



# Real Estate Basics

## Frequently Asked Questions

### What To Look For? Lesson

- Evaluate the risks and the rewards in the various types of real estate investing, e.g. land, commercial, multi-unit, single family residence, etc
  - Why invest in real estate?
- Describe the advantages and disadvantages of the different types of real estate
- Identify your target investment areas
- Create the personal property search criteria you will use to select properties in which to invest, based on area and population demographics, property and general characteristics
- Identify sources of real estate information on the Internet

### Question: What is unimproved property?

Unimproved property is land without significant buildings, structures, development, or site preparation. In essence, it is a raw piece of land.

### Question: What types of properties should I be looking for to make offers on?

When you are just getting started in real estate investing single family residences (SFR) are the ideal property type because the greatest portion of the population buys or rents this property type. Typically, it is the easiest property type to rent or sell because of the location, price and ease to qualify for financing. You will have a lot more buyers for this property type because these properties are attractive to first time home buyers, transitional home buyers, and other real estate investors.

When people are looking for a single family residence to purchase the largest group typically wants a detached dwelling that is 1,000 to 1,800 square feet in size with three or more bedrooms, and one or more bathrooms. This is the kind of home that first time home buyers, your most motivated buyers, are likely to be looking for.

### Question: How do I find a good real estate agent?

Here are five ways to find a good real estate agent.

1. Word of mouth
2. Investor club meetings
3. Call real estate offices and ask the receptionist if any of the agents there work with investors. Sometimes new agents are more willing to work with investors
4. Look for signs in the neighborhoods and call the agents whose names you see the most.
5. Use the web site [www.realtor.com](http://www.realtor.com) to contact several listing agents and express interest in their listings. Seeing how an agent goes about selling a listing will help you decide if this is the agent you want to work with.

### **Question: What is the target area?**

The target area is the specific area in which the investor chooses to invest. We recommend that you focus on low to median priced properties in decent working class neighborhoods. Specific attractive home features include: 1,000 to 1,800 square feet, 3 bedrooms and 1 ½ to two baths, five to twenty-five years old. Other attractive factors to look for would be a steady rental area, rebuilding in the area, or it even proximity to the investor's home.

### **What's It Worth? Lesson**

- Identify motivated sellers; evaluate situation, ask probing questions, etc.
- Refine your property search criteria
- Determine fair market values and maximum offer amounts; define comps, conduct initial property inspections
- Use the Fast Offer Formula, define closing costs and holding costs
- Explain investment strategies for building wealth

### **Questions: When I call a listing in the paper, what do I ask them?**

Your primary goal when calling a seller is to determine their level of motivation. As you ask questions such as the ones listed here listen carefully to the answers and follow up with additional questions to clarify and get additional information. Don't worry about asking questions that were answered in the ad. You never know when a seller might reveal some additional information or change something from the original ad.

Possible questions:

- Please tell me about your home:
  - How many bedrooms, bathrooms?
  - What is the overall condition of the home?
  - What is the address?
  - Is there a garage or basement?
- How much are you asking for your home?
- How long has your home been on the market?
  - Have you received some offers on the home?
- Why are you selling?
- Would you consider doing any creative financing, such as seller financing or lease option?
- Do you currently live at this home?
  - If not, are you renting it out?  
If so, how much is the monthly rent?  
Is the renter current?

Additional questions:

- How did you come up with the sales price?
- Is the price negotiable?
- What are you trying to accomplish with the sale of your house?

### **Question: What kind of profit should I expect to make in a typical real estate deal?**

10% to 20% of the fair market value or at least \$10,000.

**Question: What is the most I should pay for a buy, fix and sell property? What if I am going to keep it and rent it out?**

If you plan to sell the property quickly we recommend you use the Fast Offer Formula. Follow these steps to determine your maximum offer amount:

1. Calculate the property's fair market value. (See the [What's It Worth" Lesson](#) to learn more about how to do this.)
2. Calculate expected repair, closing and holding costs. Holding costs include the mortgage, utilities, water, sewer and any other costs of maintaining the property until you sell it. These costs should be based on the average length of time that properties in the specific area remain on the market.
3. Identify the expected real estate agent commission and the profit you want to make.
4. Subtract all these costs from the fair market value. This gives you the maximum amount you should offer. (Go to the [What's It Worth Lesson](#) for more information on the Fast Offer Formula.)

Use the income property analysis calculations to determine if you will have enough cashflow to justify purchasing a property to keep and rent out. You want to be able to make at least \$100 a month in positive cashflow.

**Question: I have looked on web sites to find the comparables but I can't find properties that are comparable. How do I find them?**

You can go to these websites:

- [www.homevalues.com](http://www.homevalues.com),
- [www.homegain.com](http://www.homegain.com),
- [www.electronicappraiser.com](http://www.electronicappraiser.com).

The best source of comparables is probably the Multiple Listing Service (MLS). The MLS is a service real estate agents use to access the most up-to-date information about properties that have sold in your area. You might also be able to access the county's online courthouse database to find homes that have just sold.

**Basics of Financing Lesson**

- Describe the various ways to make money in real estate
  - Investment strategies for different categories of personal finance
- Define the terms pre-approved and pre-qualified
  - Define credit scores, their importance, and how they are calculated
- Identify key sources of real estate financing and their major loan programs
  - Conventional vs., unconventional loans and lenders
- Interview 10 potential lenders and select at least two that can provide the service and financing that you need.
  - Questions to ask potential lenders

## Question: What options do I have for investing in real estate if I don't have any money for a down payment or to do repairs?

If you borrow the down payment money it's considered a "no money down" deal because you're using someone else's money. There are several ways to invest in real estate with very little or no money out of your pocket.

1. **Hard money lenders** base their loans on the property, not you your credit or ability to pay. The loan is based on the property and the pricing at which you can buy the property. Typically they will go as high as 65-70% of the after repair value.
2. Enter into a **partnership** with someone who has decent credit? Introduce yourself to professionals in the area in which you live. There are many professionals who have money and no time who might want to partner up with you to make more money. They might be willing to help you by applying for the loan with an agreement to split the profit after the sale.
3. You might be able to ask the seller to take a private note for the down payment and repair costs as a second mortgage. With **seller financing** a private real estate note is created on a home. The note is recorded just like any mortgage or trust deed, but the payments go to the seller instead of some financial institution like a bank. This can be done even if the seller has a mortgage on the home already. We recommend using a real estate attorney or a title company to draw up the documents.
4. Use the **bird dogging** technique. With bird dogging you find a property for an investor or regular home buyer, evaluate and run the numbers on the deal and then share that information with your buyer's list. You get paid if someone you tell about the property actually buys it. You get a flat fee or a percentage of the deal depending on your agreement with the buyer.
5. Use the **assignment of contract** technique. With this technique you find and evaluate a property, put down a written contract including earnest money (between \$100 and \$1000) and then sell the contract to a buyer for more money.  
For example: Suppose a property is worth \$100,000. You put it under contract for \$70,000 and then sell the contract to someone else for \$80,000. You just made \$10,000 on a home you controlled but never owned.
6. Do a **lease option** deal. In this strategy you sub-lease the property to a tenant/buyer who is paying for the entire deal, while putting cash in your pocket. It is a simple rent-to-own strategy where you can charge option money up front (\$1,000-10,000), and then more money each month above the normal rent. The option money provides the down payment to purchase the home. If the tenant/buyer cannot or chooses not to purchase you keep the option money.
7. Do a **sandwich lease option** deal. Sandwich lease options are similar to traditional lease options but you do not actually buy the property until your tenant is ready to buy from you. You are considered the "meat" of the sandwich as you pass possession from the original owner through you to the tenant buyer. When you lease option the property to the tenant/buyer you will also ask for a small amount down. This down payment should be large enough to recapture your own down payment as well as some of your holding costs.

**Question: What is a hard money lender?**

A hard money lender can be a company or private party that lends money to invest in properties. Their loans are generally based on the property value instead of your credit worthiness. The cost to borrow money from them is higher because they charge 2-10 points upfront and a higher interest rate for the duration of the loan. They will typically lend 65-70% of the after repair value (ARV).

**Question: How do you find hard money lenders?**

Here are some websites with information for contacting hard money lenders:

- [www.realestatelink.net](http://www.realestatelink.net)
- [www.weirdloans.com](http://www.weirdloans.com)
- [www.hardmoneyphonebook.com](http://www.hardmoneyphonebook.com).

One of the best ways to find hard money lenders is to ask for referrals from mortgage brokers, other real estate investors, and real estate agents. Also, if you contact the advisory line we will email a list of hard money lenders to you.

**Question: Can I do an assignment of contract with a foreclosure property?**

When you are first starting out it is probably not in your best interest to pursue an assignment on foreclosures. As you get more experience and build up your power team there may be times when it makes sense to transfer ownership of an LLC or trust to another party for compensation. Unless you have good experience and a good attorney we do not recommend it. The lessons on instance equity exchange teach some approaches that could help.

**Question: Where can I go to find investors?**

The easiest and fastest way to find investors is through a real estate investment group or club. These clubs are located in most major cities across the country and can be found online or by contracting realtors or lenders. A good club will meet bi-weekly or monthly, have speakers or presenters and a variety of real estate professionals such as realtors, mortgage brokers, attorneys, accountants, buyers, sellers, etc.

**Question: The main question is where to find the money?**

Listen to the [Basics of Financing Lesson](#). The lessons on [Hard Money](#), [Other Sources of Capital](#), [Seller Financing](#), and [Assignments](#) also contain helpful information. You will also be able to get some ideas at the National Association of Mortgage Brokers website, ([www.namb.org](http://www.namb.org)).

**Question: What if I am self employed, with no W-2s?**

Some lenders will do a stated income loan. It may require networking on your part.

**Question: My real estate agent tells me I need a pre-approval letter to look at property is that correct?**

No, you do not have to have a pre-approval letter. You can tell the agent that you have a partner that helps with financing.

**Question: What is creative financing and how can I use it?**

Creative financing is where a financial transaction is completed using a private lending source or an outside-the-box way to finance the transaction. If you are buying a property and the owner agrees to carry back a 2<sup>nd</sup> mortgage for 30% and you get a new first mortgage financed through a mortgage lender you have used creative financing. If you buy a property on contract, contracting to use the seller's existing first mortgage and the seller agreeing to carry a second mortgage for the balance, this is also creative financing, but it's a no-money down deal. This is where being creative and working for a win/win situation can really pay off for those investors that are willing to think out of the box.

**Question: What is the Federal Housing Administration (FHA)?**

The FHA provides housing mortgage loan insurance to qualified applicants who get loans from certified lenders, guaranteeing the mortgage in the event of a default by the buyer. The program allows those who typically would not be able to afford a mortgage to qualify for one because the FHA will pay the mortgage in the event of a default. The FHA assists those with poor credit history, those who cannot afford much of a down payment, and others who for one reason or another are unlikely to obtain a mortgage from a conventional lender.

**Contracts and Offers Lesson**

- Identify key components of a real estate purchase contract (REPC)
- Define addendum
- Identify common contractual clauses and nuisance clauses
- Present a well constructed offer to a seller

**Question: How do I find the forms I need to make an offer?**

Contact a real estate agent or go to your state's website for the generic state approved contract. You can get one from the stationary store if there are no agents involved.

**Question: What needs to be in a contract when I am doing an assignment?**

Place the phrase, "and/or assigns" after your name throughout the contract and your signature. You might consider placing a clause in the addendum that states "buyer reserves the right to assign this contract."

**Question: What is title insurance?**

Title insurance is a form of insurance in which the insurer agrees to indemnify the insured party for any loss that results from a defect in the title to the property that was unknown to the buyer at the time of the sale. A title policy of insurance insures the homebuyer against any encumbrances that may affect the title to their property. The policy is required by most institutional lenders in order to get a mortgage and will pay the value of the mortgage in the event that there is a defect in the title that voids the buyer's title to the property. It is an alternative to getting a municipal compliance certificate or real property report.

**Question: What is earnest money?**

Earnest money is the deposit that the buyer is required to provide to the seller up front in order to convey that the buyer is serious about purchasing the property. This deposit will be credited to the sales price upon closing but will be forfeited if the buyer defaults. It ensures that the buyer is serious about obtaining the necessary financing and fulfilling the other conditions necessary to purchase the house. Without earnest money, some buyers may not use their best efforts to obtain financing and may still be looking for a better deal on other houses.

## **Business Set-up and Marketing Lesson**

- Set-up and register your business, including selecting name and business type
- Set-up the necessary contact options for your business
- Determine your marketing objectives, evaluate and select appropriate marketing techniques for your target markets
- Get referrals for your business
- Create a marketing plan and budget
- Recognize six common marketing mistakes to avoid

### **Q. What's the first thing that I should do to set-up my business?**

Decide on a name. You can get help on this at [www.msn.com](http://www.msn.com). In the MSN search box type "naming a business." You'll find a number of websites with helpful information on naming your business. Refer back to the instructions introduced in the [Business Set-up and Marketing](#) lesson.

### **Question: Where do I get business cards?**

A number of website let you create and purchase business cards online that they will print and send to you. [www.vistaprint.com](http://www.vistaprint.com) is one of them. You can also go to a local printer.

### **Q: What do I put on my business cards?**

Your business card should contain your business name, address, telephone number, personal name, title, and slogan, along with your email address and website if you have them. You might also consider putting some kind of marketing message or offer on the back as discussed in the marketing courses..

### **Question: I want to do short term investments but with this market nothing is selling.**

In order to be a successful investor, your strategy needs to support the market that you are currently in. You may need to change your investment strategy to Cash Flow or Buy and Hold until the days-on-market in your area are conducive to a Fast Cash investment strategy.

### **Question: I've been told by others that the market in my area is not good for investing right now. Is this true?**

The real estate market is a cycle. One point in the cycle it is a seller's market, meaning the seller has the upper hand in making money in the transaction.

At the opposite end of the cycle is a buyer's market, likely the one people are describing in your area. In a buyer's market an investor/buyer can purchase property for below market value rather easily. When the market picks up, those same properties can be sold for a profit.

**Question: What's the best way to network?**

A good place to start networking, or getting referrals, is to make a list of everyone you know, how you know them, what you know about them, and who you have met through them.

Approach networking for investors as you would approach networking for referral business or a new job. It's really the same thing. Change your mindset from looking for money to looking for business. That's really all you're doing.

Create visibility for yourself. Get involved with a real estate investment group on a regular basis so people get to know you. Going only once in a while doesn't allow you the opportunity to form strong relationships with anyone. It is from those relationships that your network will grow. Find investment clubs by going to Google and searching for "real estate clubs." You will find a number of sites that have a list of available clubs.