

THE MAGIC OF REAL ESTATE

**How I bought and sold over four hundred
houses with little or no money down
and how you can do the same**



TOYIN DAWODU, MBA

The Magic of Real Estate

How I bought and sold over four hundred houses
with little or no money down, and how you can do
the same

By Toyin Dawodu, MBA

The Magic of Real Estate

The Magic of Real Estate

by Toyin Dawodu

Copyright © 2014 Toyin Dawodu

All rights reserved. No part of this publication may be reproduced, distributed, or transmitted in any form or by any means, including photocopying, recording, or other electronic or mechanical methods, without the prior written permission of the publisher, except in the case of brief quotations embodied in critical reviews and certain other noncommercial uses permitted by copyright law. For permission requests, write to the publisher at the address below.

Introduction

You could be wealthy right now.

Or, at the very least, you could be actively building the kind of wealth that will change the trajectory of your life, your children's lives and the lives of your grandchildren. And you can do this by learning how to create a consistent flow of cash using the magic of real estate.

I don't tell you this to hype you up. I tell you because my own experience, and the experiences of my colleagues, support the fact that real estate investment is an almost fail-proof method for getting really rich in just a few years. It is the vehicle commonly used by the wealthy to amass their great fortunes. You too can find financial freedom by learning how to invest in real estate with no money, no credit and no previous experience.

This is not a hoax. This is not a scam. This is a legitimate business model with virtually no barrier to entry. This is a business you can jump into within the next few days, using the techniques and strategies you learn in this book to construct your very first real estate deal.

If you had met me 25 years ago, you would have met a young, scrappy immigrant fella with a thick accent and only enough money for the first month's rent and a security deposit in the bad part of town. I was fresh out of college, and while I was proud to have my degree in-hand, I wasn't nearly as eager as some of my classmates to put that degree to work at a traditional 9 to 5. Still, I was a hard worker and willing to do what I had to do to carve out a decent living for myself and my family.

I started my first business right out of college, only to run out of money in six months. I would guess this is a situation that affects most businesses in their early

The Magic of Real Estate

years. You may have read the stats from the Small Business Administration that more than half of all new businesses fail within the first three years. Within the first five years, only a quarter of new businesses are still standing. This is one of the main reasons real estate is such a magical business.

As a real estate entrepreneur, you will never “run out of money” as long as you can find and make good deals. If you are willing to learn this business and work at it, you can build a reputation for orchestrating the kind of profitable deals that will attract investors to you; you won’t have to look for them.

I made my first successful real estate investment deal in the late 1980s. Today, I’m not ashamed to say I am well-off. I have bought and sold more than 400 properties over the course of my career in real estate. I have worked with more sellers, buyers, banks and lenders than I can even remember. I have done deals on a handshake and I have done deals the traditional way. I have even gone out on a Saturday drive and returned home with a handful of deeds like a modern-day Mr. Monopoly. I know this business, like the back of my hand.

From the outside looking in, the idea of jumping right into real estate investing probably seems like a big deal. Trust me, I know how you feel. I’ve been there. I remember years ago when I finally made up my mind to invest in real estate, all the fears began to surface:

- How will I get the money to buy the property?
- How do I know which properties to buy?
- How do I find sellers and buyers?
- What does it take to “flip” a house?

The Magic of Real Estate

- What if I buy the property and can't rent the sucker out?
- What if I buy a house and there are liens on the property?

These all seem like huge obstacles, but they are only huge obstacles for the novice. The more you learn about the real estate business and the more deals you make, the more those so-called "problems" cease to be problems at all. You just have to get past the initial fear.

Let me tell you, my first real estate deal was no walk in the park. In fact, I failed on my very first try.

And I failed on my second try.

Between my first and second tries, years went by, but I was committed to learning the business and I was determined to succeed. So I kept at it, even when that meant attempting one deal every few years.

Over the past 20+ years in this business, I have run into all sorts of problems, and the one thing I have learned is that for every problem, there is a solution and the more creative you are about finding solution, the more interesting your real estate career can be. Eventually, I got to the point where I could resolve most issues quickly; some problems I avoided altogether because I developed strategies to help me identify potential challenges before they arose.

Believe it or not, learning to invest in real estate is not difficult to do, but it does take some *doing*. You won't build your confidence in this business by reading books and buying systems for years and years. Believe me, I know. This is a hands-on business; you have to get out and do. Get some education, find a mentor, develop a strategy and start making deals. When you screw up and when things fall apart - and they will fall apart - get right back up and go for it again. You will screw it

The Magic of Real Estate

up sometimes. And that's okay. We all do. It's not the end of the world... even if it turns out to be the end of your credit line. Get back up. Think of a plan B and keep moving forward.

I will assume you are reading this book because you have seriously thought about pursuing real estate as a viable method for building wealth. Even if you haven't and this book landed in your lap by some miracle of happenstance, you're at least going to need to know how you can buy your own primary residence and squeeze the most profit out of the deal.

It is my mission to help you break the mindset that keeps you poor, broke, busted and disgusted. This book will equip you with everything you need to know to make a successful foray into the very lucrative U.S. real estate market, which, according to Zillow.com is now worth over \$25 trillion. The education you receive in this book is the same education I give my own son about this business. I want you to have access to this information so you can overcome the real obstacle that keeps people from investing in real estate: Fear.

Now is the time to free yourself from the cubicle and start building the life you always wanted for yourself and your family, and you can do it one property at a time.

For ongoing education, be sure to join The Magic of Real Estate online community at www.TheMagicofRealEstate.info to get access to free and paid training, webinars, consulting and an entire library of wealth-building content.

Table of Contents

Before We Rush Right In	2
Buying Property Does Not Have to be Complicated	2
It May be Time to Change Your Mind About Real Estate	4
Success in Real Estate Does Not Require a Degree	5
My Story: From Poor Immigrant to Wealthy Guru.....	7
I Learned to Sell Houses on a Car Lot.....	7
Ten Million Dollars Made and NONE of Them From Real Estate	9
How Real Estate Investing Kept Me Out of Jail	10
Who This Books Helps	15
...An Ordinary Joe.....	15
...A Wife, Mother or Stay-at-Home Mom.....	16
... An Underrepresented Minority	18
...In Debt.....	19
...Upside Down on Your Mortgage or Facing Foreclosure	21
...A Student.....	22
...Elderly	23
Why Most People Fail as Real Estate Investors	24
They Fear Change and Fight Discomfort	24
They Don't Study	25
They Don't Find the Support They Need.....	26
My Four-Step Formula for Becoming a Fearless Investor.....	28
#1: Acknowledge the Fear	28
#2: Ignore the Fear	31
#3: Overcome Inner Resistance	34
#4: Eliminate Self-Sabotage.....	34
Wealth is All Around You; Go Get It!.....	37
If You Plan to Have Wealth, You Must Begin to Think Like the Wealthy	37
Go After the New American Dream.....	42

The Magic of Real Estate

Get the Knowledge, But Skip the Real Estate Degree.....	44
Realtors and Investors	47
Understanding the Differences between Realtors and Investors	47
The Seven Relationships You Need to Have In Place.....	51
#1: Title Company	51
#2: Realtor	53
#3: Handyman and Rehabbers	54
#4: Escrow Company / Closing Agent	55
#5: Property Inspector or Appraiser	55
#6: Lender	55
#7: Other Investors.....	56
How Investors Find Good Real Estate Deals	57
Successful Investors Set Goals	57
Successful Investors Start in Their Own Backyards.....	58
Successful Investors Buy Based on Profit and Cash Flow.....	59
Successful Investors Keep Their Personal Feelings Out of It.....	59
Successful Investors Know Real Estate is a Numbers Game	60
Successful Investors Understand the Difference Between Value and Worth	61
Successful Investors Know How to Price for Value.....	62
Successful Investors Generate Leads	63
Two Types of Acquisitions We Missed On Purpose.....	65
Investing in Mobile Homes.....	65
Investing in Commercial Properties.....	67
How to Recognize a Motivated Seller When You See One	69
A Truly Motivated Seller Will Pay You to Buy Their House!.....	69
What to Say When a Motivated Seller Contacts You.....	70
How to Research the Property.....	72
*The Three Property Research Tools	74
Case Study #1: The Mobile Home with the Ghost Loan.....	76

The Magic of Real Estate

The Anatomy of a Real Estate Deal.....	78
Deeds vs. Titles	78
Six Non-Traditional Ways to Construct a Real Estate Deal	80
How to Finance a Deal with No Money Down	89
Make Sure You Have Enough Time.....	89
Know That Negotiating is Non-Negotiable	89
Learn How to Buy Even With Bad Credit	90
Self-Directed IRAs.....	96
Closing the Deal	98
The Four Elements of a Legally Binding Contract	98
Do You Really Need Title Insurance?.....	99
Case Study #2: The IRS Lien.....	99
Sample Affidavit.....	101
Putting the Property in Escrow.....	102
How to Quiet the Title	103
Transferring Ownership.....	104
Purchase Agreement for Property I Put in My Daughter's Trust	105
Grant Deed for Property I Deeded to My Daughter	106
Recording the Title	107
Exiting the Deal.....	108
A Short Guide to Understanding Foreclosures.....	110
The 5 Steps of the Foreclosure Process	110
Everything is Negotiable	112
The Sheriff is Coming! The Sheriff is Coming!	113
Case Study #3: Fighting Foreclosure.....	116
How to Negotiate Foreclosure Sales	117
A Seven-Point Plan to Get You Started.....	121
Step #1 - Make Your Plan.....	121
Step #2 - Make Your Connections	122

The Magic of Real Estate

Step #3 - Search for Properties	122
Step #4 - Research the Properties	122
Step #5 - Contact the Owner	123
Step #6 - Negotiate	123
Step #7 - Exit the Deal	124
More Case Studies.....	125
Case Study #4: The House That Had No Equity	125
Case Study #5: Home for Sale, No Qualifying	127
Case Study #6: The One Who Tried to Get Away	128
Case Study #7: Fore!.....	130
Case Study #8: The Unlikely Money Pit	131
Case Study #9: Green Acres.....	132
Case Study #10: \$70,000 and a Million Cockroaches	133
Case Study #11: Three Lots and Six Homes	134
Case Study #12: The Not-Picky, No-Money-Down Deal	134
Final Thoughts	136
References	138

PART ONE

Developing the Mind of a Real Estate Investor

In this business, mindset is everything. You have to get in the right mindset to successfully launch a real estate investment business. This part is non-negotiable.

CHAPTER 1

Before We Rush Right In

There are few things I find more exciting than leaving my house in the morning and coming back a few hours later with a deed in my hand. To me, that is the real magic of real estate; it is the true power of the American Dream. With a little bit of strategy and a load of tenacity, I have been able to carve out a space for myself in a market held captive by big banks and rich investors. I have been able to do this with no money down, no credit, and not one, but two bankruptcies in my history.

It doesn't matter what challenges you may have faced in the past. I am here to tell you that you qualify to be a real estate investor. You can achieve the same level of success I have, and greater if you are willing to do what it takes to attain it. Before we get going, let's start with some important truths.

Buying Property Does Not Have to be Complicated

So many people get hoodwinked into thinking that buying a house is a big deal. Let me tell you, it is easier to buy a house than it is to get a driver license. The problem is people get emotional when it comes to buying a house because they have been sold an American Dream that includes homeownership.

We want to buy a house where we can live with our spouses and grow old together. We want a place where we can raise the kids and eventually have the grandkids over for holiday dinner. We envision a tree swing and a small garden out back. And as long as we romanticize the idea of homeownership, and tie it to our perception of success and happiness, we will gladly fork over hundreds of dollars a month for twenty or thirty years to keep that dream alive.

The Magic of Real Estate

The average 30-year mortgage payment in this country is \$1,061 per month, according to LendingTree. Think about that. Thirty years. A thousand bucks a month! Most of us have heard one financial expert or another refer to a house (usually one with one of these hefty mortgages) as a person's greatest asset. While that claim is true in some cases, for most homeowners, their homes will not qualify as anything other than liabilities until and unless they learn how to make their homes assets.

Let me first provide you with an easy-to-understand definition of an asset: An asset is a thing of value that either produces an income or can quickly be converted to cash. "Well, you convert a home to cash when you sell it, Toyin. So a house is an asset."

Well, it's not that simple. In a good market, your house can sell within 30 days, assuming you haven't done what most homeowners do and overpriced your home. After you get an offer, it takes another 30 to 45 days to close the deal. So, on the low end, you're looking at 2 to 3 months before you can "cash out" your home. And that's only if the house sells in the first 30 days. Depending on the housing market in your area, getting an offer on your house can take 30 days or it can take as long as six months. Now, if in order to be an asset, your house has to be able to easily convert into cash, your home may not actually qualify as an asset, if your method for converting it to cash is to sell it.

To add insult to injury, Forbes reports that at the end of the third quarter of 2013, 6.4 million U.S. homeowners (13 percent) owed more on their homes than the property was actually worth. So now, let me ask you: Is your home an asset? The answer is maybe.

Sometimes.

The Magic of Real Estate

Depending on your market.

The belief that your home is your greatest asset is something lenders say to pull you into an expensive loan that it can take you generations to repay. Don't be fooled or lulled to sleep by the American Dream. When it comes to your money, you need to be wide awake!

It May be Time to Change Your Mind About Real Estate

In order for you to be successful in this business, you will need to change your perspective of real estate. It is not my goal to teach you how to buy houses. You don't need me to teach you to buy houses. It is my goal to teach you to *make money* buying and selling houses. Not all real estate deals are lucrative. So my mission is to teach you how to find money-making deals and use them to get rid of debt, pay off student loans, pay for the kids' college, set yourself up for retirement, and perhaps most important of all, reinvest.

Here is a simple motto you can say to help keep you focused on our mission:

As a real estate investor, you are not buying a house, you are buying cash flow.

It's no mistake that buying a home has been so romanticized. Historically, men who owned property have been the decision makers in this country. So, I think it makes sense that acquiring real property is marketed by banks, title companies and unwitting sellers and agents as a complex process when really, buying property can be as simple as writing out a contract on a fast food napkin and handing the seller something of value. The first real estate contract used by agents was one page long, today, the average real estate contract tops 50 pages.

The Magic of Real Estate

In reality, buying and selling real estate is pretty straightforward. If you can't make money with the deal, it's not a good deal. When an investor signs her name on a contract to buy a piece of property, she is not buying a house, she is buying cash flow. Your job is to buy a dollar for sixty cents and sell it for eighty five cents. This process allows you to get into the market, make some money and exit before anyone even knows you were in the market. That is what separates the real estate investors from ordinary home buyers. The sooner you get that principle firmly established in your mind, the faster you will start making money in this business.

Success in Real Estate Does Not Require a Degree

Now, when I first started in real estate, I did what I could to learn the business before venturing in. I firmly believe new real estate investors give themselves a considerable advantage by studying up on this industry ahead of entering into any deals. You can grab valuable training in your spare time by reading books like this one, watching YouTube videos, reading real estate blogs, and checking out the occasional real estate reality show. There are also short, self-directed training programs in which you can enroll, and you can even sign up for a realtor's course at the local real estate academy. These are all useful options.

I have also seen two-year and four-year real estate degree programs being offered at colleges and universities across the country. I can tell you with a measure of certainty that 99% of real estate investors are self-taught; they do not have college degrees in real estate. But they don't need college degrees in real estate. These college programs promise to teach you everything you need to know about the real estate market. The costs of some of these degree programs are in the tens of thousands of dollars.

Forget about that!

The Magic of Real Estate

You will spend \$30,000 on that degree only to end up working for an investor like me. Save yourself thirty grand and just read my book. If you really want to get going and jump in feet first, [sign up](#) for my six-week intensive training program or one-on-one coaching. You will save yourself tens of thousands of dollars and learn how to build wealth for yourself.

Real estate, like all sales-based businesses, is a numbers game. The more quality leads you have, the more deals you will close. If you find 100 leads, you may get one or two that turn out to be lucrative deals. Why? Because real estate is a numbers game.

I created a membership community called [GIC Deal Finders](#) which teaches members how to locate and find lucrative deals and wholesale properties. Members scout out properties in their own neighborhoods and submit them to my investment team. If we look at the deal and decide to go ahead and actually buy the property, the member who found the deal receives a payment of anywhere from \$1,000 to \$5,000 for his or her help finding the property.

If you want to make money in this business, you have to make it a habit to look for deals. Make it a compulsion. Always be on the lookout for motivated sellers who need your help getting rid of their properties. Always be on the lookout for potential buyers – companies, hedge funds, other investors, and individuals - who may be in the market for property.

Reprogram your mind to recognize a core truth about the real estate business: You are in the business of generating leads. Generate as many leads as you can and close as many deals as you can. Inevitably, some deals will fall through. But if you have another one already waiting in the wings, you are far less likely to succumb to the old problem of desperation.

CHAPTER 2

My Story: From Poor Immigrant to Wealthy Guru

I went from immigrant student to businessman to destitute former businessman to the owner of a multi-million dollar company. Here is quick peek into how it all happened.

I grew up in West Africa before moving to the U.S. (by way of London) as a student in the 1980s. When I moved here, I had just \$1,200 in my pocket, which was, at that time, only enough for my first month of rent in my new home. Both my parents were actively involved in real estate as a side business. Yet, when I moved here, I was not. I finished my undergraduate studies with a degree in Business Finance then went on to get my MBA because... well, that's what you do, right? My subsequent years in the workforce, however, are where things take an interesting turn.

I Learned to Sell Houses on a Car Lot

In the early days, I was adventurous, young and motivated. I always wanted to run my own business, so I went for it. When I got out of college, I immediately started two businesses, a company that sold hair care products and a manufacturing business. Within six months, I was completely out of money, out of business, and into the job market.

As I luck would have it, after three months of searching, I landed a job as a car salesman. That's where my real estate training actually started, believe it or not. The principles I learned selling cars are still the foundational principles I use to make money buying and selling real estate. I was a natural salesman. In fact, within two months in the auto sales business, I was the top salesperson at the dealership. I

The Magic of Real Estate

made the top 50 in the Mazda Sales Guild nationwide within five months of joining the business. The following year, I worked at an Acura dealership where I was the top salesperson for twelve months straight. I could sell.

I left auto sales to venture out on my own again. Much like my first stab at entrepreneurship, cash flow was slow. During some of those lean years, I tried a few things to bring in more money. The man who taught me to sell cars advised me to flip used cars for extra money. I never did get around to making that a full-fledge side hustle. But I thought about it.

I want you to understand something: I know what it's like to be broke. By the late 1990s, I was so broke that at one point, I had to borrow money from my boss just to pay my light bill. It was then that the light went on in me, so to speak. It occurred to me that if I were to flip houses instead of cars, I could probably bring in ten times as much money.

By this time, I had taken some real estate training from another guru, but I never really followed through, not enough to make the money the guru said I could make. But the training I got did help me buy my first house for \$77,000. What's the significance of this purchase? Well, I was able to pull \$200,000+ out of the house and I used a portion of that money to start a business. I finally sold the home years later for \$287,000. I saw first-hand the magic of real estate when I learned I could fund money-making ventures by leveraging the equity in real estate.

Eventually, I ventured out and did what just about every novice real estate investor was doing at the time. I turned to the wisdom of Carleton Sheets. If you remember, in the late 1980s and on through 1990s, Sheets ran infomercials on late night television seemingly every night. I ordered his *No Down Payment* system and studied it to prepare for my first real estate deal. By the end of the 1980s, I was ready for my first deal.

Ten Million Dollars Made and NONE of Them From Real Estate

I set out to find my first investment property, which I did in a very short time. I found a property, made an offer, put \$2,000 down and we put the house in escrow. It was an exciting time... until the fear started. You know the script: *How do I find sellers and buyers? What if I buy the property and can't rent the sucker out? What if there are liens on the property that I don't know about? How will I get them off?*

I couldn't shake the fear! So I pulled out of the deal. Two thousand dollars of my hard-earned money was gone just that fast. And I didn't even have a piece of property to show for it. At the time, I was convinced I had just saved myself from financial ruin. These days, I look back on that deal and shake my head. After that embarrassing debacle, I shoved Carleton H. Sheets in a box and slid his money-making system under my bed. Some guru he was. That joker cost me two thousand bucks! It wasn't long after that I filed for personal bankruptcy protection.

I let another few years go by before I tried my hand at real estate again. And guess what? I did the same thing. I found a property, I made an offer, I put some money down then I let fear scare me out of a perfectly good deal at the last minute.

Looking back, I know that what I was missing was a mentor, someone who could walk me through the process and hold my hand when I got scared. Unfortunately, I only had myself, my thoughts, my lack of experience and my fear of the unknown to walk beside me, so I pulled out of not one, but two solid real estate deals.

I'm telling you this for two reasons. First, I want you to understand that I haven't always been Mr. Real Estate. I struggled with the fear. I was penniless and rebuilding after going bankrupt. I was afraid of losing what little I did have. Second, I want you to understand the power of having a partner or mentor who can help you

The Magic of Real Estate

get through the iffy parts of this business. Success in real estate is not some chance occurrence designated for a lucky few. Anyone can do this business, but you need the right information, the right relationships and hands-on guidance.

I got my broker license and soon, I had twenty-five agents on my team. In the period from 1991 to 1999, I actually ran several businesses, including a credit counseling service, an insurance brokerage company with over 40 agents, a mortgage company, a tax resolution service, and a law firm to help people file for bankruptcy. Yes, a law firm, and no, I was not a lawyer.

In 1997, I also ventured into the tech arena to explore this thing called the Internet. My team and I created a handful of cloud-based programs, including one that allowed me to view client files from home. It was a product called Virtual Desk, which was essentially an early version of what Google Docs is today. I was a bit ahead of my time there. Despite my groundbreaking innovation, I actually didn't spend much time in the tech space. Real estate was more my forte. At least I didn't have to sit around waiting for some venture capitalist to fund my great ideas.

My businesses were successful and they grew quickly. I've always had a knack for recruiting people to my cause and developing systems that work magic. Soon enough, my successful little credit repair startup was a ten million-dollar enterprise. I went from two employees to 100 employees in two years. I was outpacing heavyweights in my market. That's when the trouble started.

How Real Estate Investing Kept Me Out of Jail

I will make a long, but interesting story short by just telling you this: After several attempts to put me out of business, my competitors were able to persuade the District Attorney to file fraud charges against me. I was indicted and the DA's office confiscated every piece of equipment my business owned. My credit counseling

The Magic of Real Estate

business crumbled and the DA tried to persuade my clients to file a class action lawsuit against me for a fraud I never committed. Worst of all, the legal woes sent me into a tailspin to protect my personal assets from being liquidated to cover mounting legal fees.

It was the worst time of my life. I lost my business, I lost my wife, and for a while, I even lost custody of my son. I was devastated, despondent and sinking fast. Then I got, perhaps, the best piece of advice I've ever gotten.

Gary was an attorney who was helping me through the transition from rich man to poor man. One day, I sat reminding Gary of how the entire situation was so unfair. I was a victim of a selfish, cowardly entourage of people who wielded enough power to be able to prosecute me without evidence. They leveled my ten million-dollar business. And Gary, just as calm as he was wise, looked at me and said, "Just go out and make another ten million dollars."

It was the simplest solution to an unfortunate situation. I girded up my strength and tapped into my warrior spirit. And I came out swinging. I fought everybody. I fought my wife and won custody of my son. I fought the District Attorney. When election time rolled around, I even ran against the judge who was presiding over my case because I didn't like the direction in which he was leaning.

But waging a war is expensive. I needed a lot of money and I needed it fast. The lawyers were costing me a fortune and if I wanted to stay out of jail, I had to come up with the money to hire the best attorneys I could find, not just local guys that I found in the Yellow Pages. I decided to go back into real estate. And this time, I had to make it work.

Even in the midst of adversity, you can make a comeback, not just spiritually, but financially. In 1999, I ran an ad in a local Riverside County newspaper called *The*

The Magic of Real Estate

Press-Enterprise, which I had used before in my other businesses. The ad was simple: “We buy houses.” I included a contact number. The ad ran 30 days for \$298, and because I had run ads in the paper before, the paper allowed me to run the ad on credit. Remember, I was pretty broke by this time.

I got a call the very first week from a woman who was planning to move to Orange County and who wanted to sell her Riverside County home. She suspected that once she and her family made the move to Orange County, she would fall behind on the payments for her former home. I agreed to take over her payments of \$1,000 per month and she agreed to my terms. We transferred the property to my name and I immediately placed an ad to sell the property: “\$10,000 down and take over my payments.”

I got a couple of calls. Within about a week, I received an offer from someone who didn't have \$10,000, but he did have \$2,000 for the down payment, I took the two grand and carried the balance of \$8,000. The new owner's payments covered the \$1,000 monthly payments I agreed to pay the original seller. In addition the new owner made an additional monthly payment to pay the \$8,000 balance of the down payment. That was the beginning of the magic. It was the first time I created cash flow out of thin air.

Now, at this point, I still had two weeks left on my original “We buy houses” ad. The second deal came through in week three when a gentleman in his mid-forties called and asked me to buy his house. When I inquired about his reason for selling, he told me he was on the run. The father of his estranged wife put a price on his head and men had already come to his home in hopes of collecting on the contract.

I can't make this stuff up.

The Magic of Real Estate

The man only wanted me to take over his loan payments. I agreed. Once I had the house in my name, I turned around and put the house on the market myself. I made money off both deals, paid for my ad, and staked my claim as a real estate investor.

My legal problems lingered for nine years before the case finally went to trial. Three days into the trial, the DA withdrew the case and we settled for \$50,000 - a million dollars in legal fees later. Ultimately, I believe their goal was to put me out of business and bankrupt me both financially and emotionally. When they saw they weren't going to succeed, they dropped the charges.

Despite the fact that my competitors used their highfalutin friends to shut down my business, I emerged on the other side of this experience sharper, more determined and more successful. They intended to wreck my life but by the time my nine years of hell was up, I was actually richer than I was when the whole thing started. I managed to start a new relationship, have a daughter, strengthen my relationship with my son, make a successful transition into real estate investing and rebuild my business to a fifty million dollar venture. It wasn't easy, by any stretch of the imagination. But I knew that it was possible and that's all the hope I needed to completely revamp my life.

Real estate has played a huge part in my success. There will be times when all hell will break loose. I think, to some degree, everyone goes through this. You simply cannot predict what is going to happen. Your spouse may leave, your child may take ill. Your business could fail by no fault of your own. Even in the midst of adversity, you can make a comeback; not just spiritually, but financially.

During my two failed attempts at real estate investing, I read everything I could get my hands on. If there was a real estate guru out there, I probably owned his book. I bought Carleton Sheets' system twice, thinking the second purchase may

The Magic of Real Estate

include updates that would help me navigate the tough spots. In truth, I can admit that the “tough spot” I was having the most trouble handling was the fear of the unknown. Eventually, I had to get to the place where I realized I didn’t have anything to lose! What worked in the end was taking action and getting up when I fell down. That’s what worked.

You can have all the head knowledge in the world, but until you get some practical experience under your belt, you don’t know what you don’t know.

Whether you’re venturing into real estate or pig farming, I want you to remember that there’s no shame in not knowing and there’s no shame in starting over. There is only shame in refusing to learn.

CHAPTER 3

Who This Books Helps

Part of what I learned as I fought to stay afloat during the first year or two of legal problems was real estate is a cash flow machine. It was far more effective at generating income than going to work at a traditional 9 to 5. I could search for real estate deals in my free time and still build my primary business during the day. I never had to miss a court date. I never had to ask my boss for permission to go to court and I didn't have to take all the overtime I could just to cover my legal fees. I firmly believe that if I had not started investing in real estate, I would be like a lot of black men who can't afford proper legal representation – in jail instead of enjoying my life.

Over the course of nine years, I paid over a million dollars in legal fees and covered every single fee with a real estate deal. My ability to generate large sums of money with real estate was life-saving and that's why I am so convinced it can be a life-changing opportunity for you as well. Can real estate investing help you? You tell me.

I wrote this book for you if you are...

....An Ordinary Joe

This book is for anyone who is interested in earning more money, for whatever reason. Whether you're preparing for retirement, planning a trip out of the country, or starting a business of your own, if you find the right deal, you will have the money to take a trip or invest with a high-yield retirement account.

....A Wife, Mother or Stay-at-Home Mom

I have seen first-hand how real estate investing can change the lives of women. Women can work this business on a part-time basis and earn C-suite income just by learning how to find properties and construct profitable real estate deals. This is not just about “making more money.” This is about creating wealth. It’s about learning a skill that you can pass down to your daughters so they too have the ability to create wealth. Creating wealth is about giving yourself and your heirs more options. It’s about recapturing your freedom and taking control of your time, talent and other valuable resources. With real estate, you can acquire properties with no money down and no credit needed that will generate an income for you and your family for the rest of your lives.

“Well, Toyin, I don’t really need this. I’m married. My husband handles the finances.” I understand. In most two-income households, the man handles the investment portfolio. But I always tell my members to be wise enough to expect the best while still preparing for the worst.

Case in point: A woman responded to one of my “I Buy Houses” signs. She had a house that was paid for, free and clear. She wanted \$150,000 for the property. Upon inspecting the property, I discovered \$150,000 was the full value of the property. If I took it at that price, I wouldn’t make any money on the deal, so I offered her \$70,000 for it. She refused. I moved on. Four months later, she called me again, asking if I’d reconsider my offer. “Ma’am, I told you the most I am willing to pay for your property is \$70,000.” She went on to tell me that she had listed the property with an agent and received an offer on the house in the amount of \$125,000. Good for her, right? I told her to take the deal, but when she was still hesitant, I asked her what the problem was. She explained to me that she was an old woman who did not work. Her house was her only asset. Her plan was to sell the house and live on the

The Magic of Real Estate

proceeds for the rest of her life. “So, why don’t you take some money down and finance the rest?” I asked her. By doing that, she would be able to get what she wanted for the house, get a chunk of money down and still receive a monthly income of \$1,000. She didn’t want to do that.

But here is the massive flaw in her system: She may be able to get \$125,000 in cash for the house. She will stash that money in an account somewhere and keep that money liquid and easily accessible. The problem is if she has children and grandchildren, emergencies will no doubt arise and they will demand she use her money to solve their problems, with the promise that they will repay her. In a couple of years, the money will be gone and that woman may find herself among the 16% of elderly women who Bloomberg says depend solely on social security for their income.

Women have to be smart, wise, careful and fearless investors. They literally have to ignore their own fears about investing. When women consider investing in real estate, they often encounter actual and perceived barriers that men don’t have. That’s why I produce a significant amount of content on my websites [GIC Deal Finders](#) and [The Magic of Real Estate](#) to address issues that are specific to women investors.

Women must learn the skill of making money. I wrote an article for GIC Deal Finders recently entitled “[For Women, Real Estate Investment is a Need, Not a Luxury.](#)” In the article, I detailed a handful of reasons why even happily married women must take the time to learn self-sufficiency. Here’s an excerpt from the section called The Dangerous Mythos of Prince Charming:

Here’s the ugly truth about happily ever after:

The Magic of Real Estate

- *In the U.S., 1 in 2 first marriages end in divorce. In the U.K., the number is about 2 in 5.*
- *According to the U.S. Census Bureau, most men and women remarry within 5 years, but more than 60% of second marriages in the U.S. end in shambles.*
- *When you do find marriages that stand the test of time, you can expect about 56% of wives to outlive their husbands, often by a decade or more. Who will manage the investment portfolio when he's gone?*

While 44% of all women (married and single) are the primary breadwinners in their households, most women feel woefully under-prepared to make financial decisions that directly impact their futures. According to a study by Prudential Research entitled "Financial Experience and Behaviors Among Women," only about only 20% of women feel well prepared to make smart financial decisions, and 36% of those women say they don't even really know where to begin as it relates to financial planning. Why not? Confidence. Confidence is, by far, the greatest obstacle women face when it comes to financial planning and investment

.... An Underrepresented Minority

Those of us who do not come from a lineage of entrepreneurship always seem to be at the mercy of the whims of our bosses. Minorities typically have the highest unemployment rates, the least effective school systems and an overall lack of resources. That is due, in part, to a system that actively seeks to keep ethnic minorities from attaining self-sufficiency. At the end of the day, someone has to be the worker bee. African Americans and Hispanics are often relegated to that segment of the workforce and it's by design.

The Magic of Real Estate

But in this day and age, there is no reason why any U.S. citizen should be in lack. Knowledge is available on-demand. So anyone who wants more for himself or herself can pursue knowledge freely. So, what's holding you back? Yes, there was a time when you couldn't obtain knowledge, and in recent history, you may have been kept out of potentially lucrative opportunities. But the gatekeepers are no longer people. The gatekeepers are IP addresses and passwords. You can access all the knowledge and education you need right through your Smartphone. You just have to seek it out.

Just like women, minorities face a specific set of challenges when it comes to real estate investing. If you are a minority investor, you can't let your fear of rejection keep you from going after opportunities. You must be prepared to face financial challenges and social stigmas without being overcome by offense when ignorance rears its ugly head.

Ignorant people do exist and many of them have no qualms about verbalizing their opinion of you and your affairs. So what! Who cares what someone else thinks of you? What does it really matter? Another person's opinion of you cannot keep you from succeeding in this business. Even if that person has the ability to say no to your loan or your credit application or even to your purchase offer, there are other lenders, other creditors and millions of other houses that you can buy with no problem.

....In Debt

If you recall, one of the many businesses I ran since venturing into entrepreneurship was a credit counseling service. I know the business inside and out. That's the business I was in that grew to a ten million dollar venture in seven years. When I talk about helping people with debt, I speak as a person who knows what it feels like to

The Magic of Real Estate

carry the weight of debt. I know what the alternatives are and how they ultimately impact your credit. I was running a credit counseling service, but I decided to file for bankruptcy protection. That should tell you a little something about credit counseling.

Credit counseling is essentially debt consolidation. That means, the credit counselor rolls all of your debts into one monthly payment then tacks on a commission fee to the amount. When they collect your payment every month, they take their fee then distribute the rest of the money to creditors.

Some credit counselors are non-profit organizations run by actual banks behind the scenes. So in actuality, they have their own best interest in mind when they sign you up to consolidate your debts. A network of credit counselors stretches across the country. And the big secret no one wants to admit is that debt consolidation has a detrimental impact on your credit rating and your ability to obtain credit just as bankruptcy does. The only difference is the consolidation makes it easier for you to pay your debts by making it a single payment automatically withdrawn from your bank account every month.

Why am I telling you this? Because I want you to investigate the products offered by these bank-run nonprofits. Don't just blindly sign up with these companies, naïvely assuming they are doing what's best for you.

The best way to handle debt is to get rid of it. Investors will tell you there is good debt and there is bad debt. If you have consumer debt (and this includes your mortgage), it's the bad kind of debt. The only good debt that exists is the kind of debt you can leverage to invest in assets. Use real estate investment to get rid of consumer debt. In truth, if you will make a commitment to learn this business, you can wipe out your bad debt in six months to a year.

....Upside Down on Your Mortgage or Facing Foreclosure

Get educated. Get educated. Get educated. Banks make the mortgage process complex on purpose. Their goal is to get you to pay far more for your property than what it is actually worth and they don't want you to think about why you're doing it.

According to the National Association of Consumer Advocates, predatory mortgage lending costs Americans more than \$9.1 billion each year. Not only that but these subprime loans often have a prepayment penalty so borrowers are compelled to stay in the loan for the duration of the contracted term, instead of paying loans off early and saving themselves possibly tens of thousands of dollars. By the end of the loan, borrowers end up paying four or five times what the house was worth when they bought it.

We learned in the last recession homes don't always appreciate. Sometimes homes lose value and you end up owing more than the house is worth. I mentioned earlier in this book that 13 percent of homeowners are upside down on their mortgages. Not only that, but 1 in every 96 homes reported at least one foreclosure filing in 2013. I will get into more detail about foreclosures in Part Three of this book, but suffice it to say, if you receive a foreclosure notice, that is not the time to pack up your tent and feel ashamed. It's time to start getting educated and reading every resource you can find on protecting your home before and after a foreclosure filing.

One way to do this is to construct a profitable real estate deal that will either give you the cash to catch up your house payments or give you a way out of foreclosure through the sale of your house at a profit so you can keep that foreclosure off your credit and still have enough money to move to a new home.

Can you sell the home at a profit when it's upside down? Absolutely! You can do what the mortgage companies do – take a big enough down payment to get

The Magic of Real Estate

you into your next property and get the remaining payments on monthly installments at a competitive interest rate. This is called owner financing or “holding the paper.” I’ll talk more about that when we get to the section on constructing real estate deals.

....A Student

The only thing tougher than staying focused as a college student is having to hold a job while staying focused as a college student. For most students, their college years are the lean years. They work their butts off for four, six or eight years then enter the workforce in search of a job, many of them loaded with student loan debt.

I started the GICdealfinders website is to teach my teenage son the valuable skill of making money. He's in college, but in addition to his formal education, he is learning how to buy and sell houses. He is studying for his real estate license and doing small deals using Craigslist.org to generate leads. Here is the primary advantage, I think: At a young age, my son is learning first-hand that he can make money using the magic of real estate. He's not going to go in debt to get his degree. He doesn't need any loans because he can cover the cost of his tuition each semester with a deal or two. By the time he graduates college, he will be able to choose whether he pursues work related to his career or if he will stick with real estate investing, full time or part time

The Report on the Economic Well-Being of U.S. Households in 2013 published by the Board of Governors of the Federal Reserve System noted nearly a quarter of the U.S. population has some form of education debt with the average unpaid balance topping \$27,000. This includes debt from the individual, their spouse or their kids’ student loans.

Students can head off education debt by paying for school out-of-pocket or by flipping houses to pay back student loan debt before it starts accruing interest.

The Magic of Real Estate

....Elderly

The financial stability of our nation's seniors is becoming increasingly more volatile. *U.S. News* reports that according to a study by the Employee Benefit Research Institute, the number of elderly Americans living below the poverty line has only increased since 2005. Medical costs, lingering education debts and dwindling social security payments all lead to a rise in the number of older people who are being forced into the poorhouse. Not only that, but poverty rates for elderly women were nearly double the poverty rate for elderly men.

No senior American who owns his or her own home should be broke. If you own a house and you have equity in the house, grow the equity or check out the government reverse mortgage. At the core of the magic of real estate is an investor's willingness and ability to use equity to make more money. I explain the complete process in detail on my website, <http://passiveincomeformenow.com>. If you are a senior and you don't own a house, you can implement the steps in this book to acquire your first few properties as soon as

Every smart investor should include real estate as part of her retirement portfolio. No one plans to spend their golden years choosing between buying food and buying other necessities. For many older Americans, that's their reality. Don't be a statistic. Prepare. Then take comfort, knowing that when you need it, you will have the passive income from your real estate portfolio coming into the household every month.

CHAPTER 4

Why Most People Fail as Real Estate Investors

I will let you in on a secret. By the time you finish reading this book, you will know more about real estate investing than 99% of the population, including realtors. Real estate investors and realtors have completely different mindsets. If you *use* the techniques and training I teach you in this book, you will succeed at real estate investing. If you *continue* to reinvest, you will find your way into the 1% everybody's always grumbling about, the people who earn at least \$350,000 a year.

Most people won't make it into the 1% even though they will be equipped to do so. Most people will fail at this. They won't fail because real estate investing is hard. It's not. They won't fail because they don't know what to do. They will. People will fail at this for one of two reasons: They will either get fat on knowledge but never actually take any action, or they will fail to develop the habit of thinking and behaving like a real estate investor.

They Fear Change and Fight Discomfort

Becoming a real estate investor is going to require you to change in one area or another and we don't like change. Change makes us uncomfortable. Most of us have made it our life's goal to reach a certain level of comfort. In fact, we measure success by the level of comfort we are able to reach. Learning a new skill and getting out there making real estate deals is a change. It's uncomfortable at first. We have a natural tendency to back away from anything that causes us discomfort. It's part of our survival instinct.

The Magic of Real Estate

Unfortunately, if you heed the warnings your instincts give you this time, you will abandon ship at the first sign of trouble. The defense against quitting before you really get started is to learn the business. Real estate investing isn't the kind of business you enter without some forethought and advanced preparation. One of the problems I find with novice investors is that they get into the business without understanding the fundamental principles of real estate investing. Many would-be investors don't have the proper training and worse, they don't have anyone who can guide them through their blind spots.

They Don't Study

I meet a lot of new investors who have an unrealistic understanding of the costs associated with buying investment properties. They spend too much on a property with the hope that they will be able to make a profit when the property goes up in value.

Don't do this. As an investor, you make your money the moment you close the deal. You *realize your profit* when you sell the house or start collecting passive income from the house. Your goal as an investor is to turn the property around as fast as you can or get someone in there paying you rent or paying on an owner-financed deal within days, not years. Remember, one trait all assets have is the ability to convert it into cash or collateral for other assets or more cash. Your job is to generate cash flow and the only way to do that is to buy property at a discount and resell it at a profit. You never pay full value for a property with the expectation that someday, in the sweet by and by, you will be able to recoup your initial investment. Homeowners do that with their primary residences, not investors. Remember, the mortgage on your primary residence is just consumer debt and consumer debt is not an asset.

They Don't Find the Support They Need

As a new investor, you need someone to hold your hand and walk you through the challenging aspects of this business. [One-on-one instruction](#) and ongoing support are important. That's why college students have professors, workers have supervisors, and artists study masters. Having the right support system in place will make the difference between you landing in the 1% and you having to work a day job well into your sixties. Don't get me wrong. Real estate investing is not difficult, but it is going to be something new. And whether you're learning to play a board game or constructing a short sale, when you don't know what to do, you need someone to walk you through the process.

In the beginning, your primary investment will be your time. You need time to sift through leads to find the right deal. You need time to go through the necessary steps to close that deal, being confident that if you do A, B and C, you can expect D as your profitable outcome.

When you first start out, you need tenacity and confidence to get through those first three steps. You need to have the guts to find the right title company and begin forging a relationship. You need guts to call a hard money lender and boldly declare you have a great deal on the hook. There will be times when you will feel fear, but you don't have to give in to it.

Confidence is not a feeling, it's a decision. So be confident. Without confidence, you won't have the fortitude to navigate the uncertainties and push through the fear. You will do A and B then flake out by the time C rolls around and you never reach D, which is the profitable outcome.

The best advice I can give you as a new investor is to hang in there. If you collect and follow up on enough leads, you will come across a motivated seller who

The Magic of Real Estate

just wants you take their headache away. That's when you can negotiate deals where you assume ownership of a property with no money down and no credit needed.

CHAPTER 5

My Four-Step Formula for Becoming a Fearless Investor

Fear is your main enemy when you first start out as a real estate investor. It's not a lack of credit, it's not the lack of cash. It's fear. Fear is the dream killer. I would love to just shake you and tell you, "Don't be afraid!" But that won't work. So let's talk about fear.

#1: Acknowledge the Fear

People use all kinds of acronyms and clever sayings to try to minimize the impact of fear. But I want you to be well aware that fear is very real and it is very powerful.

Simply put, fear is an emotional response to a threat, whether the threat itself is real or perceived. Fear is not a bad thing. In fact, fear is important to our survival. It keeps us alive. It is fear that tells you to get to safety when you're on an evening stroll and spot a coyote in a neighbor's yard. It's fear that urges you to slow down when you speed into an intersection and have to tap the brakes to avoid hitting another car. Fear is part of our DNA, it's in our programming.

According to an article on PsychologyToday.com the most common human fears are snakes, bugs, mice, bats, heights and water. We collectively fear these things because they are all dangerous. Most of us are born with only two innate fears – the fear of falling and a fear of loud noises. Every other fear we learn as we go.

We naturally fear that to which we are not accustomed. For instance, people who live in the city are far more likely to be afraid of deer than people who live in

The Magic of Real Estate

more rural areas. In many ways, we become more fearful as we age. Why? Because we have more to lose. This type of fear is called being risk-averse. We don't want to risk what we've already acquired by pursuing what we do not have.

We also "learn" our fears from those around us. These fears can be either productive or counter-productive. For instance, a parent who warns a child not to go anywhere with strangers is attempting to install a new threat into their child's catalog of perceived threats. Doing this is a life-saving practice. So you can see that fear is not the enemy; we just have to learn how to separate productive fears from counter-productive fears.

What's So Scary about Real Estate?

That's an easy one: Becoming destitute.

Risk-aversion is the fear we experience when it comes to real estate investing. The number one fear we have about real estate investing when first starting out is the fear that we don't know enough about it to make fool-proof decisions. We don't want to make any mistakes, certainly no mistakes that will cost us anything – not money, not time and definitely not our reputations.

The most potent fear we have after the fear of not knowing is the fear of not being able to control the outcome. We're scared that we will make a bad decision and not be able to bounce back financially. There is a measure of risk in every investment. There are some investment vehicles that are riskier than others. All in all, real estate tends to be a rather stable investment. The more sophisticated you are as a real estate investor, the less risk you assume. Many of us start out in the poor house, but very few people really want to end up there.

The problem with fear is not that it comes. The problem with fear is that we bow to it, often times without assessing whether the fear is rational or irrational. A

The Magic of Real Estate

student of mine called me as she was considering a real estate deal. I had taught her what I'm teaching you in this book – how to do a deal with no money down and no credit. In truth, the deal was a good deal and the only thing left for her to do was to close. When she called me, she was downright terrified. She kept wondering if she should do the deal.

“What if I lose everything?” she asked. She was a nervous wreck.

“Lose what? You didn't pay anything for the property. You put a dollar down, right?”

“Yeah,” she answered.

“And you're just going to resell the property, right?”

“Yeah.”

“Then what is there to lose? What is there to fear?”

That's the truth I want you to grasp about this business. If you are using the principles I teach and using the criteria I put forth to find property leads, the money you spend out of your pocket will be minimal. Your financial investment will be the cost of a stamp, a dollar to tie up the property and the cost of recording the property at the county recorder's office.

I told you when I started in this business, it took me a couple of tries before I made my first successful deal. I was able to finally make it work because I had pushed through the fear - that, and I had no choice; my choices were to either make the money or go to jail. I know how powerful fear can be in keeping you from accomplishing your goals. But I also know that if you have the will to work through

The Magic of Real Estate

the fear, to move in spite of being afraid, you can accomplish just about anything you want to accomplish.

One more thing I want to tell you is that property owners have fears of their own, even motivated sellers. It's your job as an investor to help them to understand their options, even if the best option for them is keeping the property or finding another way out of their situation. Don't dupe anyone. Do good business at all times. Hang on to your integrity. When money gets involved, it's very easy to let your ethics slip just a little. Don't. Warren Buffett said it well: "It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently."

#2: Ignore the Fear

I filed bankruptcy twice. The first time I filed, I did so because I had a huge personal judgment against me and I could no longer pay my bills. The second time I filed, I filed on my business. To the surprise of my employees and detractors, I was back in business the next day under the same name, but organized as a corporation instead of a sole proprietor. People didn't understand how I was able to do it. They complained to the authorities, assuming I had been involved in something shifty. But the fact was, they didn't understand the law and they didn't know the rules of doing business.

Most people don't understand complex legal processes like bankruptcy, even though they may talk as if they do. Take a minute to just Google Chrysler and pull up the company's Wikipedia profile. You will notice the company has two founding dates. The first time the company was founded was in 1925. The second time Chrysler was founded was in June 2009, right after the company filed for Chapter 11 bankruptcy in April 2009. One Chrysler died, another was born in its place. I was able to do the same thing because I understand the law.

The Magic of Real Estate

When I filed for personal bankruptcy protection years before, I was embarrassed and ashamed. My life was in shambles and I didn't want people looking at me and judging me. I didn't want people to think I was a loser or that I didn't know what I was doing. I didn't want to disappoint my family and have my son look at me and shake his head, ashamed to sport the family name. It was a very painful time for me. If Gary hadn't been there to shake me out of my funk, who knows what would have become of me and my family?

I am going to posture an opinion here with which you may or may not agree: I believe the one thing that causes most people to lose their homes is shame. It may be a financial problem that gets them in foreclosure, but it's often shame that causes them to lose their property.

I watched a movie recently called "The Edge" with Alec Baldwin and Anthony Hopkins. As the story goes, the men were on a plane that went down in the woods. They miraculously survived the plane crash only to end up stranded in the middle of nowhere being stalked by a hungry bear. It was enough to make anyone crazy. After a while, Baldwin's character started to get frustrated and he panicked, which kept compromised his ability to think logically and help the other survivor come up with a plan to get them both out of a dire situation. Let me share with you a line from the movie that I think speaks to the resistance many novice investors experience: "People don't die from getting lost in the woods, they die because they were so ashamed to have gotten lost and then allow the shame to cloud their judgement in finding their way out of the woods. So they starve or freeze to death."

As I think about their situation, I can easily compare and draw parallels between what happened to the plane survivors and what happens to homeowners who end up in foreclosure. The plane crashed but they survived. Their situation was bad, but it wasn't beyond redemption. But the combination of challenges put

The Magic of Real Estate

Baldwin's character in a bad place mentally, a place where the fear and fatigue kept him from being strategic.

Look, it doesn't matter if the thing that's stalking you is a bear or a bank. Whenever you start to feel as though you are under a lot of pressure, you will be tempted to walk away. The shame will make you run away. Shame is the humiliation you feel from falling short of your expectations or the expectations you think others have of you. In our culture, having financial problems is a source of shame. Poverty is treated like a social disease instead of a temporary condition.

Did you ever see the movie *Fun with Dick and Jane*, starring Jim Carrey and Téa Leoni? The story was centered on a middle class couple that fell into financial peril and took to robbing banks to maintain their middle class lifestyle. That's the extreme to which some people are willing to go to keep from *looking* poor. I don't think poverty scares us nearly as much as *looking* impoverished. Many of us have been broke college students living on corn chips and wiry noodles that cook in saltwater. We understand what poor is. But after a certain age, we just don't want to look poor in front of others.

If you think about it, when people receive foreclosure notices, they are often so pre-occupied with making sure the Sheriff doesn't come to their homes and make a public spectacle of them that they don't take time to develop a strategy to get themselves out of foreclosure. Problems like foreclosure and car repossession cause us to feel publicly shamed. But in reality, anyone can get out of foreclosure and make money on their foreclosing home! You just have to be willing to take a few weeks out of your worry marathon to study the foreclosure process and creatively construct a deal.

It's the same with real estate investing. Sometimes you have to take off worry and put on the mind of a successful investor. If you screw up an opportunity,

The Magic of Real Estate

spend your time finding a way out of the deal instead of worrying. When you focus on landing the next deal and making money, you really don't have time to waddle in shame and self-pity.

I will go into the foreclosure process in detail later in this book and provide a prescription for how you can successfully navigate the process without losing your focus.

#3: Overcome Inner Resistance

Will Smith made an important statement during an interview on The Tavis Smiley Show a few years ago that goes like this:

“Just decide who you're going to be, how you're going to be and how you're going to do it. Just decide. And from that point, the Universe is going to get out of your way.”

Thinking like an investor is a matter of developing a new habit. Developing a new habit is a matter of your sheer will. Anytime you want to do something that is different from your regular routine, it's going to be difficult at first. But if *you* can conquer *You*, the rest will be a piece of cake. So what you have to do now is get ready for the resistance.

#4: Eliminate Self-Sabotage

Humans are the only animal that regularly engage in self-sabotage. It's a peculiar quirk that we have. I can only imagine it is an offspring of fear and shame. Be on the lookout for self-sabotage whenever you embark on a new endeavor, whether that endeavor is going back to school or learning a new language. Your great new plans will be met with a bit of inner resistance. This resistance, if left unchecked, will eventually grow into self-sabotage.

The Magic of Real Estate

Eben Pagan presents *The Theory of 30 Days* in which he suggests it takes 30 days to rewire your brain to form a new habit, routine or ritual. He calls this process Habit Gravity, Escape Velocity. According to Pagan, your ability to successfully form a new habit hinges on your willingness to go against your normal routine.

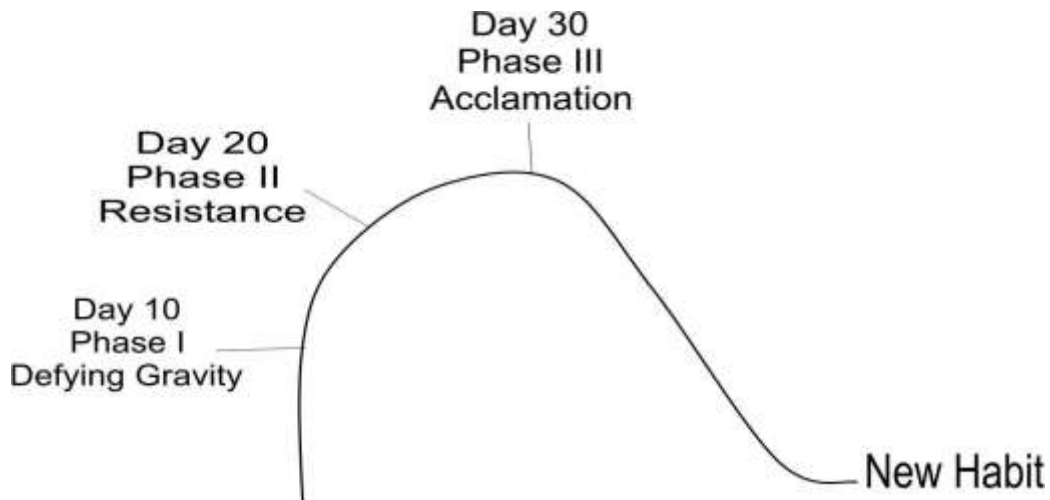
The process breaks down like this:

Defying Gravity, Days 1 to 10 – The first 10 days of any new habit require the most willpower. Just as a space shuttle uses more than 85% of its fuel during the launch, you will have to exert an enormous amount of will and self-control to get through the first ten days of a new habit. If you've ever tried to lose weight, you may know what I'm talking about. That first week on a new diet is hell. By the third day, you're second guessing yourself, thinking maybe you don't need to lose weight after all. Is this even what you want to do? Your mind will play tricks on you, trying to get you to revert back to the habits you're working to get away from because we are creatures of habit. But if you push through the first ten days, you will make it to the next phase, which is Resistance.

Resistance, Days 11 to 20 – The second phase of developing your new habit is called Resistance, according to Pagan. During this phase, you are actively in the process of building your new habit, but you will still experience resistance. Expect to plan for and think about the new habit you're developing. As a new real estate investor, it may not be second nature for you to keep an eye out for new property leads, but deliberately make it a part of your new daily routine.

The Magic of Real Estate

Acclamation, Days 21 to 30 – This is the period during which your new habit will take root. It will become a regular part of your routine and become part of your normal behaviors.



For ten years, I struggled with the resistance. It took me ten years to finally start thinking and behaving like a real estate investor and until I did, I failed at becoming one. I've learned that the factors that lead to success are counter-intuitive to most people. We are programmed to pursue immediate self-satisfaction, which is why discipline is something that has to be developed.

Early on in their academic careers, students have to develop good study habits. Think of how your parents had to train you (or worse, how trial and error had to train you) not to spend more than you earn and not to max out your credit cards. We naturally concern ourselves with what's happening right now. In order to be successful as a real estate investor, you have to plan. That means taking actions today in preparation for a payday in the future.

CHAPTER 6

Wealth is All Around You; Go Get It!

One of my members in the Atlanta area told me when she gets discouraged or feels stressed about money, she drives to one of the more affluent parts of town and watches people go on about their normal routines. As she watches people drive by in their Bentleys and Porsches, it reminds her of a very important sentiment: “It’s not a recession everywhere.”

Sometimes as you are on your way to wealth, you spend time in environments that are not wealth-minded. When that’s the case, you need to make it a habit to not only remind yourself that there’s wealth all around you, but you may need to show yourself proof.

Wealth is all around you. That’s one of the things I love about America. We live in a country where opportunity exists everywhere. For centuries, families have come to this country impoverished before using their smarts and guts to build empires. You can do the same if you will set your mind and pursue your goal without stopping.

If You Plan to Have Wealth, You Must Begin to Think Like the Wealthy

Grab a copy of *Money Magazine* or *Kiplinger* off the newsstand and it will become very clear very fast that people who have money have a very different thought process and conversation than people who do not. To the poor, the subject of money is taboo. No one talks about it, except to complain about how much of it they don’t have. For the rich, there’s no “money shame” to keep you from talking about acquiring and keeping money. The rich understand financial literacy is a non-

The Magic of Real Estate

negotiable requirement for maintaining wealth. The poor and the middle class are willing to trade even their health for wealth then fail to develop the financial literacy to keep what they sacrificed so much to get.

Pursue knowledge

Just as we have a daily recommended allowance of nutrition for our bodies, we also need to incorporate daily financial nutrition into our routine. That means learning how to protect, invest and grow your money. You can't create wealth by hiding your money in a money market account that doesn't even keep up with the rate of inflation. If that's your plan, you may as well line the walls of your closet with dollar bills and let the moths eat it. It would be a far more interesting way to lose your money.

The deterioration of the American middle class is due, in large part, to a lack of financial literacy. People just don't know how to keep or grow the money they earn. Being wealthy is not about making money. All working Americans make money. But not all working Americans are building wealth.

I get my financial nutrition from multiple sources. Here are some of the best ways to increase your financial literacy:

- Read *The Wall Street Journal*, *Money* and *Kiplinger*
- Read personal finance books; I list a few good ones later on in this chapter
- Enroll in Coursera.org finance courses
- Attend personal finance seminars
- View free videos from Stanford University's Entrepreneurship Corner at ecorner.stanford.edu

The Magic of Real Estate

- Seek the advice of wealthy mentors and friends

I have never met a successful person who didn't chase after information. Successful people understand the power of having the right information. I am a strong believer in the power of reading books which support your purpose and your mission. My personal library is full of books that I've read time and again, books that teach me how to reach my goals and provide me with the insight I need to get things done. Start building your personal library. Be sure to include both physical books and digital titles. Here are a few lists to get you started.

Mint.com includes the following titles on their list of the ten most popular personal finance books of all time:

- *Secrets of the Millionaire Mind* by T. Harv Eker
- *How to Retire Happy, Wild and Free* by Ernie J. Zelinski
- *Think and Grow Rich* by Napoleon Hill
- *The Magic of Thinking Big* by David Schwartz (one of my personal favorites)
- *Smart Money, Smart Kids* by Dave Ramsey and Rachel Cruze
- *The Truth About Retirement Plans and IRAs* by Ric Edelman
- *Get Rich Carefully* by Jim Cramer
- *The Compound Effect* by Darren Hardy
- *Rich Dad, Poor Dad* by Robert Kiyosaki
- *The Total Money Makeover* by Dave Ramsey

The Magic of Real Estate

Add to this list Inc.com's list of the Top 10 Personal Finance Books of All Time. Titles that were included in both this list and the previous list have been left out.

- *The Richest Man in Babylon* by George S. Clason
- *The Millionaire Fast Lane* by MJ DeMarco
- *Your Money or Your Life* by Vicki Robin and Joe Dominguez
- *The Science of Getting Rich* by Wallace D. Wattler
- *The Millionaire Next Door* by Thomas J. Stanley and William D. Danko
- *The Money Book for the Young, Fabulous and Broke* by Suze Orman

The following titles I pulled from the list 10 Books Investors Should Read by *U.S. News*:

- *The Intelligent Investor* by Benjamin Graham
- *The Great Crash* by John Kenneth Galbraith
- *Common Stocks and Uncommon Profits* by Philip Fisher
- *A Random Walk Down Wall Street* by Burton G. Malkiel
- *Stocks for the Long Run* by Jeremy Siegel
- *Common Sense on Mutual Funds* by John Bogle
- *The Essays of Warren Buffett: Lessons for Corporate America* by Warren Buffett and Lawrence Cunningham

The Magic of Real Estate

- *Irrational Exuberance* by Robert J. Shiller
- *The Black Swan* by Nicholas Nassim Taleb
- *How Markets Fail* by John Cassidy

Think generationally

It makes no sense to spend your life building a business without training someone to take over the business when you're ready to retire. Wealthy people always consider their legacies, not just how they want people to remember them, but also who will handle their name, business, organization and wealth in the years to come. Car dealerships and construction companies are often family-owned businesses, passed down from one generation to the next. The children of the owners are usually the first in line to take over the business when the parent retires.

I am a huge proponent of thinking generationally. In fact, my website [GIC Deal Finders](#) was originally a teaching tool I developed to teach my son how to invest in real estate. I simply opened it up to other would-be real estate investors. I want to really focus on this point as it relates to minorities because so often ethnic minorities who enter the real estate business have to start from scratch and learn as they go. They usually don't have a friend or neighbor or uncle who can show them the ropes. As you work to build your real estate portfolio, be mindful of the need for mentors in African American, Native American and Hispanic communities. Focus on building a business and developing a system that others in your family and others in your community can replicate. Think of the economic impact that kind of training can have on urban areas that have been dubbed "war zones." These are often communities with high unemployment rates, high crime rates and insufficient education. When you are able to help the residents in urban communities pull

The Magic of Real Estate

themselves up by their bootstraps, you ultimately help strengthen our ability to remain globally competitive, as a nation.

Go After the New American Dream

“We buy things we don’t need with money we don’t have to impress people we don’t like.” – Tyler Durden, Fight Club

Tyler Durden is a fictional character from a movie from the 1990s, but I think that quote does a great job of summarizing some of the most commonly held (and destructive) values of the Old American Dream. We were sold an idea, a dream. We’ve been chasing that dream ever since.

One of the great things about the U.S. is that Americans are often in search of what *could be*. As a whole, we are a nation of dreamers. We are people of hope. We anticipate the rainbows and expect there to be a pot of gold at each rainbow’s end. If there’s a dark tunnel, we expect there to be light at the end of it. We expect the good guy to win. This type of thinking is not true in every culture. This is a trait that is specifically American. The story of America is the tale of what could be.

With this in mind, we based the Old American Dream on a system of always playing catch up. We dream about what could be then we find a way to get it right now, often times without counting up all the costs associated with acquiring something we don’t have the means to sustain. The Old American Dream is a system based on a lack of self-control and pandering to our own fears - the fear of being left behind, of not being good enough, of others thinking ill of us. But tell me something: What do we call a dream that’s based on fears?

A nightmare!

The Magic of Real Estate

The Old American Dream kept us in a perpetual cycle of trying to reach an ever-elusive level of “success.” So we bought overpriced houses and struggled with the mortgage payments, well aware that if we missed too many payments, the bank would foreclose on our homes and we would be tossed out onto the street.

Let me tell you what - this doesn't happen in other countries. I would venture to say that in most countries, there isn't really a formalized, widely used mortgage process. You build your own house only when you have the money to build it. It's not unusual to see partially-constructed homes in Nigerian neighborhoods. But in the U.S., we are fortunate enough to have a formal mortgage process that works.

More often than not, when homeowners buy homes in the U.S., they use other people's money. That's nothing new in the American financial system. Banks do the same thing. You deposit money into a savings account and the bank pays you .1% for having access to that money, which they turn around and loan to your neighbor at 6% interest. Regardless, most homeowners are pretty satisfied with the terms of their loan as long as they buy property in a geographic location where the value of that property will increase over the duration of the loan repayment. According to RealtyTrac, there were 142 million homes in the U.S. during the first quarter of 2013. I bet most of them have had a mortgage on them at one time or another.

What Americans learned going through the Great Recession is the same thing I've been telling people for years – you can't trust a system that treats real estate like a commodity. It's simply not sustainable. As a real estate investor, you will be participating in what I call The New American Dream, the dream that is sustainable and profitable. You will learn how to buy property at a low price, assume minimal risk and actually buy and sell the property below market.

Get the Knowledge, But Skip the Real Estate Degree

As a licensed realtor and real estate broker, I understand the importance of getting educated in the real estate business. An ignorant investor will end up spending too much money on the wrong deals and having little to show for it at the end of the day. If you want to learn more about the theory behind this business, it's a good idea to enroll in a state-accredited real estate school that offers one-week courses to teach you what you need to know to pass the state real estate exam.

I'm not talking about these real estate degree programs that charge you thousands of dollars to earn a degree in a field that doesn't require one. What I'm recommending to you is taking the 40 hours of training that you can complete in one week or one month for \$300.

One of the problems I always had with college was the idea of listening to some guy teach me about stuff he's never actually done. I don't know very many wealthy professors and many of the people who teach real estate courses, whether at a real estate school or in some university, have very limited experience in real estate investing. I don't doubt for one minute that these are people who have years and years of experience as realtors, but it's been my experience that the mindset of a realtor is very different from the mindset of an investor.

Sorry, a university can't teach you this business

Do you want to know why there's no such thing as a Race Car Driver Degree? It's because no suit standing in front of a smart board can teach you to become a race car driver. You learn by getting behind the wheel. In the same way, I do not believe it's a good use of your time and money to enroll in a two-year or four-year real estate degree program. I say this because real estate investing is a business you have to learn in the field. You don't become an expert real estate investor by reading 100

The Magic of Real Estate

books. You become an expert real estate investor by closing 100 deals. You learn on a case-by-case basis how to construct deals to solve your sellers' problems and pull the most money out of any property.

I can remember my first few years in this business. At one point, I had 40 properties that I owned and managed. I was running myself ragged taking care of these properties but I wasn't making any money! How can you have 40 properties and still be struggling? Well, I was collecting homes and trying to rent them out instead of buying, fixing and flipping the properties to generate cash flow. When I bought the houses, I was thinking about making a profit when my mind should have been on having a steady source of cash coming in. It's okay to have the trickle of rent payments coming in, but you also need a regular gush of cash flow. That's something I had to learn from another real estate investor. There's no way I would have thought I could own that much property and still be cash-strapped, but I was. That's why I say you have to work this business in order to learn this business, and you learn as you go.

Before writing this section, I combed the web to check out a few of the real estate degree programs offered and I came across one at a well-known southern university for a Master of Science in International Real Estate. The program description read:

Students who pursue a major in real estate are prepared to enter positions with financial institutions, commercial brokerage firms, mortgage companies, investment management entities, appraisal firms, property management companies and residential brokerage firms. Some students opt for entrepreneurial activities associated with the investment in management of real property.

The Magic of Real Estate

Basically, this degree is like any other. It is designed to train people to find jobs. That's what universities do. The better schools teach students to help established companies solve business problems. The other schools teach students to follow directions. Your field of study determines which industry-specific directions the school will teach you to follow.

I actually called an advisor for one of these real estate degree programs because I wanted to know what thirty grand would get me. Here is the list of jobs the advisor told me you would be trained to get:

- Work for a brokerage company
- Find properties for Wal-Mart
- Become a real estate analyst

So... you could pay 100 times more than you need to in order to receive precisely the same qualifications as a realtor and do the same job. And you still wouldn't be a real estate investor. College trains you to wait for somebody to give you money. It looks like these schools are just trying to capitalize on the opportunities that exist in the real estate market and I know for sure they will get takers.

As for you, always remember this: Wealth starts in the mind. So get the right kind of training for where it is you want to go.

CHAPTER 7

Realtors and Investors

You can enroll in real estate courses to learn the business, but it's not really a necessity. Real estate agents and real estate investors do things differently because they make their money differently. Let's draw the line in the sand between realtors and real estate investors.

Understanding the Differences between Realtors and Investors

In very simple terms, a realtor represents a buyer or seller in a real estate transaction. A real estate investor buys real estate or enters real estate contracts with sellers in order to profit off the property. Both realtors and investors use real estate to make money. Realtors are third-party reps; investors are generally buyers.

Realtors and investors live in different cash quadrants

Realtors are independent contractors. Investors are investors. In his classic personal finance book *Rich Dad, Poor Dad*, Robert Kiyosaki grouped earners into four categories:

1. **Employees** – Those who have a job
2. **Self-Employed** – Those who own a job
3. **Business Owners** – Those who own a system / business
4. **Investors** – Those who own investments

The Magic of Real Estate

In the above list, realtors fall into the self-employed category even though they typically have to apply with and be hired by a real estate broker in order to work as realtors.

Realtors and investors have different ways of constructing deals

In the years leading up to the Great Recession, investors maintained their normal operations – buy low, sell below market. Despite what some may think, the real estate bubble was not the result of greedy investors. We never pay more for a property than what it is worth. In fact, we are most interested in properties we can purchase at 40% - 60% below market value. We buy the properties that nobody else wants and construct deals to get the most money out of that property. We buy properties, fix them and put the property back on the tax rolls.

Realtors, on the other hand, don't buy properties. They facilitate deals between sellers and buyers and generally focus on helping the seller close deals on properties priced as close to market value as possible. Of the 400 properties I bought, care to venture a guess at how many I bought through a realtor? One. I purchased just one of my properties using a realtor.

Realtors and investors have different income sources

Realtors make more money when the sale price of a property is high. Investors are groomed to buy low and sell low. Meaning, we buy properties at wholesale prices and sell them slightly below retail. By doing this, we can ensure we're able to enter and exit deals quickly while making maximum profit.

Realtors tend to be far more conservative about how deals are constructed, and rightfully so. They make a commission on each home they sell. The more expensive the sale price they are able to negotiate, the bigger their paycheck. An

The Magic of Real Estate

investor wants to buy property at wholesale and sell below market. Many investors have a minimum profit they have to walk away with in order to do the deal. For some, that minimum is \$10,000. For others, it's \$45,000. That means you have to be able to buy the property cheaply enough to sell the house below market after you repair it and tack your minimum fee onto the price of the property.

So when an investor finds a seller who just wants the property out of his name or a seller who is willing to finance the purchase themselves, the realtor doesn't make much commission. Because realtors make the most money when properties are priced high and as an investor, I am always looking for properties priced at 40% - 60% of the market value, it's very hard for me to do business with realtors. If I make lots of money on a deal, they won't; if they make money on a deal, I won't. I'm not going to pay market prices for a property. I'm just not.

The best thing you can do as a real estate investor is to find a way to get a realtor on your payroll. We'll talk more about that in the coming sections.

PART TWO

Developing a Winning Strategy

Your job as an investor is to do three things:

- 1. Find the deal.*
- 2. Finance the deal.*
- 3. Exit the deal.*

CHAPTER 8

The Seven Relationships You Need to Have In Place

If you do business for any length of time at all, you will soon learn that there is something more valuable to your professional success than money and that something is relationships. Before you start finding leads and closing deals, there are seven relationships you already want to have in place. This will be your Real Estate Investment (REI) Dream Team. Your REI Dream Team will be your support system as you strive to make money as a real estate investor.

#1: Title Company

The most important member of your REI Dream Team is a local title company. According to Zillow.com, “a title company makes sure that the title to a piece of real estate is legitimate and then issues title insurance for that property. Title insurance protects the lender and/or owner against lawsuits or claims against the property that result from disputes over the title.”

Insuring the property title is important and can save you loads of time and money you may otherwise have to spend defending your rights to a property. You can usually insure a title for about \$700, or between .5% and 1% of the sale price. That may seem like a hefty fee to pay for insurance on the front end, especially if you're banking on getting a property with no money down and flipping it quickly, but think about how much it could cost you in lost revenue and time to find yourself tied up in a property that's tied up in court. Take it from me: Get the title insurance and protect yourself.

Title companies have access to a massive database of property history. This is information they get from the county recorder's office or courthouse, so it's up to

The Magic of Real Estate

date. When I first started out as an investor, I quickly built a relationship with a local title company who provided me with property listings. Because title companies have access to title databases, you can call your title company and get lists of properties that meet certain criteria.

For instance, let's say you need information about homes in a certain zip code. You could call up your title company and say something like: "Hi there. My name is John and I'm planning to buy some houses in the North Druid Hills area. I want to know of anybody who owns a house in the Victoria Estate community and how long they've owned it. I want you to separate the information by properties that are free and clear and those with loans. Zero in on only those homes where the owner lives out of state. I'm trying to find the rentals in that area."

Title companies can provide you with accurate title information on just about any property, and therein lies the true value of building a relationship with reputable title company. You just have to keep them in the loop so that when you finally decide which property to buy, they know they are guaranteed to provide the title insurance.

I like to use my title company to generate a list of pre-foreclosure homes in certain areas. This keeps me from spending my time jumping through hoops at the county courthouse trying to get the same information. You can also request a list of people who recently bought houses that meet a certain criteria such as investors who bought houses cash or individuals who bought a half dozen foreclosures. Armed with that list, you have a starting place when put a deal in place that may be attractive to the investors on your list.

This part is so important for you as an investor: ALWAYS order a preliminary title report early in the deal-making process. If there is ever a problem with a title, such as encumbrances that would keep you from closing on a deal, your title company won't insure the title. Your title company will then tell you why they

The Magic of Real Estate

wouldn't insure the title, which will tell you to either nix the deal altogether, or provide you with more leverage in negotiating your deal.

Keep a good title company locked in the top spot on your list of contacts and work to cultivate your relationship with the staff there.

#2: Realtor

The second member of your Real Estate Investment (REI) Dream Team is a good, seasoned real estate agent. While I don't make it a habit to look for properties using the Multiple Listing Service, I do have several realtors who supply me with leads.

One of the primary advantages of becoming a real estate investor is the opportunity that exists for you to automate your business once you learn the ropes. A realtor can supply you with strong leads for properties that are on the market but perhaps priced so low the agent can't really make any money on the property. When that's the case, agents don't like to waste their time trying to find buyers for those types of properties.

As an investor, you can probably find an agent who is willing to feed you those kinds of leads and accept a set commission when you close a deal. Realtors come across all sorts of opportunities, but they only go after the ones that will make them money. Why not ask them to send you leads for deals that don't fit their criteria, but which may be profitable for you? For an agent, it's as simple as generating a filtered list.

Here's a possible scenario: You call your realtor and explain that you are looking for 3 bedroom, 2 bathroom brick homes in a certain zip code or in certain neighborhoods. Maybe you're only looking for foreclosures or maybe you plan to stick to multi-family units where the owner has gotten behind on taxes or mortgage

The Magic of Real Estate

payments and is now distressed. Once a week, your agent can run a list of properties that fit your criteria and send you the list. You can pay the agent a 2% - 5% commission if they help you close the deal. With really cheap properties, or in a depressed market like Detroit where many houses are still selling for less than \$20,000, you may be inclined to offer an additional incentive of \$1,000 to \$3,000 for every deal they help you close. Is it worth it? Yes. Think of how much time you save yourself by not having to drive around and find the property owners yourself. The incentives help make it worth their time to help you.

Another advantage of having a realtor on your team is you get access to market information. You can find out how many homes sold in the area in the last month, how long they were on the market and how many are pending. If there are new developments planned for a particular area or something is about to unfold - big or small - an agent can provide you with insight that can help you make informed decisions. This is information you may not have the know-how to research on your own. Having access to this kind of information can help you make better decisions. As a new investor, there will be times when you will need someone to hold your hand and help you understand the lingo and the process. A veteran real estate agent will be a good resource for you.

#3: Handymen and Rehabbers

Whether you need a toilet fixed or a total property rehab, you need to have skilled tradespeople in your network who can handle big and small repair jobs. It's important when you're starting out to bring your rehabber along when you view properties. This way, you can get a good idea of how much it will cost to restore the property and make it market-ready. As you work in this business, you'll learn how to do the estimates on your own, but as you're learning the business, you will need some guidance in that area.

The Magic of Real Estate

Cultivate relationships with skilled, reliable handy people and start building your relationship with a local construction team as well.

#4: Escrow Company / Closing Agent

Look for the escrow company that will handle your closings. In some states, that will be a lawyer. In other states, you will hire a closing agent. But you need a company that is your go-to for putting properties in escrow and facilitating closings when it's time to close your deal.

#5: Property Inspector or Appraiser

You need a good inspector and an appraiser on your team. These are necessary team members who will help you to remain objective and single-minded. Sometimes, the prospect of closing a potentially lucrative deal can blind you to the costs and other factors associated with buying a house. A good inspector will tell you when a property may be more trouble than what it's worth, and a good appraiser will step in and say, "Hey, you know what? This property isn't worth it."

#6: Lender

You may need to build relationships with several lenders. That includes hard money lenders, other investors, banks and your network of friends and family. Your lender will likely have its own appraiser. As you consider buying a property, don't forget to factor in the few hundred dollars you will likely have to spend to get the home appraised.

Because the lender will have a vested interest in making sure you are able to buy, rehab and flip the property in a reasonable amount of time, you can usually trust the lender to offer another objective voice on the deal. Your lender's appraiser will let you know when the property you seek to finance is worth the investment and

The Magic of Real Estate

the appraiser will be the one to bring you back down to earth if you come up with lofty loan amounts that make the risk of investment too great for your lender.

#7: Other Investors

Believe it or not, you will do quite a bit of business with other investors. Start building your list of contacts in the real estate business the moment you start thinking about becoming an investor. When you browse the real estate ads on Craigslist.org, take note of the investors advertising there and the types of properties they advertise.

Another good way to find investors is to keep an eye on roadside ads. Write down the contact information listed on the “I Buy Houses Cash” signs along the side of the road and start making phone calls.

CHAPTER 9

How Investors Find Good Real Estate Deals

The first thing you need to know about finding good deals is this: Not every property you find is going to make a suitable investment property. In general, you will be on the lookout for the following types of properties:

- Abandoned houses
- Homes that are for rent or rented; chances are good you will find an owner who is a tired landlord
- Bank-owned property
- Government-owned property
- Abatement houses
- Inherited property
- Divorced owners

Now that you have your starting list, how do you separate the wheat from the chaff as a new investor? Learn your market and set your goals.

Successful Investors Set Goals

Every deal you make should be constructed based on the goals you set for yourself and your business. Before you ever enter a deal to buy a house, you need to figure out what you need it to do. Is it for cash flow? Is it to cover your child's first two years of college? Is it to cover a European vacation for the entire family? You should already know the purpose of each property you buy before you buy it. In fact, your

The Magic of Real Estate

objective should shape how you shop for properties, sift through leads and construct your deals.

For instance, if you need \$10,000 to renovate your house, you can find a number of different deals to meet that need. You may come across a property that is worth \$110,000 and buy it for \$60,000. You can take over the payment from the owner with nothing down, then turn around and sell the house for \$95,000 and agree to take \$10,000 down and finance the rest. Even if your monthly spread (monthly revenue) is only \$100 after expenses, you already met your objective when you received the \$10,000 down. It doesn't even really matter if the buyer defaults. You can just find someone else for the deal. You already have the ten grand you needed.

Successful Investors Start in Their Own Backyards

The easiest way to get started in real estate investing is to look for properties right in your neighborhood. If you just take some time each day on the way to or from work to drive around your neighborhood, you can probably generate a nice starter list of properties to investigate.

It's dangerous to start investing in a market you don't know. The opportunities may seem profitable, but you have to take into account the crime rates, most frequent crimes, quality of the schools in the area, and the unemployment rates. So start at home, in the square mile right around your house. From there, expand out.

There are several advantages to looking for properties in your own backyard first:

- You are far more likely to notice when a house is vacant.
- You can monitor the house to make sure vandals aren't stripping the property.

The Magic of Real Estate

- You know your neighborhood. You are familiar with the nuances and characteristics of that area. You know how quickly properties are bought and sold. You have a pretty good idea of who rents and who owns their property. You know the value of the properties in that area.
- If you decide to buy the property, it's easy to check on the property if it's right in your neighborhood.

Successful Investors Buy Based on Profit and Cash Flow

There's a wild idea out there that the more expensive the property is to buy, the better your investment. That's not at all true. First of all, the market for high-end homes is much smaller than the market for other homes.

The median household income in the U.S. was right around \$52,000 a year in 2013. That means, the average person can comfortably afford the monthly payments for a mortgage on a home worth about \$280,000 according the CNN Money. It's always better to focus on these kinds of properties. They are what I like to call "bread and butter houses." These are the homes you find in working class and middle class neighborhoods. The demand is highest for properties in these areas.

If you're going to make \$50,000 to \$100,000 on a deal, you would probably fare much better finding a house that is worth \$250,000 and discounted 50% than you would trying to flip a million-dollar home where your profit would be about the same.

Successful Investors Keep Their Personal Feelings Out of It

One of my members lives in a little old southern town about 10 or 15 miles outside a major U.S. city. She is currently in the process of moving and she's really interested in buying one of those old wooden shacks with the tin roof and just four or five rooms. She has been clamoring about living in one of these shacks for years. Most

The Magic of Real Estate

of them are 100+ years old and sitting right on the railroad tracks. All I can think is, “Who, in their right mind, would want to live in such a place?” She would. She doesn’t have to. She wants to. It just goes to show you that your personal lifestyle preferences shouldn’t be the yardstick by which you determine whether a property is good. That’s not to say you become a slumlord. It is to say that different people find different living arrangements ideal. So keep your personal feelings out of it.

Good neighborhoods or bad neighborhoods, if you buy a property cheaply enough, you can make money on it. Old house, creepy house, high-crime area - it really doesn’t matter. Anyone can make money on any house. I always say there is a seat for every ass. That means for every house, there is someone out there who is ready, willing and able to buy that house. Why, then, would you let the house sit or let a bank take it?

Successful Investors Know Real Estate is a Numbers Game

Experienced investors know real estate is a numbers game. You have to be able to generate enough quality leads every month to land quality deals.

When I sold cars years ago, my mentor taught me a very important principle. He told me to always look at my closing ratio because if I know my closing ratio, I know how many leads I have to generate in order to hit my target sales goal every month. So, if my ratio was 20%, I knew I had to talk to 100 prospects every month. Out of that 100, 50 may come into the dealership and out of that 50, I could close 20 deals. The same principle applies to real estate investment.

Your first objective as a new real estate investor is to generate as many leads as possible. That’s your whole focus all the time. Find ways to generate new leads. If you’re starting with no money, the first thing you want to do is drive around or walk around your neighborhood and start building your list of property leads.

The Magic of Real Estate

When you have your list, send letters to the owners on record. Go to the county courthouse if you don't already have a relationship with a local title company. Keep the letter simple:

Hello,

My name is John. I was walking in your area recently and saw your house. I am interested in buying your property as-is. I will pay cash.

Don't bother with a long, drawn-out explanation of who you are. No one cares. Keep it simple and straightforward. Send the owner a picture of the house if the house is in poor condition or if the owner is out of state.

Before they call back, do your due diligence to establish your bargaining position. Find market information on the houses in that neighborhood or zip code. You can check sites like Zillow.com and Trulia.com. But you can use them to find out recent sale prices.

Successful Investors Understand the Difference Between Value and Worth

This one can be tricky for new investors and for homeowners. I can't tell you how many times I've had conversations with homeowners who have no concept of the difference between value and worth. Inevitably, we arrive at the moment where we're ready to discuss how much they want for the house and the homeowner offers an emotion-based calculation of their home's value.

The worth of a home is what you would pay for the house if the market were perfect – properties appreciating, no blight anywhere to be found, solid tax base, and no work to do on the house. The worth is more a statement of what a house should

The Magic of Real Estate

cost or, in many cases, cost at its prime. Value is the amount someone is actually willing to pay for a house.

In essence, you could have the exact same 3 bedroom 2 bath house – one in Inglewood, California and one in Beverly Hills. The house in Inglewood may be valued at \$300,000 while the same house in Beverly Hills would cost closer to \$1.5 million.

Inexperienced investors and homeowners are often misled into thinking buyers should pay what the property is worth rather than find out the actual value of the house to the investor in its current condition and location. Seasoned investors know better.

Successful Investors Know How to Price for Value

With the distinction between value and worth firmly in mind, investors are always in search of properties they can purchase for 40% to 65% below market value. That means if a house is valued at \$100,000, the most an investor will pay for that property is \$60,000 to \$65,000. If there are repairs needed, the cost of the repairs comes off the \$65,000. So let's look at a deal:

A homeowner has her home listed for \$220,000. After a quick conversation, you find out she's willing to take \$170,000 for the house. Upon further investigation, you find out similar houses are currently selling in her neighborhood for \$190,000. A quick tour of the house reveals about \$20,000 in repairs that the house will need before you can turn it around. Here's how the math breaks down:

$$\$190,000 \times .65 = \$123,500$$

$$(\text{ARV} \times 65\% \text{ of ARV}) = \text{Max Price}$$

The Magic of Real Estate

~

$$\$123,500 - \$20,000 = \$103,500$$

(Max price – the cost of repairs = Offer)

In this case, my maximum offer for this house would be \$103,500. That's the real value of the house to an investor.

Successful Investors Generate Leads

Nearly 11% of the real estate in the U.S. is vacant all year round. That equates to more than 14 million empty housing units. RealtyTrac reports that of those units that are foreclosures, 45% did not have a forwarding address on file. So how do you get the leads you need to start making deals?

Check the obituaries and public notices – The Associated Press reported there were more than 2.5 million deaths in the U.S. in 2012. Not everyone owned property, but I would venture a guess that at least 30% of them probably co-owned property somewhere. That's a possible 750,000 properties that may end up on the market every year. Read the obituaries printed in local papers and listed in online databases. You can also check the paper for public notices. You can cross-reference the name of anyone who recently passed away with the property records in the county assessor's online database. Use the local paper and Craigslist.org to find out about estate sales.

Put out cards – Business cards get tucked into wallets and forgotten about... until the person with the card needs your help then he or she will start looking for your card.

The Magic of Real Estate

Build a website – Create a simple, optimized website where motivated sellers in specific geographic areas can submit their properties as leads. Make sure you quickly call them back when they contact you.

Put up signs – Put yard signs at busy intersections in your area or in areas where you want to buy properties. This will help funnel leads into your business from people in the area who are looking for help getting rid of their property. Keep it simple. A one-color, single-sided sign professionally printed will cost around \$1.50 with the stake. Keep your sign simple: “I buy houses” and include your phone number under your message.

Put an ad on Craigslist.org – Run the same ad as the yard sign or a similar ad weekly on Craigslist.org under the Apt/Housing section for Real Estate and Housing Wanted.

Put flyers on doors – As you take the stroll around your neighborhood, take flyers along that you can put on the front door of target houses.

CHAPTER 10

Two Types of Acquisitions We Missed On Purpose

Most of what I tell you in this book centers around the acquisition of residential properties – single family homes and maybe the occasional duplex or triplex. There are two purchases I avoided that I want to reserve for this section – mobile homes and commercial properties.

Investing in Mobile Homes

Buying mobile homes is a good way for the cash-strapped investor to get started in real estate. There are about 20 million people living in mobile homes in the U.S. Despite whatever stereotypes you may have heard, not everyone who lives in a trailer park is impoverished. I imagine the stigma is just the leftover residue and prejudices from the Great Depression. What began as a vehicle that you could comfortably sleep in has grown into a niche called manufactured housing. Some of these homes have four bedrooms, two baths (with Jacuzzi tubs, no less), a full dining room and bay windows. Mobile homes are no longer just homes on wheels. Some of them have permanent foundations and are settled in communities with their own leadership, recreation facility and community pools.

There are between 45,000 and 60,000 mobile home communities in the U.S., each with anywhere from a half dozen homes to several hundred homes per community. As of this writing, I own three mobile homes on which I collect payments every single month. One home I got for free and rented it out for eight years before selling it (it is seller-financed, so I hold the paper). Another gives me a little less than \$700 per month. I'm in pretty good company too. Warren Buffett also invests in mobile communities.

The Magic of Real Estate

Investing in mobile homes may be cheaper than investing in individual homes, but they have their own specific set of challenges. There are three things to watch out for when you invest in mobile homes:

1. First, you should know that you will have to deal with the seller of the mobile home and the landlord of the mobile home community separately. Ownership in a mobile home is not as easy to transfer as it is for a traditional house. Even if you buy a mobile home, you (and your tenant) will still have to be accepted into the mobile home community by the onsite landlord. You really have to be careful with that too because some mobile parks do not allow investors to come in, so do your homework before acquiring a mobile home.
2. Second, be careful of how much you have to pay in space rent. The rent for the mobile home and the rent for space to park your home in the mobile community are two different bills. Even if you get a sweet deal on the mobile home itself, you have to watch out for high space rent. Tenants who are renting, leasing, or buying their mobile homes also make monthly payments for space rent. The space rent + the mobile home rent is the minimum you should charge a tenant for rent. If the average tenant in a community is paying \$700 in rent and you're paying the community \$450 in space rent just to be in the community, the most you can charge your tenant is \$700 – giving you just \$250 in income before taxes and maintenance. Paying too much in space rent can quickly eat up your profit.
3. Speaking of space rent, you can bet your bottom dollar that a new tenant moving into a mobile unit means the space rent on that unit is going up. Keep that in mind when you're making your decision on whether to buy a mobile home that's for sale. The landlord is probably going to raise the space rent the moment you sign the purchase agreement.

The Magic of Real Estate

The managers of mobile home parks reserve the right to evict mobile homes from spaces if a tenant stops making payments on the space rent. It doesn't sound like that big of a deal until you realize that the relocation process for a mobile home can cost between \$800 and \$2,000.

You may be limited in your ability to realize immediate profit, but for long-term income, investing in mobile homes and mobile parks is good for your bottom line.

Investing in Commercial Properties

Commercial properties are a bit more complex, so I am reluctant to go into detail about how to invest in commercial buildings in this book. This book is intended as a starter guide for new investors. I find commercial investing is for more sophisticated buyers.

There is one principle I do want to teach, however, and that is how to calculate the return on your investment, or capitalization rate (cap rate). Cap rate measures the rate at which you will recover your initial investment. According to Wikipedia, cap rate is "the ratio between the net operating income produced by an asset and the original price paid to buy the asset."

$$\text{Cap rate} = \frac{\text{Annual net operating income}}{\text{Capital invested}}$$

Let's say you have \$500,000 to invest. You use the money to buy 10 apartment units and you say to yourself during the planning stage, "I want 10% return on my money."

$$10\% = \frac{\text{Annual net operating income}}{\text{Capital invested}}$$

The Magic of Real Estate

\$500,000

Your building would need to produce \$50,000 per year in income. That's \$5,000 per unit or \$416.67 in income per month (that's after expenses, of course).

The goal with commercial property is to buy at a higher cap rate and sell at the lower cap rate. So, if you buy a property that offers you a 10% return on your investment, you want to sell it at a 5% return, which means you would sell that same building for \$1 million. A building with a 5% return is considered a more stable investment than one with a 10% return. You can use this formula to calculate the return on your real estate investments. If you want to know how long it will take you to recover your money, use the cap rate formula.

CHAPTER 11

How to Recognize a Motivated Seller When You See One

Now hear this: NO wholesale deal goes through without a motivated seller. You cannot convince a person who does not want to sell to sell you his house. That's a waste of your precious time. What you can do is always look to do business with a seller who is already motivated.

A motivated seller is easy to spot. You never have to wonder if you are doing business with one. A motivated seller answers your question and facilitates the sale process so it's seamless. Motivated sellers don't look for complications; motivated sellers look for a way out of what they are in. The very essence of the no money down method of buying a house depends on having a motivated seller. A motivated seller is someone who views what they get in exchange for the property as a better option than hanging on to the property itself. Your job is to find motivated sellers and offer solutions to their problems.

A Truly Motivated Seller Will Pay You to Buy Their House!

Whenever I leave the house in search of new leads, I always wonder which of the many unassuming leads I pick up will be the one to raise their hand and say, "Toyin, choose me! I will pay you to buy my house." Impossible? It happens more often than you might think.

Before we dive into the fantastic world of motivated sellers, I want to stop here to instill one important truth: In our culture, buying and selling property can be emotional. It's not just novice investors who experience fear, it's also motivated sellers who experience fear. As an investor, you will eventually numb to this anxiety,

The Magic of Real Estate

but for most homeowners and sellers, there is still a lot of emotion tied to transferring ownership of their property.

Sellers could be experiencing a jumble of excitement and relief. There could be pain and anger associated with the sale of the property. For most people, the process is ripe with mystery as well. People don't understand the purchase process completely. They don't know a title from a deed of trust and all they want is to ensure they are no longer legally responsible for the property.

In situations where you have motivated sellers who do not have third-party representation, you have to be very careful to tend to their fears. Explain what will happen, why you are constructing the deal the way you are and how it benefits them. Give them time to digest everything. They may even need a few days to emotionally relinquish ownership of the property. Give them the time they need. While you don't want to push them into the arms of a realtor who will fill their heads with dreams of getting more money out of you, you do want to make sure you can provide your sellers with honest answers to their questions.

What to Say When a Motivated Seller Contacts You

There are six key questions you want to ask all sellers:

1. How did you find out about me/us? (Use this question to track the sources of your leads so you know which marketing methods work)
2. Why are you selling?
3. What's wrong with the house? Are there any structural or cosmetic issues I need to address?
4. How much do you owe on the property in loans, taxes and liens?

The Magic of Real Estate

5. How much do you want for the property?
6. How much are you willing to take for the house if I pay cash and close quickly?

Those six questions will provide you with enough information to know if you want to put the house under contract and investigate further.

CHAPTER 12

How to Research the Property

Part of what makes this business a good option even if you don't have the cash to invest is that you can make money as long as you are willing to invest the *time* to look for a solid deal. A solid deal is one that you know is a good deal. The only way for you to know you have a good deal is to do the research.

You can start researching a property just by knocking on the door of the property or asking a neighbor about a property if you're in a neighborhood where you feel it's safe enough to do so. Even if the owner of the property is not on the premises, it only costs the amount of a postage stamp to get in touch with him or her. I will say a large percentage of the time, the mailing address on record for a property is the same address as the property itself. In those cases, you may be wise to leave a flyer in the door of the house and move your research online. Start with a Google search and see what you uncover. You can also use social media to dig up property owners, particularly if the owner has an unusual name. I've had members who found and contact property owners using Facebook.

One great thing that is unique about the U.S. is that every property or parcel of land has, at one time or another, been recorded. Everything is already in the public records and you can access these records by taking a trip to the local county courthouse.

In other countries, this is not always the case. There may not be a formalized system for tracking, recording and taxing real property. This makes buying and selling property difficult because there's no real way to transfer ownership of your property even after you buy it. In many cases, there is no governing body in place to regulate real estate transactions. But most U.S. neighborhoods have tracking

The Magic of Real Estate

systems in place that allow individuals and organizations to buy, sell and transfer ownership of properties. I would say there are three major factors to keep in mind about acquiring new properties:

1. The price of the house
2. The cost of repairs
3. The invisible administrative costs associated with owning the property

The invisible costs are costs you have to research. These include the taxes due on the property, any liens levied against the property, any loans owed on the property and any additional people or entities claiming an ownership stake. The repairs and the administrative costs are the two costs people fear the most because if you don't know what to look for in either case, these costs can end up making the entire deal a wash.

Do you remember a movie from the mid-1980s starring Tom Hanks and Shelley Long called *The Money Pit*? It hilariously chronicled a young couple's misadventures restoring an old house. By the middle of the renovation project, the stress from the endeavor ended up ruining their relationship and they finally made a deal to sell the house and split the proceeds once the house was finally completed. Then they would, "Get the hell away from each other!" (That's a line from the movie.)

I think that's what most of us fear in the beginning. You're new investors, out hunting for properties that you hope to resell at a profit. In the beginning, you're sort of going in blind. You don't know what you don't know and you are just a little anxious that you'll find a sweet deal, sign on the dotted line, then get a letter from the IRS saying the house is going up for tax sale and there's nothing you can do about it. I actually ran into that problem myself. An IRS tax lien stopped one of my sales in its tracks and cost me over \$50,000 in profit. I've included that in this book

The Magic of Real Estate

as one of the case studies. You can alleviate all this stress and face any potential problems head-on by properly researching the house before you put it under contract.

***The Three Property Research Tools**

There is really only one thing you need to research a house – the property address and/or assessor's Parcel Number (APN). This is the only information you need to generate the two research tools every real estate investor needs to make an informed buying decision - the property profile and the title report.

The Property Profile

The property profile is an at-a-glance overview of the identifying aspects of the property. It is typically a single-page document that provides you with general information about a specific property, including the legal address, the square footage, number of bedrooms and bathrooms, deed information and title information.

The Preliminary Title Report

The preliminary title report is a more comprehensive report on the property, usually ranging somewhere between 10 and 20 pages in length. It can take anywhere from three to seven days to get a preliminary title report for a property. Trust that as you build a stronger and stronger relationship with your title company, the wait time will decrease. The preliminary title report will include all the same information you get in the property profile, along with information that may or may not be included in public records. The preliminary report (or “prelim”) will provide any information that affects the title of the property. That includes:

- Current and past liens

The Magic of Real Estate

- Current and past loans, along with details about the lender and which loans have been paid off
- Current and past issues with the property itself
- Current and past permits that have been taken out on the property
- Current and past owners of the property
- Current and past disputes with the property title
- Current and past lawsuits involving the property
- A map of the land and floor plan of the property based on the original plans and any construction permits that have been pulled
- Property characteristics and use – commercial or residential, duplex or single family unit, etc.
- Is the property in a flood zone?
- In some cases, you can even get information about the owner, this is particularly true if the owner has a judgment in his or her public record
- It will above all tell you under what circumstances the Title company will insure the property.

This is the kind of information you want to know before you buy a property. In order to insure the title, the title company may require you to resolve and/or verify some of the issues showing up in the prelim. This is for your protection and for the title company's protection as well. Whatever issues your title company brings to your attention, you have to make sure the seller addresses them and that you get proof

The Magic of Real Estate

that the issues have been resolved. Title insurance is important. If you can't insure the property, you won't be able to get a loan on it either.

Case Study #1: The Mobile Home with the Ghost Loan

Years ago, I came across an abandoned mobile home and sent a letter to the owner of record. A few weeks later, the owner's daughter called me back and I spoke with them briefly about the property before making an offer. As it turns out, the mother had taken ill, so the daughter packed up her mom's essentials and moved her mother in with her several years before. Any and everything that wasn't important, they left in the trailer.

Well, it had been several years. I asked them how much they wanted for the mobile home and the daughter said, "Give us \$5,000 and you can take it." Fine. I put the home under contract for \$5,000 subject to the findings of the preliminary report. Well, when I got the prelim back, there was an open loan for \$34,000 included in the report that, from the looks of the report, had been active for 20 years.

The property was worth no more than \$40,000. An outstanding loan for that amount would wipe out my profit. Had I been a novice investor, I would have backed away from this deal, but I inquired about the loan. "I can't give you \$5,000 for this property," I told them "You owe money on it!" The mother insisted the prelim was incorrect. She had paid off that loan years before.

I suspected she was telling the truth because the company had never foreclosed on the property, so there was a good chance the lender had just made an oversight on the property. When a borrower is done paying on a loan, the lender must reconvey the property to the rightful owner. It's not unusual for private lenders to skip that part. So when we went to investigate the actual loan, I found out the

The Magic of Real Estate

lender didn't exist anymore. The business had closed down. So I was stuck, right?
Not quite.

Since the original lender no longer existed, I had to get a bond to guarantee the title company to insure the property. I had to guarantee the title company that if somebody showed up in the future saying they had a note on the property, the bond company will pay the title company. It was obvious to us the loan had already been paid. So we proceeded with the sale. I paid \$900 to get the bond, which is another form of insurance, or more simply a re-insurance. Well worth it.

CHAPTER 13

The Anatomy of a Real Estate Deal

Deeds vs. Titles

Before we get into deal-making, let's talk about how ownership is conveyed. You can convey ownership of real estate using a deed or a title. People often use the terms interchangeably, but they are actually quite different.

A **deed** provides written proof of a property transfer. Deeds must include a grantor (seller), a grantee (buyer), a legal description of the property being transferred, and the notarized signatures of the two parties involved (or at the very least the notarized signature of the person transferring title). A deed chronicles a single event. A property can be "deeded to" a half dozen other people in the space of a few years; and as long as each deed or transaction is recorded, you will know every owner who claimed an interest in the property. Deeds track the ownership of a property.

A title is made up of the cumulative series of events and transactions related to a specific property. A title company will analyze the history of a property, taking together all the previous deeds and any encumbrances (liens, loans, covenants and easements) to determine rightful ownership of the property. Think of the title as the answer to an equation.

$$\text{Deeds} + \text{Encumbrances} = \text{Title}$$

The job of the title company is to go through the transaction history of a property to identify the last man standing, so to speak. For the sake of convenience,

The Magic of Real Estate

let me outline for you the difference between several of the most common types of deeds and titles.

Quitclaim Deed – A legal document that transfers ownership interest of any real property from the grantor to the grantee. The risk here is that a quitclaim deed does not imply or guarantee that the grantor owns any actual interest in the property. A quitclaim legally transfers interest in a property, even if no interest legitimately exists.

Grant Deed – A grant deed is very much like a quitclaim deed with the exception that its issuance guarantees the grantor has an ownership stake to transfer to the grantee.

Warranty Deed – A warranty deed transfers interest in real property from grantor to grantee and the grantor warrants the title is clear.

Deed of Trust – A deed that transfers the legal title of a piece of real estate to a trustee which holds the deed to secure a loan.

Legal Title – A legal title confers actual ownership of a piece of real estate. This ownership stake is enforceable by law and only transfers to a buyer upon completion of a sale.

Equitable Title - An equitable title confers financial interest or equity in a piece of real estate. When a contract is executed, the buyer receives an equitable title. When the real estate is paid in full, the buyer will receive the legal title to the property.

Six Non-Traditional Ways to Construct a Real Estate Deal

Now for the fun part. People like to use the words “make a deal” or “do a deal” in reference to real estate transactions. I like to say “construct a deal” because more often than not, that’s what you will have to do as a real estate investor. I encourage you to think outside the box when it comes to putting together a real estate deal. Traditional bank financing is not the only way to construct real estate deal. So, let’s talk about a few other types of deals you can build to maximize your profit.

#1: Make a 30- or 60-day cash deal

Ideal for: Any investor, hard money closing, properties with multiple owners or that need extra effort researching

Somewhere between cash-up-front deals and short-term land contracts are the 30-day, 60-day, and 90-day cash deals. I use this method with sellers when I want to buy the property but I need time to research the property and raise cash. With this type of deal, you negotiate the terms to provide you with the following options:

- To buy the property **subject to** what you find in the prelim
- To allow up to 3 months (if needed) to close the deal and finish paying for the property
- To pay a very low, non-refundable down payment to lock in the deal until you have the money to close. I usually aim to tie up a property with \$1 when I can. You can go with a larger amount, but you shouldn’t expect the owner to return your down payment if you decide not to move forward with the deal.

The most important part of structuring this deal is actually knowing how you’re going to fund the deal so you allow yourself enough time to close on it. So,

The Magic of Real Estate

here's a sample script for a house being offered at \$45,000 that you know is worth \$85,000:

Investor: Why are you selling?

Seller: I'm relocating. Just going back to my hometown.

Investor: What's your asking price?

Seller: \$45,000. That will take care of the loan on the property and give me money to relocate.

Investor: How much is the loan? Are there liens on the property?

Seller: I owe a little under \$30,000 on the property.

Investor: Okay, so how much do you need right now?

Seller: At least \$5,000 in the next 10 days.

Investor: How about this? I'll give you \$100 now and I'll check the title tomorrow. If the title is clear, I'll pay you the other \$5,000. You will get the rest of the money in 30 days.

Seller hesitates: The remaining \$40,000 in 30 days, right?

Investor: Yes. Thirty days.

Seller: Okay. You have a deal!

#2: Wholesale the deal

Ideal for: New investors, broke investors, getting fast cash, building relationships with other investors, learning your market

The Magic of Real Estate

Wholesaling is a good way for cash-strapped investors who are new to the business to get in and generate money fast without having to work too hard. Your job as a wholesaler is actually to find and close deals then move on. Wholesalers sell their interest in real estate deals. As a wholesaler, you find a deal, tie up the property in a contract “subject to” then resell the deal to another investor.

So, let’s say the property is worth \$150,000 and you are able to get it under contract for \$95,000. You can call another investor and sell him the deal for \$105,000 and essentially earn a finder’s fee of ten grand. Your finder’s fee is up to you. I suggest making it \$5,000 to \$10,000 if you get the deal under contract. You just have to make sure that the costs associated with the property (sale price + costs to repair the property + your finder’s fee) allow the investor to make enough money off the deal or he won’t be interested. If you need to generate cash in the next couple of days, make a go-to list of investors, call about 100 of your leads, close a deal or two and flip them the next day.

#3: Seller finance / land contract / contract for deed

Ideal for: Any investor, cash-strapped investors, sophisticated investors, sellers who are motivated and who don’t mind waiting for their money

My experience tells me that most sellers don’t care about your credit; they care about your ability to pay. They are not banks and they don’t try to act like banks. They are just regular people trying to attain or maintain a level of comfort and financial security. When you find a property and you don’t have the cash up front, you can structure a seller-financed deal. *Well, how do they know you’re going to pay, Toyin?* They don’t. But you’re not in this business for fun and games. You’re in this business to make money and you can’t make money if every property you acquire forecloses.

The Magic of Real Estate

The toughest battle you have here is educating the seller on the mutual benefits of a seller-financed deal. The typical homeowner will back away from a deal where they have to wait for a total stranger to pay them their money in monthly installments. That's because most sellers are not very sophisticated. They think there is one way to sell a property and that one way is through the doors of a bank. Your job is to construct a deal that is good for both of you. It needs to provide the seller with a hefty enough down payment for her to take you seriously. The deal also has to provide the seller with a good stream of passive income. Make the offer attractive. Paying \$1,000 per month for the next seven years is a far better deal than pulling \$84,000 out of your bank account today. Here are some talking points to help you educate a seller on the benefits of what we call "carrying the paper":

- Seller retains legal title to the property until the loan is paid off.
- If the deal doesn't work out, the seller doesn't have to refund ANY of the money that's been paid so far.
- If the buyer forfeits, the seller can foreclose and put the house back on the market because the loan was backed by an asset, which is the house.
- Seller financing keeps the seller from having to discount her property; the seller can get FULL MARKET VALUE for the house if she just decides to stop looking for the bank and be the bank.
- If you "carry the paper," the asset is still there producing passive income on a monthly basis.
- The seller makes and keeps more of her money by financing the deal. If she gets all the money today and puts it in the bank, a bank will pay her less than 1% in interest per year on her investment. The buyer, on the other hand, could pay her anywhere from 3% to 12% per year on the loan.

#4: Wraparound mortgage

Ideal for: Acquiring properties that have bank mortgages, investors with cash flow

You will find that most sellers think they need to pay off the loan on their property as soon as they sell the property. This isn't always true. The truth is, many lenders include due-on-sale clauses in lending agreements that can be triggered by transferring the title of the property. But there's no rule saying they have to trigger that clause.

A wraparound mortgage is one remedy to get around triggering the due-on-sale clause. The wraparound mortgage allows motivated sellers to get from up under their homes and maximize their profit by collecting a healthy down payment up front and receiving monthly payments for the rest. Ideally, sellers will want to structure a wraparound deal so they receive more than what they actually pay on the mortgage every month. But even wiping out a mortgage payment is going to be a great way to save money for most folks. Essentially, what the seller does by structuring a wraparound mortgage is add a party to the equitable title.

Let's use an example: Mr. Johns is selling his house for \$350,000 cash. He has 10 years left on his mortgage, which is \$2,000 per month. If he leaves the house on the market for a while, he can probably get the full \$400,000 the house is worth, but he discounted the home in hopes of selling it faster. Miss Ruby sees the property and asks about renting it for \$2,500 per month. Mr. Johns doesn't want to do that, but he makes a counteroffer: "Ok, Miss Ruby. If you're interested in the property, I will sell it to you on a wraparound deal at the same price you would rent the house. Your monthly payment will be around \$2,600 and I will carry the mortgage. In twenty years, your house will be paid off."

The Magic of Real Estate

Here's the breakdown:

Mr. Johns has a monthly mortgage payment of \$2,000. Miss Ruby will cover that payment plus add \$600 on top to give Mr. Johns \$600 of passive income every month for the first 10 years and \$2,600 of passive income for the following 10 years. In total, Miss Ruby will spend \$624,054.15 to buy the house (\$400,000 for 20 years at 5% interest), but there are no banks, no qualification process and she's coming to the table with a 1% down payment.

This method of wrapping another mortgage around a current mortgage is a way to buy or sell a home without triggering the due-on-sale clause. The seller adds the buyer to the title, the bank on the original loan continues to hold the deed of trust.

#5: Taking over payments

Ideal for: Sophisticated investors, investors with cash flow, properties that have active bank loans on them

When I first started in this business, I did several deals where I took over the seller's loan and it didn't really cost me anything up front.

Not long ago, banks didn't sneeze at borrowers reselling their homes and having new buyers make payments on the borrower's original loan as a way of transferring equitable interest in the property. As long as the payments were made on time, banks weren't really too concerned about who was making the payments. Well, we have a similar opportunity today. While banks generally don't want borrowers to transfer the title of their homes unless they first pay off their original loan, there is such a huge inventory of vacant bank-owned homes (also called real estate-owned or REO homes), banks are more concerned with ensuring *somebody*

The Magic of Real Estate

pays on time, rather than focusing on making sure it's the borrower who is paying on time.

Sophisticated sellers may construct a deal wherein the buyer puts a small amount of cash down on a property then makes the monthly payments on the outstanding mortgage between the original borrower and his lender. The buyer enters the contract subject to existing conditions, the existing condition being the current mortgage on the house. When I first started out in real estate investing, I did several deals just like this. Some properties I held on to and made payments on for years. Others, I was able to flip the contract before the first payment was even due.

Taking over the payments on a property can be hard to sell to homeowners. And realtors don't really help the situation much, telling you it cannot be done, and telling homeowners they shouldn't accept a deal where the buyer doesn't immediately pay off the original loan. Realtors will say having a stranger take over the payments is not in the owner's best interest because as long as that original loan exists, it exists in the seller's name, under the seller's social security number. They say putting the house on the market and getting full value for the house is what the owner wants.

That's true sometimes.

But many times, the owner wants to get on with his life, to move to a new house, to relocate to another place, to stop making mortgage payments on a house that the kids lived in before they went out and bought their own houses. When that's the case, it may be in the seller's best interest to consider letting a buyer take over the payments. And as for acquiring the title, we already know that a house with an outstanding bank loan essentially has two titles – one legal title that the bank will hold until the owner repays the loan and an equitable title that gives the owner the right to possess and control the property.

#6: Bulk sale

Ideal for: An investor with cash on-hand, an investor with cash flow, low-income neighborhoods, blighted areas

Just as a broker will sell groups of hedge funds to investors, bulk sales are bundled properties sold together as a package deal. In Midwestern cities like Detroit, Chicago and Cleveland, it's not unusual for investors or local governments to bundle a handful or even dozens of properties as a package and sell the entire package of homes for pennies on the dollar. With many banks having such a large inventory of houses from recent foreclosures, it's not unusual for a major U.S. bank to deeply discount each individual property and sell off bundles of up to 1,000 houses at a time as a package.

Bonus money-maker: Selling leads

There will be times when you will not be able to reach an agreement with a seller. Maybe they want too much for the property or you find out the property is in a part of town where you're not all that interested in investing. Maybe you have enough properties in urban war zones and you're looking for something in a working class neighborhood. That's entirely up to you. There's virtually no limit to the types of lists you can create - foreclosure lists, qualified buyer lists, lists of motivated sellers, or tired landlords who live out of town. Figure out what the realtors and investors in your area need and when you come across properties that fit the bill, share the information and get a finder's fee for your work.

Don't be afraid to pass your leads on to the next person. When I have a lead that doesn't meet the criteria I'm shopping at the time, I pass the deal on to the next investor. When they make the deal, they pay me a finder's fee of anywhere from \$500 to \$5,000. That's the same principle we instituted with [GIC Deal Finders](#). We

The Magic of Real Estate

pay \$1,000 to \$5,000 for successful deals that come from leads identifying motivated sellers in various markets.

Realtors are always on the lookout for qualified buyers and motivated sellers. When I advertise a property that I'm selling, I may get 50 calls from people who are interested in buying that property. After I choose the right person for my deal, I have the names and contact information for 49 other people who are actively looking to buy. I can turn around and sell these 49 leads to a realtor for \$5 or \$10 per name. These are folks who are actively looking for homes. List-selling is big business in just about every industry.

Investors are always on the hunt for the next sweet deal. Remember, real estate is a numbers game. As you build relationships with various buyers and seller, don't forget to build relationships with other investors. This is important because if you're closing deals on 10 out of every 100 leads you find, that means there are 90 leads that you can still make money on by passing them on to other investors. You will always pass along more deals than you end up doing yourself.

CHAPTER 14

How to Finance a Deal with No Money Down

It's easy to negotiate a real estate deal when you've got the cash to put your money where your mouth is. But it takes boldness, resourcefulness and confidence to make a deal when you don't have the cash on-hand to fund it. Buying a house with no money down is just a matter of using your time and resources to find other ways to finance a real estate deal. Cash out of your pocket is not the only way to buy real estate. In fact, I've been able to get quite wealthy by finding motivated sellers who are willing to let me lock in a property with no money down.

The key to *structuring* a deal is overcoming the fear of rejection. The key to *financing* a deal is persistence. I'll let you in on a little secret: If you find a great deal, you *will* find someone to finance it.

Make Sure You Have Enough Time

Time is one element of a real estate deal that you want on your side. If you have enough time, you can shop a good deal and find a taker, whether that taker is a buyer, another investor or a hard money lender. You just need to have enough time. Always find out from the seller (and by doing your research) what kind of time constraints you may be working with. The amount of time you have to make a deal happen will ultimately determine the method you use to construct, finance and exit a real estate deal.

Know That Negotiating is Non-Negotiable

First things first. You can't make great deals if you don't know how to negotiate, and the best way to learn how to negotiate is to get some practice.

The Magic of Real Estate

Most of us are used to going to the store, mall or some other kind of marketplace and paying what's on the sticker. If there isn't sticker, we don't haggle about what we think the price should be, we ask for a price check. That's the American way. America is a place where paying too much for a bottle of wine or pair of shoes is a status symbol. Let me tell you right now: A real estate investor who pays too much for his investment properties won't make it as a real estate investor very long.

I negotiate. I negotiate with buyers and sellers. I negotiate with banks, lenders and lienholders. I even negotiated with the IRS when they claimed to have a stake in a property I bought. I negotiate and more often than not, I get what I want.

Learn How to Buy Even With Bad Credit

When you have bad credit, you can say goodbye to traditional bank loans. It doesn't matter how you structure the deal or what kind of equity you build into the purchase, if your personal credit score is below 650, banks don't want any part of your deal. You will have to look for other ways to do the deal without traditional bank financing. My personal go-to is a hard money lender because credit is not a factor when you have an asset that has the value to support the loan. You just need the cash flow to service the debt. There are plenty of finance options available which we will talk about in the sections that follow.

In terms of financing a house, the rules are very simple: If you find a house below market value, you will get it financed. You just have to give yourself enough time to find the right backer. If you don't have any money to work with, you can either go through a hard money lender or find private lenders that bring the money. This brings me to our first finance option – private lenders.

The Magic of Real Estate

Other people's money

Using private lenders (also known as other people's money) is probably the easiest way to finance a real estate investment. Private lenders are the people in your network who have the money to invest – your parents, siblings, friends, colleagues and other investors you know. Here's your pitch:

Okay, here's the deal. I'm buying this property for \$17,000. I want you to come with \$30,000 so I can buy it and repair it. We'll sell the house for \$50,000. Here's how I'm going to pay you back: In addition to getting back every dime you invested, I will also pay you three months of interest on your money plus a \$5,000 cash bonus when we sell the property. Do we have a deal?

Home equity loan

Building up the equity in your home is a good way to fund other investments. In fact, I like to say the only thing you should ever use your home equity for is to make money. Using your equity for consumption can quickly put you upside down if the value of your house decreases. Before the credit crisis, people were cashing in on the equity in their homes, using the money to buy cars, pay off consumer debt, or go on vacation. That's an unfortunate misuse of equity.

Equity is only equity if you use it. If you have equity in your house right now, pull the cash out and put it to good use. Make it work for you. A home equity line of credit works just like a second mortgage. So the equity you have puts you in a position where you can get access to tens of thousands of dollars at a rate of about 2%.

What will you do with that money? The wrong thing to do is to take that money and stick it in a low-interest bank account where the proceeds won't even

The Magic of Real Estate

cover the interest on the loan. Invest the money. We saw that from the Great Recession that so-called equity can disappear overnight if you leave it in your house. Banks actually took equity lines back, and homes that were worth \$150,000 on Thursday were only worth \$100,000 by Monday.

Think about this: One of our members has a house just outside a major urban center. Before the recession hit, his house appraised for \$200,000. He used some of the equity in his home to get a home equity loan for \$40,000 a year before the market crashed. Today, his house is worth less than \$50,000 because the community in which he lives was financially leveled by the recession. Needless to say, he is upside down on his house. Sure, the value of the house is climbing again, but he still owes over \$100,000 on a property that got an offer of \$30,000 the last time he put it on the market. If he doesn't do a short sale on the property, he will stay underwater on it.

What did he spend the \$40,000 on? He remodeled his house and upgraded his cars. Just think of how different his financial situation would be if he had used that money to acquire high-yield investments or to buy and repair two rental properties. I've heard this story or some variation thereof more times than I can count.

"Well, Toyin, I don't want to pull the money out of my house. If we have another hiccup in the market and the house goes down in value, I may be like this guy. I may owe more than the house is worth!"

So what! If you invest the money instead of spend the money, the worst thing that will happen is you will have to continue making payments on the loan. The bank can't call the loan as long as you are making payments on it as agreed. Now, if I were this guy, I would have done things a little differently.

The Magic of Real Estate

If I were in the same position, pulling \$40,000 out of my home, I would spend the money on two properties. I would list them for \$50,000 each and sell them on land contract with \$5,000 down. I would carry the paper on the properties for seven years and each property would generate about \$650 per month in revenue, netting me about \$1000 per month in income after I pay the mortgage and taxes on my primary dwelling and make the insurance payments on all three houses. Same \$40,000, very different outcome.

If you have built your network, you can loan the money to an investor like me and earn up to 12% on your money in a matter of weeks, not years. If you're paying the bank 2% for access to the money and I pay you 12% on the loan you give me, that's a 10% spread, right?

"What if I lose the money, Toyin?"

You won't because you are learning that that best use for your home equity line is to invest the money in an asset, which WILL generate income for you.

Hard money lenders

Hard money lenders are short-term, high-interest alternatives to traditional bank loans. They issue loans that are custom-made to serve the real estate investor. Loan repayment terms range from six months to about three years. In recent years, some hard money lenders have been extending repayment terms to nine years to cater to investors who are buying and holding real estate, anticipating a bounce-back in the market. Unlike some of the other alternative lenders out there who cater to (or swindle, depending on your point of view) small businesses with interest rates that go as high as 40%, hard money lenders have interest rates that range from 9% to about 15% on the high end. Some shysters can get as high as 20%.

The Magic of Real Estate

When I first started buying properties, I made my way to a hard money lender with a house that was worth \$100,000. I needed the hard money lender to provide the money so I could repair the house and flip it. During our quick conversation, I got the shock of my life. My hard money lender said, "If we're going to finance this property, you're going to have to get it for \$70,000." I was stunned. Who, in their right mind, would sell a house worth \$100,000 for \$70,000? The person would have to be crazy! His response was, "Look, Toyin, they're out there. You just have to find them."

There are two things I always want you to remember about hard money lenders. The first thing I want you to know is that hard money lenders base loan amounts on the value of the asset securing the loan. Usually, the loan to value amount is 65% to 70%. The second thing I want you to know about hard money lenders is there are hundreds of them, so don't let them bully you into something you didn't intend to do.

If you are planning to buy a property, you should never pay more than 65% of the property's ARV (After Repair Value). If the property needs repairs, you probably shouldn't pay more than 50% of the market value if you're buying it. That way, acquisition + development doesn't surpass the hard money sweet spot of 70%. Let's drum up a hypothetical deal:

You look at the deal and you see that it fits your criteria. The house is worth \$120,000 and needs \$20,000 in repairs. You would need to buy it for \$70,000 minus the cost of repairs, which would be \$50,000. Next, you call your hard money lender, send them the address, and ask: "I'm in a contract to buy this house. How much will you loan against it?" You then pay for the hard money lender to send out their appraiser, which can run anywhere from \$300 to \$700, and the appraiser says the property is worth \$120,000. So, the hard money lender comes back to you and says,

The Magic of Real Estate

"Okay, fine. It's worth \$120,000. We'll loan you \$50,000 plus \$10,000 to fix it up. In this situation, you essentially would get into the house with no money down. You make the payments as agreed and get to work fixing the house up. Depending on the time allotted for repayment, you can either flip the property, rent it out or hold the paper on it.

These days, hard money lenders want investors to be able to show they have 10% to 20% of the loan amount set aside as a down payment. So if the house is worth \$100,000, the lender may want you to have \$7,000 to \$10,000 available to put into the property. They call this having "skin in the game." Once you get a few successful deals under your belt and have a good history of repaying these hard money loans, you'll be able to get loans without having to front ten grand on your own.

I have run across so-called hard money lenders who base their lending on your credit score. I say stay away from these types of lenders. I've said it before and I will say it again: With hard money lenders, the value of the real estate should secure the loan, not your personal credit worthiness. The *property* is the asset that has to qualify, not you, not your credit. Always remember lending is a business and these lenders have lots of competition. The hard money lending and alternative lending markets are expanding, not shrinking. This means lenders have more competition and savvy investors will shop for the best deal, not the first deal. Try to find a real estate deal where you can take your time and shop smart. If it's a good deal, you'll find a hard money lender willing to finance the deal.

The Magic of Real Estate

Self-Directed IRAs

In most cases, individuals who own Individual Retirement Accounts (IRAs) have the choice to use a portion of the funds in their IRA to make investments on their own. When the stock market is volatile, smart investors will do just that. IRAs can have decent returns – usually anywhere from 2% to 7%, depending on the stock in which the IRA holder invests. Using that same money to invest in real estate can often yield returns of 10% to 30%.

I know what you're thinking. You're worried that by pulling money out of your IRA, the government will tax you. But there are laws in place to protect you. As long as you are using the money to invest and you use the returns on your investment to fund your IRA, the government will treat the transaction like any other tax-deferred investment.

For example, let's say you find a house that you know is worth \$100,000. The seller is just trying to get out and is willing to sell the property for \$50,000. You call the custodian of your IRA and tell her you want to move your money to a self-directed IRA. As long as the money goes straight from your IRA account into an escrow account to buy the property, you're okay. You buy the house, make a quick \$30,000 to \$50,000 and put all the money back into your retirement account completely tax-deferred. You double your money.

Why would you tamper with your IRA and invest the money in real estate? In my opinion, real estate is a more secure investment - and one over which you have more control and influence - than trading stocks. Most of us are aware we have no control over the stock market. Large companies and influential investors lead us to believe they have no control over the market, but it's simply not true. The little guys – the individual investors who may have \$100,000 in the market – don't really have enough money moving around to influence the investment market. So, I say have

The Magic of Real Estate

your IRA. Invest in the stock market. But be sure to funnel some of that money into a self-directed IRA so you can capitalize on great opportunities when you see them.

Another way to use an IRA to finance a real estate deal is to borrow the money from someone with an IRA and offer the person a healthy return on their investment. If you can outpace the stock market by offering a 12% return in the next three to six months, you can finance your deal and help your friend make money. It's really that simple.

If it's so simple, why don't more people do this? As the old saying goes, "People would do better if they knew better." Most people don't know these simple strategies because they don't have anyone around to teach them. The American education system is designed to create worker bees, not independently wealthy bees. That's why I'm writing this book. I want to teach you just a few of the super-easy techniques I've used to amass wealth. These aren't strategies you learn from the government, or even from your IRA's custodian. These are techniques you learn from other investors like me who have more experience.

CHAPTER 15

Closing the Deal

It's time to sign on the dotted line, transfer ownership of the property and record the transaction. In other words, it's closing time!

The Four Elements of a Legally Binding Contract

What makes a contract legal? I'll tell you this: It's not the length of the contract or the size of the typeface used to create the contract. There have been instances when I've gone to escrow with a contract or grant deed written on a piece of yellow notebook paper. The closing agent looks at me like I'm crazy. "That's not a legal contract!" the agent will tell me. Well, why not? There's no law that says a purchase agreement or a grant deed has to be typed up on a sheet of 20-pound bright white paper.

A contract only needs four elements to be legally binding:

1. An offer
2. Consideration
3. Acceptance
4. Mutuality or meeting of the mind

It doesn't matter if the contract is written on computer paper or a restaurant napkin, as long as it's a written contract (most states require real estate contracts to be in writing) with the four elements that make the contract or deed legally binding.

Do You Really Need Title Insurance?

Do you really need title insurance? The answer to this question is it depends. Title insurance provides buyers, sellers and especially lenders with the assurance that the title on a property is clean. By clean, I mean there are no encumbrances like liens, additional loans on the property, or co-owners who may have no idea the property is being sold. You are not required to get title insurance when you buy or sell a property, but I always suggest it. If you plan on getting a loan on the property, you will need it. Lenders require borrowers to present some of form of insurance before they are willing to use a property as collateral to cover a loan.

Case Study #2: The IRS Lien

The danger of not getting title insurance is that you generally end up skipping the entire prelim process, so you don't really know what the problems may be with the title to the property you're buying. Early in my career, I made the mistake of buying a house from someone without first checking the title. I took over his loan and had been making payments for three or four years before I discovered the man from whom I bought the house owed a large sum of money to the IRS. It wasn't until I was ready to sell the property that the problem even arose. I had not bothered to insure the title, so the title company required what's called an affidavit, which is basically a statement from the previous owner which affirms he is the rightful owner and has the legitimate right to sell the property. Well, when the title company got the affidavit, they ran a background check on the previous owner and discovered a lien against the property from the IRS for \$50,000 in back taxes. Yikes!

Fortunately, I had recorded the title and my purchase went on record before the IRS lien went into effect. But it's the IRS and they weren't going to just remove the lien. In fact, they actually tried to force me to pay it. I ended up having to fight to

The Magic of Real Estate

have it removed. So you see how important it can be to record the title when you buy a property, but also to have the preliminary title report in-hand and get title insurance. If I hadn't known how to maneuver in a situation like that, I would have had to pay the IRS fifty grand off the sale of the house. That would have been all my profit.

The uninsured title cost me \$50,000 profit because I was not able to close the house to the first buyer I got to buy the house. By the time I fought off the IRS, my buyer had gone elsewhere. Plus, that was right around the time the Great Recession really took hold of the credit market. To sell quickly, I had to deeply discount the property. All in all, I had no regrets. I bought the property with little money down, took over the owner's loan, rented it out for over four years with cash flow, and still made over \$50,000 profit.

It may be tempting to conduct a simple property search with the county records office when you're first starting out, if you buy a property and record the grant deed or a quit claim deed without first getting title insurance, you assume a huge risk that you may or may not be able to wiggle your way out of later on down the line.

Usually, you buy title insurance before you buy a property and either the buyer or the seller will buy title insurance when you sell the property. So if you're flipping a property, you'll probably end up buying title insurance twice to buy and sell the property. The cost of the title insurance itself is based on the cost and location of the property. When I first started out, my profits from flipping a house were thin and I really didn't want to shell out \$600 on the front end and \$600 on the back end for title insurance. Instead I researched the property on my own and I made sure to get the seller affidavit as my backup.

The Magic of Real Estate

Sample Affidavit

AFFIDAVIT

This Affidavit, when fully completed, is to be signed and notarized before returning to enable Title Company to insure the presently pending transaction.

I, _____ affirm(s) as follows:

1. I / We am/are the person(s) who made, executed, and delivered the deed dated _____ to Cesar on of Luisas Trust Corp grantee, which was recorded 7/15/04 as Instrument No. 0549546 conveying the following described property:
LEGAL DESCRIPTION IS ATTACHED HERETO AND MADE A PART THEREOF
AS "EXHIBIT A"

2. a. consideration in the amount of \$ _____ was paid for this conveyance; or
b. Other sale over payment

3. That possession of said premises has been surrendered to the grantee.

4. a. When I / We signed and delivered the deed to grantee, I / We understood the effect of the deed, knew what I / We were signing, and signed it freely, voluntarily and without being under duress; or

5. The Affidavit is made for the protection and benefit of the grantee, the grantee's successors and assigns, and all other parties hereafter dealing with or who may acquire an interest in the above-described property, and for the purpose of inducing _____
Title Company

6. ("Title Company") to insure title to the above- described property, I/ We know that Title Company will rely on this Affidavit and that but for my / our assurances Title Company would not insure the property.

7. I / We acknowledge I / We have read the foregoing and full indemnity and hold Title Company harmless against liability occasionally by Title Company's reliance on the statements I / We have made in this Affidavit.

Dated: 7/18/04

By: _____
By: _____

MUST BE NOTARIZED
Date 7/4/04
STATE OF CALIFORNIA
County of San Bernardino
On 7/4/04 before me,
The undersigned, a Notary Public in and said State, personally
Appeared [Signature]
[Signature]

Personally known to me or (proved to be on the basis of satisfactory evidence) to the person(s) whose name(s) is/are are subscribed to within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity (ies), and that by his/her/their signature (s) on the instrument the person (s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Notary Public in and said County and State (Notary's name must be typed or legibly printed)

Putting the Property in Escrow

Escrow is a neutral account overseen by a third party that holds deposit payments and property titles. The buyer puts a mutually agreed upon deposit payment in escrow as a good faith payment, to demonstrate his or her ability to pay for the house. In many cases, the seller deposits the grant deed in escrow so that when escrow closes, the escrow office can record the deed in the buyer's name and distribute funds accordingly.

I am a bit of an escrow hypocrite, and here's why: Whenever a buyer puts money in an escrow account, the escrow company usually has the buyer sign an agreement saying the escrow company can take their fees directly out of the escrow deposit. That agreement also states that should the buyer change his mind about buying the property, both the buyer and the seller must agree to release the escrow funds AND the seller gets to keep a portion of the deposit as well.

So, let's say I enter an agreement to buy a house and I put \$2,000 down on the property. I later find out that there is something going on with the property that I didn't previously know about and decide not to buy it. The escrow company will take their portion in fees - maybe \$400 or so. This leaves \$1,600 for me to divvy up with the seller. The seller then tries to make it easy for me: "Just give me a thousand bucks and I'll be on my way." This leaves me, as the buyer, with just \$600 of the original two grand I deposited and no house to show for it. Unless the seller agrees to release your money, you may have to go to court to get your deposit back.

As a general rule, I only put money in escrow when the escrow agreement includes a clause that prevents me from having to get permission from the seller to get my money back. Otherwise, I say no. On the flip side, if I am actually selling a property, I require buyers to put money in escrow.

The Magic of Real Estate

How to Quiet the Title

Some years ago, I bought a tax-defaulted property. When it was time for me to insure the title so I could sell the property, the title company informed me that I would not be able to insure the title until I “quieted the title.” I had no idea what that meant. So I had to do a bit of asking around.

An action to quiet title is a legal process by which you establish your legal right to a property and in so doing eliminate the claims of any person or entity that would challenge your ownership. Quietening the title is akin to the part of the marriage ceremony where the minister says, “If anyone has any reason why these two should not be joined together, let him speak now or forever hold his peace.” When you quiet the title, you ask the judge to declare to all that you are declaring all other ownership interest in the property as null and void. Anyone who thinks they have any claim to the property has one opportunity to come forward or they forfeit their ownership. You can customize a motion to quiet title to affect some encumbrances and leave others in place. For instance, if you have a loan on a property, you can ask the judge to quiet the title against every dispute except the loan.

As important as this one action can be in securing your real estate investment, the first time I had to quiet a title, I had a hard time finding a lawyer who could help me. Most of the attorneys I called had no idea how the process even worked. I found one lawyer who was willing to learn the process and do it for me for the low, low price of \$1,500. In reality, the \$1,500 would have been just a deposit; if anyone would have shown up to object to my quiet title action, the attorney informed me his attorney fee would increase proportionately based on the level of objection.

Thanks, but no thanks. I figured I’d save myself the money and learn on my own. I learned the process and filed my own action to quiet title and saved myself more than \$10,000. If you need to quiet the title and you decide to hire someone to

The Magic of Real Estate

do it for you, shop around. I've seen some attorneys charge as much as \$15,000 to show up in court on your behalf to quiet title on a property.

Be warned: Before you buy tax defaulted property, you should consider that it may cost you more if title problems surface. So you might be better off buying the property before the tax sale occurs. This is actually one of the methods I teach and emphasize in my coaching program.

Transferring Ownership

I found one of my most recent purchases while out on a weekend drive. In the three day period between Friday and Monday, I acquired the grant deed to this property and proved yet again how easy it is to grab hold of a piece of real estate. I actually considered putting the property in my dog's name, just to prove a point for this section of the book: When you acquire property, you can put the title in anyone's name you want.

I didn't actually put the name of Copper the Dog as the grantee. Instead, I decided to add this property to my daughter's investment portfolio. As of this writing, she is ten so now is as good a time as any to get her started in the family business. This whole experience just reminds me of an important point that I want to make sure I drive home: All you need to buy a house and legally transfer ownership of real property is a pen and pad, a driver license and a notary public.

The Magic of Real Estate

Purchase Agreement for Property I Put in My Daughter's Trust

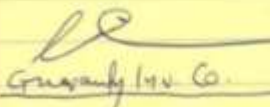
Real Estate Purchase Contract


For value received, the undersigned agrees to sell to Guaranty investment company, trustee of the Pumpkinqui trust dated January 1st 2014.

Purchase price to be \$10.00

Buyer has the right to occupy premises immediately.

Property address: 16547 Village drive
Victorville, CA 92394


Guaranty Inv. Co.
Buyer
Trustee of the
Pumpkinqui trust,
8/15/14


[Redacted]
Seller
8/15/14

The Magic of Real Estate

Grant Deed for Property I Deeded to My Daughter

RECORDING REQUESTED BY
PUMPKIN GIRL TRUST
P.O. BOX 55430
RIVERSIDE CA 92517

DOCUMENTARY TRANSFER TAX \$.55
 Computed on full value of property conveyed, or
 Computed on full value less liens & encumbrances
remaining thereon at time of sale.
Signature of declarant or agent determining tax, (Print name)

AM NO [REDACTED] 30 GRANT DEED

FOR A VALUABLE CONSIDERATION,
receipt of which is
hereby acknowledged,

IT [REDACTED], a single man
hereby GRANT to Guaranty Investment
Company, Inc. Trustee of the Pumpkin girl
trust dated January 1st 2014
the following described real property in
the city of victorville, county of
San Bernardino, state of California:
Lot 4 of Tract 5236, as per map recorded
in Book 76, Pages 31 through 35, inclusive
of maps, in the office of the county
recorder of said county

DATED 8/14/14
[REDACTED] at [REDACTED]

The Magic of Real Estate

Recording the Title

Believe it or not, in most municipalities, there is no law in place that says you have to record a title when you buy a property. It is your responsibility to ensure the title is properly recorded should you decide to record one. You can record just about anything with your county office, including cash purchases, title transfers, gifts, and even two-year options to buy. The real benefit of recording your title is to protect your right to lay claim to the property as of a certain date. The municipality also uses the information you provide them when recording your title to track you down when tax time comes. Every time a property changes hands, the tax information also changes. If the assessed value of the property has changed or the tax rate changes that change will be reflected in the new tax statements.

If you are selling the property and you have agreed to finance the sale yourself, you should record the property. I say that because when it comes to property liens and loans, they are paid on a first-come, first-served basis. So, let's say you come to me and say, "Toyin, I need to borrow \$100,000. My house is worth \$200,000. I will use it to secure the loan." I agree. I lend you the money, but I neglect to record the loan. You take out a second loan for \$50,000 and that lender records the second loan so that it shows up in the public records. I legitimately have 50% equity in your house, but if you default on the loan and he forecloses on the property, he could wipe me out. That's the importance of recording loans. It helps to ensure you will be compensated if the owner sells the property or is in danger of losing the property.

When you inform the public that you have a stake in a property, it is called constructive notice. Your title company will usually record the title for you as part of their closing services. There is a nominal fee to record a real estate transaction.

Exiting the Deal

The last part of closing any deal is exiting the deal. Your exit strategy is your plan for what happens once the contract has been signed. Will you put the title in your name or will you flip the contract? Will you rehabilitate the property and keep it or will you fix it and sell it? These are the issues you need to address as a real estate investor and it's best to address them before you even go shopping for a new property.

For every deal I enter, I already know what I want the outcome to be. I know how much I want to make off the property. I know how much I want to put into the property. I know what I will do with the property once I have it under contract. Don't ever sign a contract without having a plan in place for what will happen next. Your exit strategy is just as important as the deal itself.

PART THREE

Foreclosures

Foreclosure is not the time to cower; Foreclosure is the time to get smart and fight. EVERYTHING is negotiable.

CHAPTER 16

A Short Guide to Understanding Foreclosures

Since the Great Recession, we have learned the power of the word foreclosure. For the average person, the foreclosure process is shrouded in mystery. Few people understand what really happens during the foreclosure process. All they know is at the end of it all, the bank takes the house. But what exactly is “the end of it all”?

After more than 20 years buying properties that are at various points in the foreclosure process, I have learned that going into foreclosure is not the end of the world for borrowers. A homeowner who finds himself in foreclosure can, with a bit of creative thinking and bold negotiating, go a long way toward helping you work your way out of foreclosure and into a property that is better suited for your financial situation. And if you're really clever, you'll turn a profit doing so.

The 5 Steps of the Foreclosure Process

The foreclosure process is not complex. While the details differ from state to state, the overall structure of the process remains the same. Below, I've outlined precisely what takes place during the foreclosure process. We'll focus on what happens in the state of California since that's my home base.

- 1. The buyer borrows money to buy a house.** Banks lend money for borrowers to buy real estate. The loan is secured by the property the homebuyer purchases. The lender then gets a deed of trust which is held by a third party trustee.

The Magic of Real Estate

- 2. The home buyer misses several consecutive mortgage payments.** When a homebuyer gets behind on his mortgage, the lender will contact the trustee and say, "Mr. Jones promised to make monthly payments of \$1,000 on this loan but he hasn't paid in three months. Let's plan to start foreclosure proceedings at the end of the sixth month of default so we can get the house back and sell it to recover the collateral."
- 3. The trustee begins foreclosure proceedings.** In California, there are two ways you can foreclosure on a property. You can file a Notice of Default for a trustee foreclosure, or you can file a court action to initiate a judicial foreclosure. With a judicial foreclosure, the lender has to file an action in court that says the borrower hasn't made payments as agreed and the lender wants to foreclose on the property. A judicial foreclosure is a bit more complex and time-consuming than a trustee foreclosure so most lenders will go ahead with a trustee foreclosure and issue a Notice of Default to indicate the borrower is in breach of the deed of trust and start the trustee foreclosure process. The Notice of Default goes to the homebuyer and one copy gets filed with the county courthouse.
- 4. The home buyer / borrower gets 90 days to catch up the defaulted payments.** In the state of California, the lender gives the borrower fair warning that the trustee plans to take the property and sell it to recover the lender's losses if the homebuyer cannot catch up the delinquent payments in the next 90 days. If there is a second mortgage on the home, there may be a second trustee as well. The Notice of Default also gives the second trustee the chance to catch up the payments to keep the house from going up for sale.

The Magic of Real Estate

5. After 90 days, the trustee records the Notice of Trustee Sale. In

California, the trustee sale is usually 21 days from filing date of the notice. The lender must also publish the Notice of Trustee Sale in the newspaper for 21 days. During this 21 days, the buyer still has time to catch up his payments or pay off the loan entirely. In most cases, you can stop a trustee sale in the minutes before the property goes up on the auction block. That means if the sale is scheduled for 10AM, you can call the lender at 9:55AM and tell them you have the money to catch up the loan. The lender will usually give you a day or two to get the money to them before the home goes up for sale again. At the end of the day, you have to remember that banks want loans paid. Most of them don't really want your house unless there's a lot of equity in the property. Historically, lenders haven't been that interested in selling homes. But today, with the large inventory of real estate and the potential lenders have to make money reselling foreclosed properties, you will sometimes find a lender who prefers foreclosure to loan repayment. But that's usually not the case.

Everything is Negotiable

If you notice, at any point in the foreclosure process, the borrower has the option to catch up the payments. I will do you one better: At every point in the foreclosure process, the homebuyer has the right to call the lender and negotiate repayment. That may mean asking the bank to put the missed payments on the back end so you can catch up. It may mean making larger payments for the next six months to allow you the chance to get current on your payments. But most of all, it means admitting you are behind and having the will to work with the lender to come up with a new agreement. It is better for the lender to help you get back on track than it is for the lender to take the house. So help the lender understand what it will take to get you back on track. This includes asking the lender to:

The Magic of Real Estate

- Lower your monthly payments
- Lower the interest on the loan
- Put delinquent payments on the back end
- Postpone the trustee sale

When it comes to foreclosures, real estate, and sales in general, everything is negotiable. I can't say it enough: Everything is negotiable. If you're not confident in your ability to negotiate with the lender, you can hire someone to do it for you, but I always suggest you do it yourself. The more opportunities you take to negotiate deals, the better you will get at negotiating.

The Sheriff is Coming! The Sheriff is Coming!

If I could get one thing through your head about the foreclosure process it would be the truth: Foreclosure isn't the end of the world. The only reason foreclosure gets the attention it does is because we've tied our idea of success to what we were taught about the American Dream. But dreams rarely make room for reality. That's what makes them dreams. In reality, people relocate, they change jobs, they upgrade or downsize, they go on maternity leave, they have surgery, and they experience changes in their finances. In reality, things change. There may be times when you have more than enough money, there may be times when your money doesn't even cover the basic necessities. Most people get experience managing money through both extremes.

I would venture to say if you've ever faced foreclosure you have battled the dreaded imagery of the sheriff dragging you out of your house and into the street in front of your children then carelessly tossing your family's things outdoors for strangers to scavenge. In your mind's eye, you can probably see the neighbors'

The Magic of Real Estate

concerned faces and hear their whispers. To keep from experiencing that level of public embarrassment, many people who are facing foreclosure simply leave their homes at the first sign of financial trouble, thinking that by leaving before things get bad they will be able to put the problem away quickly and quietly.

It seems to me the problem most of us have with foreclosure is the fear of what other people may think and say. Foreclosure is embarrassing! And for good reason. If you hinged your personal value and effectiveness on your ability to make monthly payments on an overpriced house, losing that house will undoubtedly impact how you feel about yourself. Foreclosure is not a reflection of your ability or inability. For most of us, it's not evidence of bad character. By and large, foreclosure is just proof that life happens... to all of us. There's nothing shameful about foreclosure. The moment you let shame creep into the picture, you will be tempted to avoid the lender's calls or move out of your house and go off the grid, so to speak. By avoiding the problem, you may actually be crippling your finances even further.

Many homeowners move out of their homes too soon. The moment they get the Notice of Default, they pack up and move to an apartment and pay rent thinking the bank is coming to get the house. It takes months and months to complete a foreclosure. According to the National Association of Realtors, one in every five foreclosures are "zombie foreclosures." These are properties where the foreclosure process started and the homeowner moved out of the house, but the trustee never completed the foreclosure process so the homes are just vacant.

So, let's say you're a homeowner who hasn't read my book and you are struggling to make your mortgage payments every month. You finally decide to let the house go. Naturally, you're going to stop making mortgage payments. Instead of scrambling around to find an apartment immediately, what if you wait until you get a notice to vacate before you move out of the property? Think of how much money

The Magic of Real Estate

you can save by waiting until the bank orders you to leave before you move out. The truth is, you don't really know how long it will take for the bank to foreclose on your property and you don't have to leave the property until the bank or the new owner files an unlawful detainer. You may not want to wait until you get a court order to leave, but waiting is often a more favorable option than rushing out of the house at the first Notice of Default.

The average foreclosure takes a year and a half to complete. In some states, the process is much longer. In New Jersey, it takes an average of 1,098 days, according to RealtorMag.com. That's three years! In New York, it takes an average of 930 days to complete a foreclosure; in Florida, it's 925 days; Hawaii, 915 days; Illinois, 850 days; and in Massachusetts, it's 784 days.

Another thing I want to make sure you know is when a trustee sells a foreclosure to help the lender recover the loan amount, the homeowner can end up paying the difference between what the property sells for and what's owed on the loan. More importantly, if the house sells for more than what's left on the loan, **the trustee has to pay the homeowner the difference**. If a homeowner moves out at the beginning of the foreclosure process then disappears in shame, the money from the sale goes to the county that has jurisdiction then to the state if the money goes unclaimed.

I know it's hard to believe, but the bank is in no hurry to take your house. Most of us know someone who has faced foreclosure in the last few years. It seems that every place you turn, a lender is staking a claim on someone's home. But the moment a bank transfers the title from your name to its name, the bank assumes complete liability for the property. That means maintaining it, securing it and even making sure the grass is cut. In many communities, an unkempt house can result in a code violation and fines that can get as high as \$100 a day. So banks aren't in a

The Magic of Real Estate

hurry to get their names on homes unless that home is days away from going up for auction. The longer they keep the house in your name, the less they have to invest in maintaining the house. And as long as the house is in your name, the sheriff cannot come and kick you out.

Some homeowners will file bankruptcy in the middle of a foreclosure to buy time. Filing bankruptcy temporarily stops all collection action against you. This includes foreclosures. I am a firm believer in using bankruptcy to give yourself a fresh start. In fact, as a credit counselor, I used to advise my clients against debt consolidation and recommend they file for bankruptcy protection. This is especially effective against creditors who are harassing you and against lenders who may be unresponsive.

Big businesses use bankruptcy protection all the time. Cities even file bankruptcy. In light of well-publicized financial troubles over the past few years, I don't think anyone is surprised to learn that the city of Detroit has filed the largest municipal bankruptcy on record to date. When the dust settles, I suspect Detroit will emerge from bankruptcy stronger and become an economic powerhouse once again.

Case Study #3: Fighting Foreclosure

I normally pull my case studies from my own book of experiences, but the case of Linza versus PHH in California pretty much sums up why I think it's important for homeowners to remain mentally and emotionally present during the foreclosure process.

Phillip Linza of Yuma County, California was already facing foreclosure when he negotiated a loan modification deal with PHH that reduced his monthly mortgage payments by about \$500. For months, Linza made the payments on his loan

The Magic of Real Estate

modification, until he received a letter one day from the loan servicer indicating they had made a mistake and his monthly payments should have been \$800 more than what he was paying.

Linza was unsuccessful in reaching anyone at PHH who could rectify the matter and soon PHH sent another letter demanding even more money before finally deciding to foreclose on his property. Desperate for help in a situation that would make any one of us angry, Linza decided the only thing for him to do was sue. After three years in court, the jury awarded Linza \$500,000 in actual damages and \$15.5 million in punitive damages. The \$15.5 million award was reversed, but the point made by the ruling was clear: Not even mortgage companies and loan servicers have the right to treat people unfairly. This is just one option that is available to every homeowner. Mortgage companies are not above the law. If you think your mortgage carrier has wronged you, take it to court. You may even get a temporary restraining order to stop them from taking the house until the lawsuit is resolved.

In the end, observers say it was PHH's arrogance and unwillingness to rectify their administrative mistakes that ultimately caused them to rule in Linza's favor and award such a large sum.

It's a great story. You can Google it yourself. My point in all of this? Fight back.

How to Negotiate Foreclosure Sales

So, you find a property and you learn that it is in the process of being foreclosed. There are three ways to buy homes that are in foreclosure.

The Magic of Real Estate

Buy the house from the owner

You can purchase homes that are in foreclosure from the owner if the owner is willing to sell. The leverage you have here is negotiating with an owner who is about to lose his house and whose credit is on the verge of ruin. This is the perfect opportunity to take over the payments to help save the owner's credit rating. If the owner is in dire financial straits and doesn't have the money to move, it would be in your best interest to make a down payment of a few thousand dollars to help him pack up and be on his way. Next, negotiate a repayment plan with the bank. From there, you can either get a renter in the property, put the property on the market, or create a back-end profit for yourself.

Buy from the owner and negotiate a short sale with the bank.

As owners get further and further behind on their payments, they provide investors with a solid opportunity to negotiate a short sale with the bank directly. Proceed as if you're buying the property directly from the owner, but instead of taking over the payments, pay off the loan in full at a deep discount. A short sale is easier to negotiate on properties that may have challenges that the bank isn't taking into account. For instance, a property that hasn't been well-maintained, a property with water or fire damage, one that is upside down on the mortgage, or one located in a neighborhood that has deteriorated. Anything you can find that will convince the bank that the property's not worth what the outstanding loan says it's worth will help you negotiate a cheaper loan payoff amount.

For instance, I once bought a house in Anaheim for \$1 and sold it for \$40,000, after convincing the bank that the property is worthless and infested with mold. Yes, it had a mold problem and I had to fix the house up. The total investment to repair the house was about \$10,000. That money didn't come out of my pocket either.

The Magic of Real Estate

Buy the house at the trustee sale

If you have cash in-hand or financing readily available, you can show up at the trustee sale to bid on a house that's going up for sale after being foreclosed. I've seen REO auctions start the bids as low as \$1,000. You may be able to grab the house for pennies on the dollar, or the house may go for market value. You just never know.

Make every effort to deal directly with the homeowners when you look to buy foreclosures. Be shrewd, but be fair.

The Magic of Real Estate

PART FOUR

Getting Started

Show me how it works. I need a plan.

CHAPTER 17

A Seven-Point Plan to Get You Started

It's time for the rubber to meet the road. When I started out in this business, I read everything on real estate investment I could get my hands on. The process resulted in me being fat on information and lacking in a real execution strategy. So, I want to make starting as straightforward as possible for you.

What follows is a simple plan. These are the steps you will use to negotiate your first real estate deal. Remember, if the first deal doesn't go as you planned, that's okay. As long as you took the time to grab enough leads, the next phone call is just a few hours or days away. Just keep pushing.

Step #1 - Make Your Plan

Know the end from the beginning. I hate to think that anyone will make the mistake of buying real estate without having an end goal in mind. Your plan should include the following:

- A total amount of money you want to make on the deal
- The amount of time and money you want to invest in the deal
- Any people you want to recruit as partners (this is your REI Dream Team)
- Your plan for financing the deal
- How you will exit the deal (what you're going to do with the property itself) once you have the property under contract
- Your proposed timeline from start to finish

Step #2 - Make Your Connections

It's time to put your dream team together. This doesn't have to be a marriage. Let it be a starting place. Use your social networks and Google to find a title company, realtor, rehab pros, property inspector, lender, closing agent and investors. If you don't have real estate professionals in your social network, use Google to find them. Google the term "title companies" followed by your city name to get a list of title companies in your area. Make the initial contact and ask what their process is. You can tell a lot about the ease of doing business with a company just by how they respond to you on the phone during the initial phone call. I promise you, by the third phone call, you will know what questions to ask and which departments you want. You will start to sound like a pro.

Step #3 - Search for Properties

Make a commitment for seven days to drive around your neighborhood and write down the vacant properties you see. Do this for 10 minutes before work in the mornings and 10 minutes in the evenings before you go home. Most of us can spend 10 or 15 minutes driving around and find an average of one property per minute. Use your phone to take pictures and record your notes about each property. You can join GIC DealFinders at <http://GICDealFinders.com> and earn \$1,000 to \$5,000 per deal as a regional property hunter become a regional property hunter. All you need to join is your cell phone and the ability to snap a picture and upload it to the GIC site.

Step #4 - Research the Properties

One of the great things about neighborhoods is there always seems to be someone outside. Your first method for researching any property is to find someone nearby and ask questions. Start with "How long has this property been empty?" That

The Magic of Real Estate

question is unassuming and will be relatively easy for a neighbor to answer. Neighbors are usually interested in knowing who is snooping around their neighborhood. Introduce yourself, be friendly, and ask unintrusive questions to foster goodwill and demonstrate your genuine interest.

After you poke around the neighborhood, check the county assessor's office to find out how much is owed in taxes. This is generally public information. You can check the county land records online to find out who is listed as the property's owner. You will still need a prelim report, but the county assessor's office will give you a good start.

Step #5 - Contact the Owner

Find out if the owner is ready to sell. Write, send a postcard, call, or contact the owner on social media and gauge how motivated the property owner is to sell the property. Remember, motivated sellers help you find solutions, they don't present more problems. You are there to solve their problems, not assist them in creating more problems.

Step #6 - Negotiate

And by "negotiate," I mean make a low offer and let the seller tell you if you're even in the ballpark. Ask questions like, "How much do you need to move?" or "What's the price if we can close by the end of this week?" You can ask the seller how much he wants for the property, but I think this question should always be followed with a question about how much the seller absolutely *needs*. Start low. You can always go up slowly, in price but you can rarely go down from your original offer unless something drastic is discovered after you make your initial offer.

Step #7 - Exit the Deal

Before a hard money lender will fund a real estate investment of any kind, the lender will want to know what you are using the money for and how you will be exiting the deal. They want to make sure you will have enough cash flow to make the monthly payments to pay back the loan and they want to ensure that if you cannot make the payments, they can quickly liquidate the property and recover their money. Before you do any deal, you need to know why you're doing it and what the end result will be. If I look at a deal, I may say, "I need to make \$40,000 off this deal in order for it to be worth my time." Saying that, I already know how I'm going to get the forty grand. I know if I'm going to flip the contract, flip the property, rehab the property or sell it on contract for deed terms. In much the same way, you need to already have a plan in place for why you're acquiring the property, how much you plan to make off the deal and what you will do with the property once you have it. You need an exit strategy. Your exit strategy will be based on your goals, the property, and your target customer.

CHAPTER 18

More Case Studies

You may find it helpful to review a couple of real-world case studies. In addition to the stories and case studies I already included in the book, I thought it might be fun to scroll through my list of properties and tell you how a few of these deals came to be, just to give you a quick glimpse into my journey from zero to four hundred properties.

Case Study #4: The House That Had No Equity

At the very heart of finding success as a real estate investor is being able to find homes below market in order to sell them at a profit. The very first successful deal I ever constructed was for a house with absolutely no equity in it.

I ran a small ad in a local paper that simply read “I buy houses” and I got a call from a woman who lived in a house that was fifty miles or so from her job. The commute to and from work every day was not only time-consuming, but the amount of money she spent on fuel getting there and back was putting a real dent in her paycheck. She wanted to move. She *needed* to move. In order to move, she needed to sell her house. When she called, she told me the house was worth about \$260,000. The house was in perfect condition, nothing wrong and nothing needed. The only problem was she and her husband owed about that amount on the house. Well, I couldn’t buy the house for \$260,000. I wouldn’t make any money on the deal. I told her I would be willing to take over her payments to the bank and pay her two thousand dollars down so she and her family could move. She agreed.

We drew up an agreement that said I would take over the payments subject to the agreement she had with the bank. Basically, I would continue making her

The Magic of Real Estate

mortgage payments. We recorded the grant deed with the county recorder. I negotiated the deal so that I could take control of the house with \$2,000 down, but in all honesty, I didn't have the two grand. I asked the lady if she would give me 30 days to come up with the two grand and she agreed. So, I had the grant deed, I had control of the property and I had 30 days to come up with the down payment.

I ran a second ad that read, "\$10,000 down, take over my payments." I got a few calls and decided to go with a buyer who had half the down payment I requested and who I thought could afford to take over the monthly payments. Again, we signed an agreement, the buyer made a \$5,000 down payment and I gave him the Grant deed to be recorded in his name for his purchase. The new buyer agreed to pay \$5,000 up front and made arrangements to pay the remaining \$5,000 needed for the down payment over 60 days, with interest. I drew up a deed of trust and had him sign it. This protected my investment in case the new buyer didn't pay the remaining \$5,000 within the 60 days. I recorded the deed of trust with the county recorder to protect my right to foreclose on the property if he defaulted on paying the \$5,000. I paid the \$2,000 down payment to the woman from whom I was buying the house and I pocketed the remaining \$8,000 (plus interest) from the deal.

Several years later, the value of that property increased to a half million dollars. If I had held the property and rented it out, I would have had \$250,000 in equity to enjoy, but I was new to investing and I needed the money, so \$8,000 was good enough for me at the time.

Do you see the magic? In 30 days, I made \$8,000 on a deal that didn't cost me anything. Back then, I paid the cost of a small ad in a local newspaper. These days, you don't even have to spend that much. You can advertise for free using online classifieds like eBay and Craigslist.

Case Study #5: Home for Sale, No Qualifying

Here's something you should always remember: There are many buyers out there who are willing to overpay for a home if they can get into a deal without qualifying. Just because a buyer wants to avoid the qualification process doesn't mean they can't afford a house. Often times, these are people who conduct a lot of cash business like dancers, taxi drivers or people who operate food stands, ice cream trucks, or other small business owners. They may be self-employed individuals who take all the deductions they can to help reduce their Adjusted Gross Income and minimize the taxes they owe, but in so doing wipe out any chance they have of qualifying for a traditional bank loan.

Here's a piece of advice: If you want to get more leads than you know what to do with, put an ad in the paper for 3 or 4 bedroom houses with no qualifying.

I put a house on the market with an ad that read: "3 bedrooms, 2 baths seller-financed deal with no qualifying." I found a buyer and I took a hefty down payment of about \$5,000 and agreed to allow the buyer to purchase the house over a period of years making monthly payments that were affordable for him. Of course, once we reached the agreement, I recorded the deed of trust and things were fine for a while. Eventually, he stopped making payments. Because I recorded the agreement, I was able to foreclose on the property and take the property back. Fortunately for me, the value of the property had gone up during the time he was under contract to buy the house, so when I placed my "No qualifying" ad in the paper a second time, I was able to re-sell the same house under similar terms (hefty down payment and affordable monthly payments for ten years) for significantly more money and this time, the sale worked out just fine.

Case Study #6: The One Who Tried to Get Away

I came across an opportunity in Moreno Valley with a property that was in foreclosure. The owner had stopped making payments on the property and I was able to negotiate a deal with her to buy the property from her before the bank took it back.

The negotiation process took some doing. On the day we finally came to an agreement, I had taken my son with me to the seller's home to sign the agreement. My son was much younger then and he was content to play with her son, who was about the same age.

The seller and I came to an agreement and wrote up our contract as a 30-day deal. A few days later, the seller decided she no longer wanted to sell the property to me. She said a real estate agent approached her and told her she could get more for the property if she, in essence, broke her contract with me, which she attempted to do. As it turns out, she had already entered into a contract with another buyer who would pay her more. When she called me to tell me she wanted out of the contract, I warned her that we already had a contract and that I would enforce the contract.

Unfortunately, we came to the place where I had to sue the seller to get her to keep her word to me. I learned early in this business that you have to have a lawyer on-hand who can handle these sorts of disputes for you. In a rather disappointing turn of events, the seller tried to convince the court that I forced her to sign the purchase agreement. She said she had no intention of selling to me, but that I made her sign the documents.

“And where did all of this take place?” my lawyer asked her.

“Well, at the house,” she said.

The Magic of Real Estate

“Who was there?” my lawyer asked.

“Myself and my son.”

“Okay. While Toyin was forcing you to sign the contract, what was your son doing?”

“He was right there playing with Toyin’s son,” she said.

“So, if your son was playing with his son and you guys were signing the contract, can you describe to the judge in detail exactly what Toyin did to force you to sign this contract?”

(Pause. Crickets. Tumbleweeds)

“Uh... um...”

“Now,” my lawyer continued. “Didn’t you willingly sign this contract because you two negotiated a price?”

The seller answered after a moment of pondering. “Yes.”

Case closed.

This case study demonstrates the importance of putting everything in writing. People do change their minds, but that is no excuse for allowing them to go back on their word. Some people would argue the law provides people with three days to change their minds when they enter a contract. In reality, the rescission law gives *buyers* three days to change their minds after signing a contract, but in most cases, that doesn’t apply to real estate deals. An exception is if the owner is in foreclosure, in California.

Case Study #7: Fore!

I came across a couple who had the misfortune of living adjacent to a public golf course. Their home had broken windows and they weren't able to use their pool because golfers at this public course consistently hit balls onto their property, through their windows and into their pool. What's worse, they had talked to the managers of the golf course and the managers claimed there was nothing they could do. It was a public golf course. This problem made it almost impossible for them to sell the house because none of the would-be owners wanted the hassle of dealing with the golf course next door. The poor couple had buckets and buckets of balls and they eventually decided to stop putting glass back in the windows. They covered the windows facing the golf course with cardboard because replacing the glass had gotten too expensive for them.

As an experienced investor, it was easy for me to come to a decision to buy. I bought the property and entered an agreement to pay them the equity on the property once I fixed it up and sold it. In the meantime, I took over their payments, took control of the property, and agreed to fix the property up and sell it.

My first order of business was to go to the golf course owner. I went armed with the bucket of golf balls and pictures of the empty pool and broken windows. I was very direct. Since their defense was that people were golfing on a public course, I shifted the liability from them to their customers. I told them that if one more ball made its way onto my property, I would make it so that no one would be willing to golf at that course ever again.

“How can you do that? It's a public course and there's nothing we can do about the balls.”

The Magic of Real Estate

Here is the promise I made to the owners: Every time a ball lands on my property, I will go into the parking lot and take pictures of the license plate of every car there at that time then proceed to file a lawsuit against each and every car owner. Maybe I couldn't sue the golf course directly, but I could certainly tie their patrons up in enough legal red tape to keep them from wanting to golf at that course anymore. By taking a picture of their license plate, I could tie the driver to being on the green at the time of the incident. It would then be up to the driver to prove he or she didn't hit the offending little white ball.

They got the message. They switched the swing area and I didn't get any more golf balls in my yard. I was able to fix up the property and sell it. This case just goes to show you that sometimes you have to be willing to play hardball with people who would stand in the way of your profitability. Never be afraid to get what's yours and protect your investment. I entered the agreement to purchase the property knowing full well how I would handle the golf club managers and how I would exit the deal. I made over \$50,000 on the deal with no money down.

Case Study #8: The Unlikely Money Pit

Contractors are notorious for running behind, aren't they? I would guess that part of the reason builders and general contractors are always running behind is because they deal in a cash business and it's easy to underestimate how much cash is required to do a job and it's tempting to spend the cash you get on things not related to the job. Very often, contractors end up in a cycle of robbing Peter to pay Paul.

As a real estate investor, you can expect there will be times when you will pick the wrong partners and end up wasting time and money working with people who are less than professional. I bought a property for rehab and my regular contractor wasn't available to do the job, so I hired another guy to do the job. Of course, he was dazzling and gave me a heartfelt song and dance about his abilities

The Magic of Real Estate

as a contractor. I believed him and handed him \$15,000 to get this rehab project underway so I could flip the property.

I suppose you know the rest of the story. The work soon slowed down before coming to a screeching halt. After a few weeks, the contractor didn't even bother showing up at the property anymore. I finally did what I should have done before hiring this guy and conducted a background check only to find his contractor license had been suspended by the state for unethical business practices. By handing him my money, I had joined a growing list of customers whose money he had taken and jobs he had abandoned. I ended up paying more the next time I hired a contractor because the unlicensed contractor had actually done more damage to the property than was already there.

What did I learn? Never pay contractors up front. I always get my own materials and set up a progress payment schedule to minimize the likelihood that the contractor will skip out with a fistful of my money and leave the actual work undone.

Case Study #9: Green Acres

I bought a house that was on four acres of land. I did what I normally do when I'm considering a purchase – I pulled up the property and checked the profile and the prelim. What I found was the four acres of land had already been divided into two distinct properties and the owner owned both properties. The house was on half an acre of land; there were also 3.5 acres in the back of the house as a separate property. So even though the owner was selling everything as one, there were technically two properties for sale- one address with two parcel identification numbers.

There was a loan on the property for about \$230,000, against the house on the half acre. The property behind the house, however, was free and clear. I agreed

The Magic of Real Estate

to buy the property for \$330,000, which meant I needed about \$100,000 in cash and I would take over the payments on their loan. When we went to escrow, I made sure the owners signed two grant deeds – one for the house and one for the land. So what I did, was I took out a loan on the land, using it as collateral to get the money to pay them off. Three years later, I was able to sell the property and the land for \$950,000.

Case Study #10: \$70,000 and a Million Cockroaches

I met an older, retired woman who was pleasant to be around. She was a smart woman who owned several properties and she wanted to realize as much profit as she could from her properties, so it took a while before we came to an agreement on a sale price for any of her properties.

Eventually, I bought one of her houses, a nice, tidy little home that she sold to me for \$70,000. I turned around and rented the property out, but my tenants stopped paying rent. We went through the eviction process and when I took possession of the property again, there were about a million cockroaches living there. I sent a crew in rehab the property so I could put it on the market and it took TWO MONTHS to get the damned the cockroaches out. Two months!

Once those little suckers were gone, I sold the house for \$140,000 and made about seventy grand... minus the cost of painting the place, installing new carpet, and about a thousand bucks in roach motels.

You run into those kinds of situations every now and then. Renting is often my worst case scenario and I usually reserve it for properties that I'm not really going to make much money on anyway. I know investors who make the majority of their money renting out properties, but I think renting is too risky and is often a big headache.

Case Study #11: Three Lots and Six Homes

I received a call from someone who owned mobile homes. He wanted to sell six homes that were divided between three lots for \$600,000. The seller agreed to let me pay \$100,000 down and he would carry the paper for the remaining \$500,000.

Here's where the creativity comes in: I structured the deal so that my down payment covered the one lot that had two mobile homes on it. The remaining lots which held the other four mobile homes were used as collateral to secure the loan balance. So when the deal was done, I owned one lot and four mobile homes free and clear with very small loans that I took over. The market value of that lot and the four mobile homes was about \$300,000 cash. So I went in with \$100,000 that I borrowed to secure the deal. Once the deal was signed, I called another private lender and borrowed \$500,000 cash that I crossed with another property which I used to invest in something else.

Case Study #12: The Not-Picky, No-Money-Down Deal

I received a call from a relative of mine who wanted me to help her brother find a house to buy. Her brother and his wife were having trouble finding a home. It seemed every offer they made on a house, someone came along and outbid them. That happens in a seller's market. This describes a period of time in a particular region where there are more buyers than there are sellers. So, I talked to them and helped them think like investors instead of the typical homebuyer. I assessed the situation and here's what I found:

The couple qualified for \$200,000 loan from the bank. They were trying to get into a property with almost no money down. The problem was, they were shopping retail, thinking like the average homebuyer. They wanted what most buyers want - to walk into a perfect house with no work to be done. That's the way most homebuyers

The Magic of Real Estate

are and that's why they end up spending so much on their homes. So I advised the couple to find "fixers" and "pre-habs." These are properties where the investor has come in and started fixing up the property but the investor sells the property at a discount before the rehab is done. When you go for pre-habs instead of perfect, market-ready homes, you leave the retail market and you start competing with thrifty real estate investors instead of homebuyers who are willing to overspend in order to grab their piece of the American Dream.

The couple found a house that fit their new criteria. I did a bit of research and found a city program that provides forgivable loans to help first time owner-occupants buy properties. The couple was able to secure \$15,000 from the city and a community bank offered them \$5,000 to finish rehabbing the property. I negotiated with the seller and locked in a price of \$185,000 for the property. The appraisal for the house as-is was \$220,000, so the couple went into the property with \$35,000 in equity.

After fixing the property up, the value of the property went up another \$15,000. So now, there's \$50,000 in equity with no money down! My relatives can stay in the house for ten years and the city will forgive the loan, or they can sell the house and pay off the city loan and walk away with \$35,000 in cash.

Final Thoughts

When I talk about the magic of real estate, I'm not just talking to investors. Whether you need a house just to live in,, whether you're a real estate investor or a stay-at-home mom, there are so many ways to leverage the magic of real estate to make money and build wealth.

I wrote this book to help guide regular people just like you into creating an almost fail-proof method for generating income. Investing has helped millions of people create wealth and it can do the same for you. Learn the skill and teach your children and grandchildren to create wealth as well.

Now that you know the basics, you have a choice to make: Either you're going to be another knowledgeable poor person or you're going to take what you've learned and use it to make another \$5,000 or \$50,000 a month.

It took me ten years to get to the place where I made a commitment to learn this business and make money at it. The first few times I attempted to do real estate deals, I was unsuccessful because the moment a challenge arose, I backed away from the deals. I quit. That doesn't have to be you. I created the [GIC Deal Finders](#) community for novice investors who have questions and need answers. In that community, I review questions, offer regular webinars and provide answers to your questions.

Friend, the knowledge I have today will serve me for the rest of my life. I know that whenever I need money, it's just another deal away. What will you do with the knowledge you now have?

The Magic of Real Estate

Join the [GIC Deal Finders](#) community or get more in-depth training or personal coaching, get it on www.TheMagicOfRealEstate.info. It's time to change your life for the better.

References

Board of Governors of the Federal Reserve. (2014). *Report on the Economic Well-Being of U.S. Households in 2013*. Washington DC: Board of Governors of the Federal Reserve System.

Brandon, E. (2012, May 20). *Poverty Increasing Among Retirees*. Retrieved from U.S. News:
<http://money.usnews.com/money/retirement/articles/2012/05/21/poverty-increasing-among-retirees>

Carlyle, E. (2013, December 17). *Study Finds 6.4 Million U.S. Homeowners Still Have Underwater Mortgages*. Retrieved from Forbes:
<http://www.forbes.com/sites/erincarlyle/2013/12/17/6-4-million-still-have-underwater-mortgages-as-of-q3-2013-says-corelogic/>

Christie, L. (2014, January 16). *Foreclosures Hit Six-Year Low in 2013*. Retrieved from CNN Money: http://money.cnn.com/2014/01/16/real_estate/foreclosure-crisis/

Daily Real Estate News. (2014, July 18). *Foreclosure Timelines Grow Even Longer*. Retrieved from RealtorMag: <http://realtormag.realtor.org/daily-news/2014/07/18/foreclosure-timelines-grow-even-longer>

Fidel, E. (2012, July 25). *Women Live Retirement in Poverty at Higher Rates Than Men*. Retrieved from Bloomberg: <http://www.bloomberg.com/news/2012-07-25/women-seen-living-retirement-in-poverty-at-higher-rates-than-men.html>

The Magic of Real Estate

- Garrison, T. (2014, February 20). *Average monthly house payments jump 21% in fourth quarter*. Retrieved from Housing Wire:
<http://www.housingwire.com/articles/29030-average-monthly-house-payments-jump-21-in-fourth-quarter>
- Geoghegan, T. (2013, September 23). *Why Do So Many Americans Live in Mobile Homes?* Retrieved from BBC: <http://www.bbc.com/news/magazine-24135022>
- Hargreaves, S. (2013, September 17). *15% of Americans Living in Poverty*. Retrieved from CNN Money:
<http://money.cnn.com/2013/09/17/news/economy/poverty-income/>
- Leahy, R. L. (2008, May 9). *Are We Born Afraid?* Retrieved from Psychology Today:
<http://www.psychologytoday.com/blog/anxiety-files/200805/are-we-born-be-afraid>
- Linza, P. (2014, July 19). Yuba Jury Awards \$16M in Mortgage Case. (N. 1. ABC, Interviewer)
- Loftsgordon, A. (n.d.). *States with Long Foreclosure Timelines*. Retrieved from Nolo:
<http://www.nolo.com/legal-encyclopedia/states-with-long-foreclosure-timelines.html>
- Matthews, D. (2013, May 20). *Senior Poverty is Much Worse Than You Think*. Retrieved from The Washington Post:
<http://www.washingtonpost.com/blogs/wonkblog/wp/2013/05/20/senior-poverty-is-much-worse-than-you-think/>
- Nuiry, O. (2013, May 14). *America's 14.2 Million Vacant Homes: A National Crisis*. Retrieved from RealtyTrac: <http://www.realtytrac.com/content/news-and-opinion/americas-142-million-vacant-homes-a-national-crisis-7723>

The Magic of Real Estate

Predatory Lending. (n.d.). Retrieved from National Association of Consumer Advocates: <http://www.naca.net/issues/predatory-lending>

Smolin, A. (n.d.). *What Does a Title Company Do?* Retrieved from Zillow: <http://www.zillow.com/mortgage-rates/buying-a-home/title-company/>

Stobbe, M. (2012, October 12). *U.S. Mortality Rate: Deaths Surpass 2.5 Million for the First Time*. Retrieved from Huffington Post: http://www.huffingtonpost.com/2012/10/10/us-mortality-rate_n_1953215.html

Trulia Contributor. (2013, November 6). *Where America's Vacant Homes Are*. Retrieved from Forbes: <http://www.forbes.com/sites/trulia/2013/11/06/vacant-homes/>