a) Lessee shall pay an additional charge of \$25.00 for each returned check unpaid, as a handling charge. In the event that more than one check is returned, Lessee agrees to pay in future rents and charges in the form of a cashier's check, certified check, or money order.
- b) Lessee shall be in default under this agreement if the rent is not paid by the fifth day after the rent due date. Lessee shall pay \$5.00 per day, as late charge for each day the rent shall remain unpaid for each breach of this condition.
- c) In the event that collection of rent must be made by the Lessor at the Lessee's residence, then Lessee shall pay a fifteen-dollar (\$15.00) collection fee for each such attempted collection.
- d) Any charges for rent, cleaning, repairs, or any other damages sustained by the Lessor under the terms of this Agreement, that are not covered by the "Security Deposit" and "Cleaning Fee" and that are not paid within 14 days after vacating the premises, shall earn interest thereafter at the rate of 10 percent per annum.
- e) The replacement charge for lost or unreturned door keys or mailbox keys shall be \$10.00. Locks may not be changed by Lessee without prior written approval of Lessor and the new key given to Lessor within seven days of the change.
- f) Lessee agrees to pay Lessor the sum of one hundred dollars as liquidated damages for each occurrence of the violation of any of the rules and regulations. Lessor shall retain the right to seek compensation from Lessee for actual damages caused or suffered as a result of a breach of these rules and regulations.

23. **Attorney's Fees.** In the event that it is necessary to retain an attorney to enforce the terms of this agreement, the prevailing party shall be entitled to reasonable attorney's fees and court costs required to do so. All court costs and attorney's fees required for the eviction of the tenant (s) will be paid by the Lessee

24. **General.** Neither the Lessee nor his/her family, friends, relatives, invites, visitors, agents, or servants shall make or suffer any unlawful, noisy, or otherwise offensive use of the leased premises, nor commit or permit any nuisance to exist thereon, nor cause damage to the leased premises, nor create any substantial interference with the rights, comfort, safety, or enjoyment of the Lessor or other occupants of the same or any other apartment, nor make any use whatsoever thereof than as and for a private residence. No articles shall be hung or shaken from the windows, doors, porches, balconies, or placed upon the exterior windowsill.

No washing machine, air-conditioning unit, space heater, clothes dryer, television, or other like equipment shall be installed without the prior written consent of the Lessor. No waterbeds shall be permitted in the leased premises. No washing machines or clothes dryer, either stored or used will be allowed on the premises, without specific written permission by the Lessor.

Violation by Lessee of any of the above shall be deemed sufficient cause for termination of this agreement. Lessee's representations made in the rental application shall be considered inducements to Lessor to execute this agreement. Misrepresentations in the application shall be considered as cause to terminate this agreement. Waiver by the Lessor of any breach of any term or condition of this agreement shall not constitute a waiver of any subsequent breach.

All monies received by Lessor shall be applied first to non-rent obligation of the Lessee, including late charges, charges for returned checks, and pet penalties, if any, then to rent, regardless of notations on check.

25. **Failure Of Lessor To Act.** Failure of Lessor or his agents to insist upon strict compliance with the terms of this agreement shall not constitute a waiver of Lessor's or his agent's rights to act on any violation.

26. **Renewal.** Lessee agrees that his/her occupancy of said premises beyond the term of this lease shall not be deemed as a renewal of this lease for the whole term but that acceptance by the Lessor of rent accruing after the expiration of this lease shall be considered as a renewal of this lease for one month only and for successive periods of one month only.

27. **Termination.** This agreement and the tenancy hereby granted may be terminated at any time, commencing with the first day of the month by either party hereto by giving the other party not less than thirty (30) days written notice. Lessee shall remove all of Lessee's property and deliver possession of premises in a clean condition and good order and repair.

28. **Plumbing.** The water closets, disposals, and waste pipes shall not be used for any purposes other than those for which they were constructed, nor shall any sweepings, rubbish, rags, or any other improper articles be thrown into the same; and any damage to the building caused by the misuse of such equipment shall be borne by the Lessee by whom or upon whose premises it shall have been caused, unless caused by the negligence of the Lessor, or by the negligence of an independent contractor employed by the Lessor.

29. **Cleanliness.** The Lessee shall maintain he leased premises in a clean condition. The Lessee shall not sweep, throw or dispose of, nor permit to be swept, thrown or disposed of, form said premises not from a nay doors, windows, balconies, porches or other parts of said building, any dirt, waste, rubbish or other substance or article into any other parts of said building or the land adjacent thereon, except in your proper receptacles and except in accordance with the rules of the Lessor.
30. **Vehicles.** All vehicles must have current registration and license plate or will be removed at Lessee's expense within sever days after written notification.
31. **Liability.** Lessee shall be liable for the care, custody, and control of premises. Lessor shall not be liable for any loss of property by fire, theft, burglary, or otherwise from said premises or building, nor for any accidental damage to person or property in or about the same premises or building resulting from electrical wiring, water, rain, or snow, which may come into issue or flow form any part of said premises or building or from the pipes, plumbing, sprinklers, or any electrical connections thereof or by any other cause whatever and the Lessee shall make no claim for any such loss or damage. It is understood that all tenants should carry a Tenant Homeowners Policy, including contents, fire, extended coverage insurance and liability insurance, and do so at his own expense.
32. **Other Regulations.** The Lessee agrees to conform to such lawful rules and regulations which are reasonably related to the proposed and provisions of this lease, as shall form time to time be established by the Lessor in the future for the safety, care, cleanliness, or orderly conduct of the leased premises and the building of which they are a part, and for the benefit, safety, comfort, and convenience of all the occupants of said building.
33. **Possession.** If there is a delay in delivery of possession by Lessor, rent shall be abated on a daily basis until possession is granted. If possession is not granted within seven (7) day after the beginning day of initial term, then the lessee may void this agreement and have full refund of any deposit. Neither Lessor nor his agents shall be liable for damages for delay in possession.
34. **Non-delivery of Occupancy.** Lessor shall not be liable for any monetary loss or inconvenience and Lessee agrees to hold Harmless the Lessor if occupancy cannot be delivered to Lessee
35. **Authority.** If this agreement is not signed by all Lessees named herein, the one signing warrants that he or she has the authority to sign of right others(s).
36. **Separability Clause.** If any provision of this lease of portion of such provision or the application thereof to any person or circumstance is held invalid, the remainder of the Lease (or the remainder of such provision) and the application thereof to other persons or circumstances shall not be affected thereby. It is understood and agreed the terms of Lessor and Lessee shall include the executors, administrators, successors,

heirs, and assigns of the parties hereto, and the term Lessor shall include managers, janitor, maintenance and repair persons, and other agents for Lessor.

37. **Notice.** Notice shall be deemed adequate and properly given if mailed by registered or certified mail, postage prepaid, return receipt requested, to the other party, (a) in the case of the Lessor, to _____ or any other address of which Lessee has received notice; and (b) in the case of the Lessee, the Leased Premises, or if said notice is delivered or left by someone on his or her behalf received such notice or (c), deemed adequate by law, at that time.
38. **Radon Gas Disclosure.** As required by law (Landlord) (Seller) makes the following disclosures: "Radon Gas" is a naturally occurring radioactive gas that, when it has accumulated in a building in sufficient quantities, any present health risks to persons who are exposed to it over time. Levels of radon that exceed federal and state guidelines have been found in buildings in _____. Additional information regarding radon and radon testing may be obtained from you county public health unit.
39. **Lead Paint Disclosure.** "Every purchaser of any interest in residential real property on which a residential dwelling was built prior to 1978 is notified that such property may present exposure to lead form lead-based paint that may place young children at risk of developing lead poisoning. Lead poisoning in young children may produce permanent neurological damage, including learning disabilities, reduced intelligence quotient, behavioral problems and impaired memory. Lead poisoning also poses a particular risk to pregnant woman. The seller of any interest in residential real estate is required to provide the buyer with any information on lead-based paint hazards form risk assessments of inspection in the sellers possession and notify the buyer of any know lead-based paint hazards. A risk assessment of inspection for possible lead-based paint hazards is recommended prior to purchase."
40. **Binding Effect.** The covenants and conditions herein contained shall apply to and bind the heirs, legal representative, and assigns of the parties hereto, and all covenants are to be construed as conditions of this lease.
41. **Sole and Entire Agreement.** This agreement and any attached addenda noted below constitute the entire agreement between parties and no oral statements shall be binding.

All necessary payments shall be made before possession of the premises is taken.

| | |
|----------------------------|----------|
| Security Deposit | \$ _____ |
| First Month Rent | \$ _____ |
| Pro-Rated First Month Rent | \$ _____ |
| Last Month Rent | \$ _____ |
| Total | \$ _____ |

Lessee acknowledges:

1. That he/she has read this agreement and he/she has not relied upon any oral provisions or warranties made by the Lessor
2. Receipt of an executed copy of this agreement
3. Receipt of a copy of the "Units Condition" report
4. This is a legally binding contract; the Lessee acknowledges that he/she has been given the opportunity to seek competent advice.

IN WITNESS WHEREOF, the parties have executed this lease the day and year first above written.

Lessee

Lessee

Lessor

Lessor

Non-Payment of Rent Eviction Letter

Warren Realty Trust
P.O. Box 772
Brockton, MA 02301

Julie Lopes
430 Warren Ave.
Brockton, MA 02301

Dear Mrs. Lopes,

Your rent is overdue.

As per the lease agreement that you signed on the 20th of January your rent is due on the first of the month.

A Constable will be delivering an **Eviction Notice** giving you 14 days to either pay the rent that you owe in full or move out of the building.

There will be an additional charge of \$25.00 due for the processing of the eviction notice.

If you have any questions regarding this issue, please feel free to contact me at any time.

Sincerely,

David Lindahl
Property Manager

P.S. – We want you to remain in the building, but you must abide by the agreement that you signed and pay your rent on time.

Warning: You May Be In The Process Of Being Evicted!!

Warren Realty Trust
P.O. Box 772
Brockton, MA 02301

Julie Lopes
430 Warren Ave.
Brockton, MA 02301

Dear Mrs. Lopes,

It has been brought to our attention that you are playing loud music and not respecting the rights of the other tenants.

It is our goal to make 430 Warren Ave a safe, clean and quiet home for all of its residents. In order to do this, each tenant must respect the rights of the others.

Quiet hours are from 10 PM to 7 AM. Please refrain from playing loud music during those hours.

This is a warning. If this situation continues we will have no alternative than to send you an eviction notice and remove you from the property.

We would like you to stay. The decision is yours.

If you have any questions regarding this issue, please feel free to contact me at any time.

Sincerely,

David Lindahl
Property Manager

Warning: You May Be In The Process Of Being Evicted!!

Warren Realty Trust
P.O. Box 772
Brockton, MA 02301

Julie Lopes
430 Warren Ave.
Brockton, MA 02301

Dear Mrs. Lopes,

It has been brought to our attention that you are leaving trash on the grounds and the common areas.

It is our goal to make 430 Warren Ave a safe, clean and quiet home for all of its residents. In order to do this, each tenant must respect the rights of the others.

You must dispose of all of your trash appropriately. You must bring the trash out to the curb on Tuesday of each week. If all of the tenants left their trash wherever it was most convenient, the property would look like a dump.

We don't want you living in a dump.

This is a warning. If this situation continues we will have no alternative than to send you an eviction notice and remove you from the property.

We would like you to stay. The decision is yours.

If you have any questions regarding this issue, please feel free to contact me at any time.

Sincerely,

David Lindahl
Property Manager

30-Day Eviction Letter

Warren Realty Trust
P.O. Box 772
Brockton, MA 02301

Julie Lopes
430 Warren Ave.
Brockton, MA 02301

Dear Mrs. Lopes,

You have been warned about respecting the rights of the property, the other tenants and the owners.

You have chosen not to comply with your lease agreement that you signed on January 20th. You have left us with no other alternative but to evict you.

The reason for the eviction:

Not Respecting Quiet Hours

You will be served a 30-day eviction notice from a Constable within the next 2 – 3 days. You will be given thirty days to find and move to another location.

If you do not move within 30 days, we will have no other alternative than to bring the matter to Brockton Housing Court and have you physically removed from the property per order of the Judge.

If we can be of any assistance to you during your relocation, please feel free to contact us at any time.

Sincerely,

David Lindahl
Property Manager

Sample Drug Letter

Allen Realty Trust
P.O. Box 37
Brockton, MA 02301

Paul Santos
53 Allen St. unit 2
Brockton, MA 02301

Dear Paul,

It's obvious to your neighbors that something is going on in your apartment that requires a lot of people to come and go for very short visits. You could say that it's like going to a store.

The customers of your store don't look very reputable. They look as if they need something, much like a person needs cigarettes. People who need cigarettes are addicts.

I have notified Sgt. Tony Thomas from the State Police and the Brockton Police. They assure me that they will take action.

I have notified the Brockton Housing Authority and if the "store doesn't close" immediately, I will notify the D.S.S.

Sincerely,

David Lindahl
Property Manager

P.S. I have complied with a request from the State Police to give them the keys to your unit and the common areas.

Unit Condition Form

Address _____
Tenant Name _____
Date Of Inspection _____ Move In Date _____

**Check The Items That Are In Good Condition
Give A Brief Description Of Items That Need Repair**

Kitchen

| | |
|----------------|---------------|
| Doors _____ | Walls _____ |
| Ceiling _____ | Floor _____ |
| Sink _____ | Stove _____ |
| Cabinets _____ | Closet _____ |
| Lighting _____ | Windows _____ |
| Other _____ | |

Living Room

| | |
|----------------|---------------|
| Doors _____ | Walls _____ |
| Ceiling _____ | Floor _____ |
| Lighting _____ | Windows _____ |
| Other _____ | |

Dining Room

| | |
|----------------|---------------|
| Doors _____ | Walls _____ |
| Ceiling _____ | Floor _____ |
| Lighting _____ | Windows _____ |
| Other _____ | |

Bathroom

| | |
|--------------------|------------------|
| Doors _____ | Walls _____ |
| Ceiling _____ | Floor _____ |
| Lighting _____ | Windows _____ |
| Sink/Cabinet _____ | Tub/Shower _____ |
| Other _____ | |

Bedroom #1, Location _____

| | |
|----------------|---------------|
| Doors _____ | Walls _____ |
| Ceiling _____ | Floor _____ |
| Lighting _____ | Windows _____ |
| Other _____ | |

Unit Condition Form (cont.)

Bedroom #2, Location _____
Doors _____ Walls _____
Ceiling _____ Floor _____
Lighting _____ Windows _____
Other _____

Bedroom #3, Location _____
Doors _____ Walls _____
Ceiling _____ Floor _____
Lighting _____ Windows _____
Other _____

Heating _____
Air Conditioning _____
Handsets/Locks _____
Smoke Detectors _____
Exterior Screen Doors _____
Driveway _____

Appliances Make and Model
Stove _____
Dishwasher _____
Refrigerator _____
Washer _____
Dryer _____

This acceptance is made with the understanding that the unit's condition is acceptable to both the Lessee and Lessor (except where noted). Any discrepancies in condition between the date of acceptance and the day of termination are the responsibility of the renter. Any damages to the property can be billed to the renter.

Lessee Date

Lessor Date

Chapter 10

The 1031 Tax Deferred Exchange - Your Key To True Wealth

Performing 1031 Tax Deferred Exchanges on your investment properties is probably the best method to achieving explosive growth in your real estate portfolio. In this chapter I will explain to you what a 1031 Tax Deferred Exchange is, how it can catapult your wealth, what the different types of exchanges are, and what guidelines you must follow to complete a successful exchange.

Before we go into exchanges for investment properties, let's talk about the new change in tax laws for primary residences. Often investors don't realize that taxation on a personal residence is far different than taxation on income or investment property.

The Taxpayer RELIEF Act of 1997 changed Internal Revenue Code treatment for the sale of a personal residence to allow a single taxpayer a \$250,000 exclusion from capital gains taxes. Married couples receive a \$500,000 exclusion. The taxpayer must have resided in the property two of the last five years.

This exemption can be used once every two years. Meaning you can change your primary residence every two years and not be taxed on the capital gain! There was a time when it used to be just a one time exemption!

On the other hand, if an investor sells an appreciated property they must pay a capital gains tax. But, property that qualifies for preferential tax treatment under Internal Revenue Code Section 1031 is treated quite differently. Internal Revenue Code Section 1031 states:

“No gain or loss shall be recognized if property held for productive use in a trade or business or for investment purposes is exchanged solely for property of a like-kind.”

Therefore, an investor using IRC Section 1031 can exchange raw land for a rental home, an apartment complex for a shopping center or rental houses for an office building.

The use of the property is a key factor in determining the tax treatment. It must be a “like-kind” transaction.

Tax Section 1031 has remained substantially unchanged for the past 50 years until it was clarified with Treasury regulations in 1991. The regulations redefined the delayed exchange (often called the “Starker Exchange,” named after the man who won the lawsuit allowing the delayed exchange).

The 45 Day Rule

Among the rules of the “Starker Exchange” is that you have up to 45 days to identify the property that you are going to exchange with.

If you have not put a new property under contract within the 45-day identification period then you can identify up to three potential purchases. You must purchase one of the three properties that you identified or the exchange is not valid.

The Qualified Intermediary

These Regulations also encourage the use of a Qualified Intermediary, deeming them as “safe harbor.” A “safe harbor” is a term, which defines acceptable guidelines so that an exchange transaction will be regarded as defensible from IRS scrutiny.

A Qualified Intermediary must function as a principal in the transaction. They do this by taking possession of the proceeds from your closing until it comes time to use those proceeds to purchase the next property in the exchange.

The 1991 Treasury Regulations also specify which parties are disqualified from functioning as an Intermediary. With a few exceptions, the following are considered disqualified parties:

1. A close family member or a controlled corporation, partnership or trust.
2. Entities considered agents of the investor such as their:
 - a. Employee
 - b. Closing/Escrow Officer
 - c. Attorney or Accountant
 - d. Investment Banker or Broker
 - e. Real Estate Agent or Broker

A company that I have successfully used is Starker Services. They are the oldest Qualified Intermediary in the country and their services are nationwide. They can be reached at 1-888-320-1031. Don’t play games; use a Qualified Intermediary.

Capital Gains Tax And The “20% Myth”

Aimed at balancing the federal budget, the Taxpayer Relief Act of 1997 lowered the capital gains rate. However, the capital gains rate charged is not as straightforward as it seems. Many investors mistakenly believe their long-term capital gains will be taxed at 20%. While a gain from appreciation is taxed at 20%, gain from depreciation taken into account after May 6, 1997 is taxed at 25%.

Example:

A property purchased in 1997 for \$75,000 is depreciated and later sold for \$150,000. At the time of the sale the adjusted basis is \$50,000, creating a gain of \$100,000. Is the capital gains tax rate 20%? No! Only the gain from appreciation is 20% (i.e. the \$75,000 increase in value will be taxed at 20%). The remaining gain from depreciation of \$25,000 will be taxed at 25%. The adjusted basis stems from the \$25,000 that was depreciated.

Additionally, most states will apply state taxes over and above the Federal tax rates.

Thus you must take into consideration your capital gains taxes and also the taxes that are levied against any claimed depreciation when figuring out your overall tax burden when making investment decisions.

Holding Periods And Individual Tax Rates

If you own the property for less than 12 months (short term holding period), your gain is taxed at ordinary income. If you own the property for more than 12 months (long-term holding period) you will be charged at a 20% capital gain tax rate if you are in the upper tax bracket and 10% if you are in a lower tax bracket.

If a taxpayer in the lower bracket realizes a large capital gain they may be forced to recognize part of their gain at the higher 20% rate.

Corporate tax brackets of 15% - 35% remain the same.

Every Dollar Saved In Taxes Allows An Investor To Purchase 4-5 Times As Much Real Estate

This is the true wealth building capability of the 1031 Exchange. It is made possible through the use of leverage. Leverage is a method of acquiring real estate worth many times the value of the initial investment.

Tax deferment increases leverage. To understand the power of leverage, consider the following example:

Assume an investor sells a fully depreciated property and the capital gain is \$200,000. This amount is subject to taxation. Federal tax brackets can range up to 25% for capital gains from depreciation. State taxes can be as high as 10%. Assuming a total tax bracket of approximately 35%, the capital gains tax would be:

$$\text{\$200,000} \times 35\% = \text{\$70,000}$$

If the investor sold property with a gain of \$200,000, he would pay taxes of \$70,000 and have only \$130,000 left to reinvest. On the other hand, the investor who exchanges pays no capital gains tax, leaving the entire \$200,000 to reinvest.

| | Sale | Exchange |
|-------------------------|------------------|------------------|
| Proceeds | \$200,000 | \$200,000 |
| Tax Owed | -70,000 | 0 |
| Cash to Reinvest | \$130,000 | \$200,000 |

If each investor purchases a building with a 20% down payment, using leverage, each could buy property worth:

| | | |
|--------------|------------------|--------------------|
| Value | \$650,000 | \$1,000,000 |
|--------------|------------------|--------------------|

In a single transaction, the investor who exchanged has \$350,000 more property than the investor who sold property. Wow! This is how true wealth is created.

* This example does not take into consideration transaction costs.

The True Benefits Of Exchanging

Prior to 1979, exchanging properties was very complicated. Completing a tax deferred exchange meant properties had to be “swapped” simultaneously. Unfortunately, this made exchanging difficult and risky, if not impossible. Many investors held property for years because a sale translated into paying substantial taxes on their capital gain.

The 1979 Starker decision in the U.S. 9th Circuit Court of Appeals enabled the non-simultaneous or “delayed” exchange to qualify for tax deferral. Treasury regulations effective June 10, 1991 validated the delayed exchange and simplified the exchange process. These regulations, which included the use of Qualified Intermediaries, were welcomed by real estate investors who were previously concerned about the viability of exchange transactions.

Typically, as an investor’s needs change over the years, the type of investment property that they want also changes. Relocation, estate building, retirement, desire to increase cash flow, and the need to reduce management responsibilities all affect the type of property investors want to own. Under IRS Section 1031, property owners now have the alternative of moving their investments (and equities) into more desirable or

profitable properties. The true power of exchanging is the ability to meet investment objectives without losing equity to taxation.

What Is “Like-Kind” Property (What You Can and Cannot Exchange)

Investors often mistakenly believe that they must acquire a property exactly like their relinquished property. They are surprised to learn that a wide variety of properties can be considered “like-kind.”

The term “like-kind” does not refer to a type of property. Instead, it addresses the intended use of property. Provided the property is initially acquired and held for either business or investment purposes, it can qualify as a suitable replacement property under IRC Section 1031.

For example, any of the following can be considered “like-kind” property exchanges: a duplex for a fourplex, bare land for improved property, a rental house for a retail center or an apartment building for an office building. Investors do not have to exchange for exactly the same type of property as the one that they just sold.

The tax code also lists items that are not considered “like-kind” and are expressly excluded from non-recognition. These include:

- Stock in trade or other property held primarily for sale
- Stocks, bonds or notes
- Other securities or evidence of indebtedness
- Interests in partnerships
- Certificates of trust or beneficial interest

In addition, the Code was amended in 1989, rendering property outside the United States as not “like-kind” to US property.

Boot – What It Is And How To Avoid It

You’ll hear this term a lot as you begin to use 1031 Tax Deferred Exchanges. “Boot” is a term used to describe “unlike” property received in an exchange. Cash, notes, personal property, and reduction in mortgage (debt relief) are all examples of “boot” and are subject to tax.

Most transactions can be restructured to help reduce or eliminate “boot.” To avoid “boot” an exchanger must trade across or up in two areas: equity or mortgage.

Example 1:

| | Property A | Property B |
|--------------------|-------------------|-------------------|
| Sales Price | \$150,000 | \$225,000 |

| | | |
|-----------------|-----------|-----------|
| Equity | \$50,000 | \$50,000 |
| Mortgage | \$100,000 | \$175,000 |

In this example, “A” is the relinquished (sold) property, and “B” is the exchanged (bought) property. The exchanger is trading across or up in both areas. This is a completely tax deferred exchange with no “boot.”

Example 2:

| | Property A | Property B |
|--------------------|-------------------|-------------------|
| Sales Price | \$150,000 | \$155,000 |
| Equity | \$50,000 | \$40,000 |
| Mortgage | \$100,000 | \$115,000 |

In Example 2, the exchanger has gone up in sales price and mortgage, but has gone down \$10,000 in equity. This will be taxed as “cash boot.” An exchanger can always offset mortgage “boot” or debt relief by adding more cash to the transaction, but they cannot offset “cash boot” by increasing the mortgage.

The 5 Most Common Types Of Exchanges

Simultaneous Exchanges – Prior to the 1979 Starker decision, most exchanges were limited to the simultaneous format. In a simultaneous exchange, both properties close the same day. Since 1991, the only “safe harbor” for a simultaneous exchange is a Qualified Intermediary.

Delayed Exchanges – The Starker decision marked the advent of delayed exchanging. In the delayed exchange, “like-kind” property must be designated within 45 days of the sale closing. The replacement property must be closed by the 180th day. Once the replacement property has been located, the Intermediary purchases it and immediately trades the property to the exchanger.

Construction (Improvement) Exchanges – The construction exchange (sometimes termed improvement exchange) is an exchange where the Intermediary retains ownership to the replacement property and improves it. Once construction is complete, the Intermediary trades the property to the exchanger.

Reverse Exchanges – Ideally, an investor will be able to sell the relinquished property first and then close on the replacement property. Circumstance sometimes makes it necessary to acquire the replacement property **before** closing on the relinquished property. This can be accomplished through a reverse exchange, now officially sanctioned by the IRS if structured properly.

Multi-Property and Multi-Party Exchanges – An investor can trade out of one property into several, or consolidate from smaller properties into one larger property. Two or more investors owning a property together can trade into separate properties.

The 2 Phases Of An Exchange

Phase One begins when the “Exchange Agreement” is signed and the relinquished property is transferred to a Qualified Intermediary, through an Assignment Agreement. The property is then sold to the buyer and the cash proceeds are deposited into an exchange account.

Phase Two begins once a purchase contract is signed with a seller. The Qualified Intermediary is assigned the contract and purchases the replacement property with funds held from the sale of the relinquished property. The exchange is completed when the replacement property is transferred back to the tax year pursuant to the “Exchange Agreement.”

There are certain provisions that are required in a Purchase and Sale Agreement in order to enter into an exchange. A Purchase and Sale Agreement should contain language establishing the exchanger’s intent and notifying the buyer of the exchange. Examples are:

When Selling:

“It is the intent of the Seller to perform an IRC Section 1031 tax deferred exchange by trading the property herein with Starker Services, Inc (or the name of your Qualified Intermediary). Buyer agrees to execute an Assignment Agreement at the request of Seller at no additional cost or liability to Buyer.”

When Buying:

“It is the intent of the Buyer to perform an IRC Section 1031 tax deferred exchange by trading the property herein with Starker Services, Inc. (or the name of your Qualified Intermediary). Seller agrees to execute an Assignment Agreement at the request of Buyer at no additional cost or liability to Seller.”

A common question is whether or not you can take some cash out of your sale and exchange the remainder. The answer is that you can but the cash that you take out will be taxed at the current capital gains tax rate during the current year.

The One Thing That You Must Remember When Purchasing The Exchanged Property

What you must remember is that you are required to purchase the exchange property in the same entity (form of ownership, i.e. trust or partnership) that you sold the relinquished property. For example, if you sold a property owned by XYZ Realty Trust, the purchaser of the exchange property must be XYZ Realty Trust. Violating this rule will void your exchange.

These are the general rules and guidelines that you must adhere to when performing Tax Deferred Exchanges.

The sooner you start doing 1031 Exchanges the wealthier you will become. I have taken a single-family house, exchanged into a 6-family apartment building and am now exchanging that into a \$1,100,000 forty-unit complex.

I am doing this with several other properties as well and you can, too.

Chapter 11

How To Sell For Maximum Dollars

When is the best time to sell an apartment building? When you've met your goals and/or if the market tells you so.

Before buying any building you want to have a plan. A key element of the plan is your exit strategy. When and/or under what circumstances do you plan on selling? What will you do with the proceeds?

In my larger complexes, our goal is to sell in three years or when we receive a 40% return, whichever comes first.

We don't want our money stagnant in one particular market as we are constantly looking for new markets that are going into the absorption phase so that we can maximize our appreciation.

So once we've reached our goal, we're out, unless the market indicates that it is taking an unexpected turn and it looks like we are shifting rapidly into a decline phase, and then we'll get out as soon as possible.

How A \$10 Increase In Rent Increased My Property Value By \$132,000

In the previous chapter we talked about how to put a value on a building. We talked about the Cap Rate and how it is calculated:

$$\text{Cap Rate} = \text{Net Operating Income} / \text{Value}$$

Simple mathematics tells us that we can invert this formula to solve any problem as long as we know two of the variables. The inverted equations look like this:

$$\begin{aligned}\text{Value} &= \text{Net Operating Income} / \text{Cap Rate} \\ \text{Net Operating Income} &= \text{Value} \times \text{Cap Rate}\end{aligned}$$

If I had an apartment building with 110 units whose market Cap Rate is 10% and I increase the rents of every one of the apartments by \$10 then I'm going to increase my

Net Operating Income by \$13,200 per year ($10 \times 110 = 1100$ per month $\times 12 = \$13,200$ per year).

Now we have two variables to our equation: Net Operating Income (\$13,200) and Cap Rate (10%). We want to see how this rent increase has increased the Value of the property.

$$\text{Value} = \text{Net Operating Income } (\$13,200) / \text{Cap Rate } (10\%)$$
$$\text{Value} = \$132,000$$

Can you see how a simple rent increase of \$10 per unit can put an additional \$132,000 dollars in your pocket at the time of sale?

This is why you should always increase your rents, even if it's only by \$10 per year. You should also look for other ways to increase the income generated by the property.

The Most Common Way To Increase Income From Your Property

Next to increasing rents, laundry machines are the most common way property owners increase the income generated by their properties. If you have a laundry machine that is earning you \$3000 more in additional revenues, you've just increased your property value (at a 10% Cap Rate) by \$30,000.

$$\text{Value} = \$3000/.10$$

Exciting, isn't it? Here are some other ways to increase income:

- Payphones
- Video Machines in the Laundry Room
- Vending Machines (Candy, Soda, Soap Powder)

Before you go out and buy all of these items, remember the economies of scale. The bigger the building or complex, the more money you will make with these additional revenue-producing ideas. The smaller your building, the less you will make. You want to have 6 units or more before you start installing these machines.

Be creative. If you can think of other ways to have tenants pay for services, do it and watch your values and revenues rise.

The Shrewd Investor's Method Of Increasing Net Operating Income

The other way to increase the value of your apartment building is to decrease Expenses. Since you subtract Expenses from Gross Income to get Net Operating Income, the fewer Expenses you have, the more Net Operating Income you will have.

We can see from the formulas above, the more Net Operating Income you have the higher your property will be valued.

11 Ways To Decrease Your Verifiable Expenses

- 1) Low Wattage Light Bulbs
- 2) Electric Timers For Lights In Common Areas
- 3) Motion Detectors On Lights In Hall Ways
- 4) Regulated Thermostats
- 5) Reduce The Water Temperature
- 6) Water Saving Devices On Showers and Sinks, Flow Restrictors
- 7) Water Saving Toilets
- 8) Put A Brick Or A Gallon Of Water In Toilet Tank
- 9) Automatic Door Closers To Keep Heat/Air In
- 10) Always Check For Water Leaks And Repair
- 11) Lower Insurance Costs By Negotiating

These expenses are verifiable expenses, meaning that you can prove the expense amount to a potential buyer. These are the best expenses to lower that increase the value of your property.

Of course you will want to lower your other expenses as well so that you can keep more profits in your pockets. Always look for ways to save money. Whether it be replacing carpets with good used carpets or hiring a high school kid to paint your vacant units, there is always a way to save.

How To Sell That Property

Now that you've got your income up, your expenses down and the value of your property up to its maximum level, it's time to sell that property.

You can do it in one of two ways. You can try to sell it yourself or you can hire a real estate agent. If the property is more than ½ hour away from your house, you should hire a real estate agent.

The Secret To Finding The Best Real Estate Agent To Sell Your Property (And To Buy The Next One)

Go online to www.CCIM.com. This is a site for commercial real estate brokers. The CCIM designation is the highest designation that is earned by and awarded to a commercial real estate broker.

The broker must go through four one-week courses dealing with all aspects of commercial real estate investments. At the end of each week the broker must pass a test to get credit for that course.

When all four courses are passed, the broker must then pass an overall test covering all of the material. When this is done, the broker is awarded the CCIM designation.

Someone who takes their career this seriously is someone you want working for you.

The website at www.CCIM.com will give you a list of all the CCIM brokers in any city in the United States. Start your selection process there.

If your property is between 2-6 units, it may be too small for CCIM Brokers to consider. If this is the case, then go online to www.CRB.com. CRB stands for Certified Residential Broker.

This is a designation that is earned, much like the CCIM by residential brokers. Most of the brokers who earn this designation are either the owners or managers of a real estate company.

If you are going to be working with a residential broker, you may as well work with the one that has the most at stake to see your deal through to successful completion.

7 Ways Using A Real Estate Agent Will Benefit You

1. Helps you determine the value of your property
2. Gets you maximum exposure to the buyers in the market
3. Connects you and the buyer with available special financing
4. Handles all the paper work
5. Meets with appraisers and inspectors, saving you time
6. May have another property for you to buy
7. Gives an unemotional view as to the best ways to prepare the property for resale

Warning: Things You Must Protect Yourself Against When Working With A Real Estate Agent.

When interviewing agents, be aware of the following:

Agent gives you an inflated value just to get the listing. You know how to value your property. If an agent sets unrealistic expectations get two or three opinions. This is a common practice to get listings. Thirty days later they will be asking you for a price reduction.

Be sure that the agent advertises on commercial websites and in newspapers. Commercial real estate agents are notorious for keeping “pocket listings,” meaning that they try to sell the property themselves (to keep all the commission) and don’t expose it to the market. This will limit the number of buyers for you and can lower the amount that you can get for the property.

Agent is not experienced with apartment buildings. This shouldn’t happen if you use a CCIM but if you have a smaller property and use a regular real estate agent, beware.

Don't give more than a 90-day listing, although they will want 180 days. Tell them if after 90 days they can prove to you that they are doing an effective marketing campaign then you will re-sign.

4 Keys To Selling An Income Property Yourself

1. Prepare an Apartment Analysis Form to give to potential buyers.
2. Determine if you are willing to give a 2nd mortgage and decide how much and at what interest rate.
3. Determine which newspapers, periodicals and websites are best for advertising commercial properties.
4. Get a list of area property owners and mail to them.

Second mortgages are common in tight lending markets. If there is a lot of financing available, you may decide that you do not want to offer a second mortgage. If you do, you'll want the following items in your second mortgage to make it more attractive if you need to sell it on the secondary market.

- A balloon of 5 years or less
- Principal and interest paid monthly
- Higher than market interest
- Acceleration clauses
- Late penalties
- Variable rate
- Secured by substantial amount of equity

How To Get Free Nationwide Advertising For Your Property

Commercial real estate brokers have their own websites that they advertise on. The most common website is www.loopnet.com. On loopnet.com you can find commercial properties advertised all around the country, and just by signing up you can advertise your property for free.

Every major metropolitan area has a financial newspaper. In some areas it's called the Banker and Tradesman. To find out what financial and commercial newspapers are in your area, call your local commercial loan manager. He'll be able to point you in the right direction.

Your major metropolitan newspaper will have a section for advertising commercial properties as well. Usually these ads only run on the weekends. If you have competing major newspapers, pick up the weekend editions for both properties and see which one has the biggest classified sections. Usually one paper will dominate the other when it comes to commercial advertising and this is where the investors and brokers go to look for new properties and advertise their properties.

In my market we have the Boston Globe and the Boston Herald. The Globe gets all of the commercial advertising while the Herald sees very little. Therefore the Globe is the newspaper of choice for property owners. There may be a special section called "Income Properties." This is where you want to advertise if it's available.

Get a list of all other property owners in your area. You can do this either through a list broker or go down to the city hall and fill out a request for a list of all properties that are 2 – 4 units and 5 units or more. You'll want the following:

- Property Address
- Owner Name
- Owner Address
- Number of Units
- Year Purchased
- Last Sales Price

Write to these people and let them know that you have a property for sale. There is a good chance that they are looking for another property. I also add a P.S. - "If you are not looking to buy, then perhaps you may be looking to sell. I'm also interested in buying."

Adding that P.S. could get you your next deal!

How To Prepare Your Property For Successful Resale

Make sure that your property has "curb appeal."

- The grass should be mowed
- Landscaping should be trimmed
- No flaking paint
- The mailboxes should be coordinated and fresh looking
- Entry doors should be in good condition
- No junk cars in the parking lot
- No broken windows or ripped screens

Once inside, keep them inside:

- Entry way should be clear of any debris, no excess mailers or newspapers, windows should be clean
- If mailboxes are on the inside they should all have the names properly put on them and they should be neat and clean
- Interior lighting should all be working
- All common areas, hallways, basements, storage areas and laundry rooms should be neat and clean

The rest is up to you. If you have priced your property properly (Chapter 3) and prepared it for sale properly, then you should be selling in a reasonable amount of time and ready to put your proceeds into bigger and better property.

Investing in apartment houses is one of the safest and fastest ways to grow your wealth through real estate investing. You've got the knowledge, now it's time to go out and take action. Do it now!