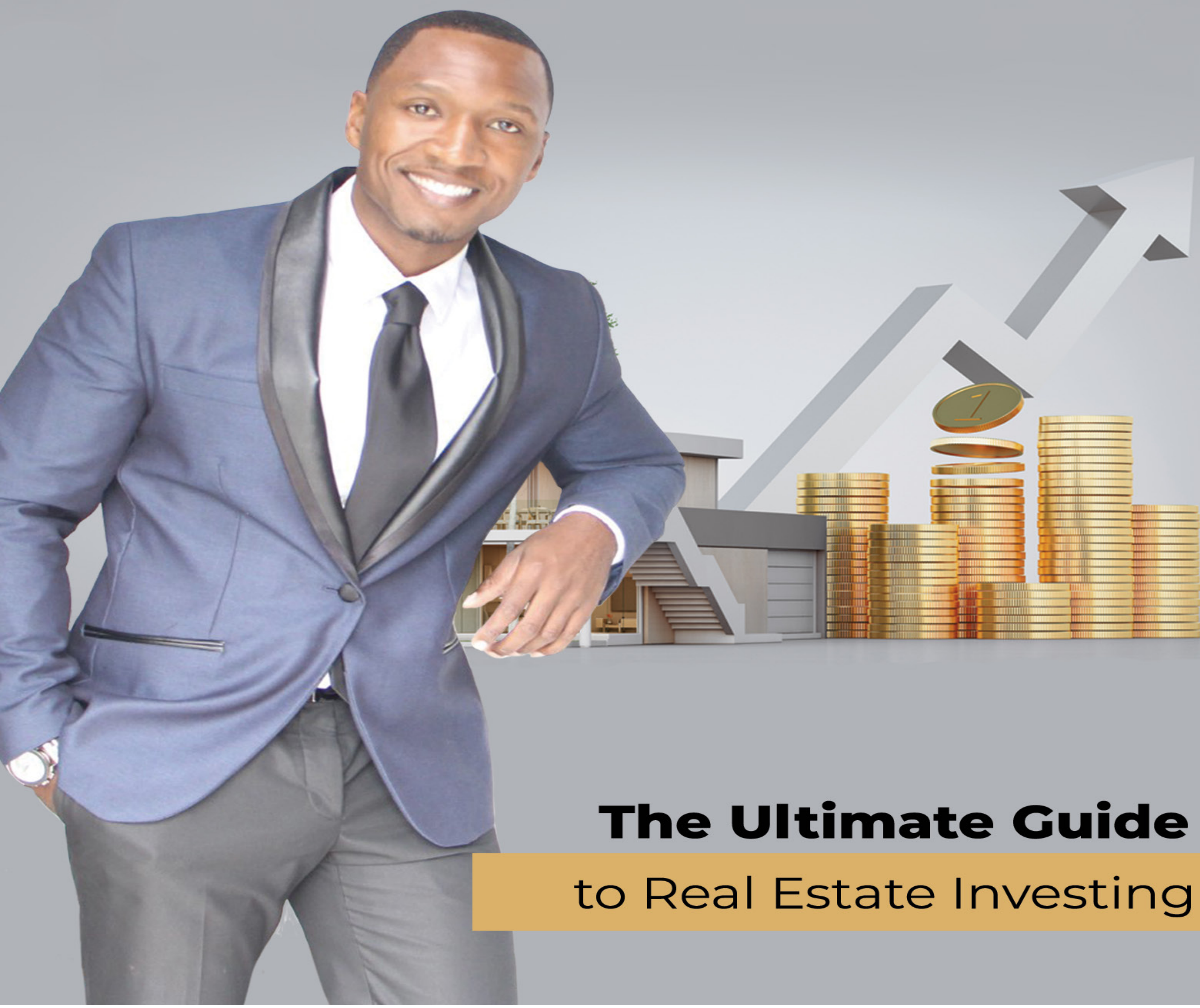
JUSTIN GILES

LEARN TO FISH & EAT FOREVER



The Ultimate Guide

to Real Estate Investing

ACKNOWLEDGEMENT

I would like to take this opportunity to thanks those involved in making this book happen.

First, I want to thank my parents, Sharon Giles and Roosevelt Giles, for raising me with a sense of responsibility and work ethic. Without their faith, encouragement and willingness to share their life experiences, I would not be the man I am today.

I would also like to thank Jason Van Steenwyk, Sydney Dettmar, and Joshua McCormick for their contributions to the book. Without their help, I would not have been able to actualize the vision of sharing my knowledge and experience in the Real Estate industry.

Lastly, I want to thank God for giving me this blessing of life and guiding me on the path of honesty, integrity, and good will towards all people.

~ Justin Giles

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CHAPTER 1: WHAT DO I NEED TO KNOW TO GET STARTED?

Know Yourself

"If a general knows the enemy, and he knows himself, he need not fear the results of a hundred battles." – Sun Tzu

At this point, you've probably made your decision to cross the Rubicon. Of course, when Julius Caesar crossed the Rubicon and went back into Italy with his army in 49 B.C., he plunged his country into civil war.

In this case, we're just trying to help people sell their homes quickly, and help provide other people with a nice place to live, while making some money in the process.

We now use the term "crossing the Rubicon," to refer to an act of commitment, from which there is no turning back. That's essentially what you do when you enter your first deal. Once you own a house that's worth $100,000, or $200,000, or more, you are committed. You must see the deal through!

This business is not for everybody. Not everyone has the ice water in their veins to make calm, cool and rational decisions when they are signing loans worth hundreds of thousands of dollars, or using their own hard earned cash to make an investment. So, the first thing you need to know to get started is the nature of the one common factor that will be present in every single one of your deals:

You!

If you made it as far as this book, or you've attended a seminar, congratulations! This means you've looked at your gut and you believe you have what it takes:

*****A willingness to assume some risk in the expectation of eventual profit.*** Most of the people that are successful in this business are those willing to take the most risk. Think about gambling - the bigger profits are made when the risks are greater. However, in this book, I will show you how to take calculated risks, so that when it comes to doing a real estate deal, you will be thinking how much money you will make, not, if you will make any

*****The understanding that risk is just that - Risk!*** There are certain things you can do to hedge your bets, but there are no guarantees of instant riches in the real estate business. If you do a lot of deals, sooner or later, you will "take a bath on one." It happens. You must have the courage and staying power to see it through, dust yourself off, and get right back at it. Moreover, have backup plans! I will show you how to have a Plan A, B, C and D.

*****The will to put capital at risk.*** You must be willing to put capital at risk because you have the expectation that it will profit, and you're willing to do what it takes to make that happen.

*****The patience to endure and work ethic to finish the job.*** You must be willing to work very hard, every day, for a payoff that may come weeks or months in the future.

*****A strong support system.*** For my married people, you must have the support of your spouse or significant other – and that support will need to be unflagging, even during times of disappointment.

*****Integrity in the real estate business.*** The understanding that your success will come when you help others succeed.

*****Perseverance through difficult situations.*** You can handle stress and adversity.

*****A keen awareness of your financial goals.*** You can handle a windfall responsibly – ideally reinvesting it back in your real estate practice, but not without enjoying life in the process!

*****No Fear.*** Most of all, don't be afraid to live life! When you make money, enjoy it - you only live once! However, don't blow it all - maintain a reserve for rainy days and current bills.

There are many real estate "experts" out there. You can be sure that the ones who have been at it for many years have amassed a wealth of knowledge – especially if they've succeeded in both bull and bear markets. But there is only one real expert on you, and that's you.

Don't forget it!

Know Where You're Going

Once you've made a solid character inventory of yourself, as described above, you need to outline your goals. In battle, you must have a strategy - an overarching set of objectives that drives what you do at the operational and tactical level. All decisions you make are in service of the strategy.

Real estate is no different. You must develop a real estate strategy that begins with your vision for yourself, as said strategy relates to your objectives. What do you want your real estate involvement to accomplish for you? Do you want to quit or retire, and work in real estate and rehab full time? Are you content being a weekend warrior? Do you want to be a renovator? Do you want to build houses? Do you want to experience the thrill of the hunt every day? Or do you hate making deals and you'd rather do only a few, with the idea of being a landlord instead? Are you more comfortable in residential properties? Or do you want to do commercial real estate?

How much do you want or need to earn in the first 12 months?

There are no right or wrong answers, of course. You are the expert on you! The answers to these questions will shape the way you handle your real estate business going forward. Do you want to keep your full time job for an extended period of time? Then, you should consider looking for properties in areas near your workplace, as well as near your home. However, if you can't wait to quit your job, then you'll want to disregard the market near where you work, and concentrate on what you can do in your own neighborhood.

Remember, always begin a project with the end in mind. It is true that a journey of a thousand miles begins with a single step. But it's also true that it behooves you to know from the very beginning where you're headed so that your very first step is in the right direction!

Know Your Market

Sometimes I see books and programs that advocate international real estate investing. They paint a rosy picture of an individual investor with properties in Europe, Canada, New Zealand, the United Arab Emirates, and everywhere in between. These books seem to be more about selling a 'jet-set lifestyle' dream, as opposed to setting people up for success - almost no one does it that way! The ones who do, are experts in mega projects, like hotels and resorts.

The real key to success is going to be dealing with properties within a ten to twenty minute drive of where you live or work right now.

Your goal should be to become the world's premier expert on your neighborhood.

This should be something entirely within your grasp to do. After all, you live there! By keeping the home court advantage, you have something that no Donald Trump, no Warren Buffett, no Bill Gates can ever match. You have something called a "moat." That is, an important and lasting business advantage over outsiders. No one outside of your neighborhood can possibly learn as much about your neighborhood as you, because you will be the one with your boots on the ground, knocking on doors, speaking with residents, other owners and landlords directly.

You'll have an eye on the police blotter, on the real estate section, on the school newsletters, and even on the sports page in your hometown. Your finger will be on the pulse of the neighborhood. When you go jogging or bike riding, you'll do it on familiar streets. You'll be the first to notice a home undergoing signs of neglect, or the first to notice a Pod in the driveway and people moving out – a near sure sign that someone will soon be interested in selling a home.

Conversely, if you start playing around in places that you're less familiar with, you are much more likely to get burned. Your valuations may be off base, or you may not know reliable contractors in the area. Even if you do, these contractors won't have much loyalty to you. For example, if they are a short crew, they'll schedule the renovation for their regular, local customer before getting around to yours. That can cost time and money.

Learn from my mistake:

I normally buy property in areas that I am familiar with. But one day, I stumbled across a deal I felt that I couldn't pass up. It was only $7500 for a 2 bedroom, 1 bath home, in a country part of Georgia. I thought I couldn't go wrong with paying that amount for the property because I was just going to resell it anyway. The property already had a tenant paying $400 a month, so I was set - wrong! The tenant was a headache, and it was hard to get him out. I sold the property for $9000, because I couldn't get more than that at the time. The headache was that I only made $1500 off of a deal that was not worth my time or effort. I ended up losing because I had to drive almost an hour, just to deal with the property. The property finally worked out for my end buyer, but that was only after (me) having to go to court to make sure my client was happy. All of this could have been avoided if I stayed investing in my backyard.

Takeaways:

The three keys to being a successful investor are:

(1) having faith in yourself

(2) having the willingness to take a CALCULATED risk, and

(3) knowing your market.

“SUCCESS IS FINDING THE BALANCE OF RISK, REWARD, RETURN AND PROPERTY”

— UNKNOWN

CHAPTER 2: KNOW YOUR MARKET

Assess, Analyze and Take Notes

Once you've taken an accurate inventory of yourself, your personality traits and your financial position, the next step is to create a detailed analysis of the environment in which you are going to work. That is, you need to take a close look at the real estate 'micro market,' in which you plan to work, right down to your own neighborhood. A zip code is too broad – to start, you will want to limit your focus to a few individual developments that you will get to know intimately well, and whose residents will eventually, get to know you very well, too!

You also need to assess and analyze your fellow participants in the market. These are your fellow real estate investors working in the area - realtors and corporate buyers, such as real estate funds.

In one sense, these people are your competition. You will be bidding against them when you buy properties, and they will be competing for buyers when the time comes for you to sell.

However, your competition is also a source of opportunity for you. These people can be valuable sources of market intelligence, can possibly help you with financing, provide you with a ready buyer for you to wholesale to (more about that in a later chapter), and perhaps become a source of future deals for you.

Always remember that there is more than one kind of investor out there. A property that may not be a great deal for you, might be a great fit for someone else with a different skill set, and vice versa.

Your fellow investors can also help you find people who are ready sources of financing, and can refer you to the most reliable and reasonably-priced contractors, as well.

Taking an Inventory

The time-honored way businesses have been conducting market analysis for years has been something called, the SWOT analysis. **SWOT stands for "Strengths, Weaknesses, Opportunities and Threats. "**

The first two headings should largely be taken care of by the first chapter. You should already be able to list your own personal strengths and weaknesses, as they apply to real estate investing.

My personal SWOT analysis testimony is a follows:

When I first started...
Strengths: I had some liquid cash, I was social, and I had a mother that was a real estate broker.
Weaknesses: I didn't know much about real estate in general.
Opportunities: I found a great deal in a complex I was already living in and bought it with cash.
Threats: My own mindset of not understanding how to invest in real estate, and at the time, the market was crashing.

The first deal I made netted about $25,000 in profit from buying and re-selling a condo (***NEVER SAY FLIP TO YOUR CLIENTS AND CUSTOMERS! THAT WORD IS TABOO AND CAN COST YOU DEALS***). However, after that, the market crashed and I had a hard time finding good deals. The time frame from 2006 to 2009, was a period of serious learning on how to really make it in the real estate business. That first year I failed. Even though I made money in the beginning, I lost it on the back end. I was knee deep in debt and was underwater on properties I owned. However, I am thankful for those years because I was taught serious life lessons that made me a great investor today.

Understand you will be put through experiences that will challenge you. However, these challenges will make you stronger and teach you to be a better investor. Never question your ability to succeed - remain steadfast and accept your failures as learning experiences that you can take with you for other deals to come.

The second two headings, Opportunities and Threats, bare a closer look. Be aware that some things, like economic cycles and another property investor working your same neighborhood, may well end up in both categories.

For "opportunities," list the most important first – and try to align them with your "strengths' column. For "threats," try to identify the most critical first – the real deal-killers that can put you out of business.

A partial list might look like this:

Opportunities

*New office complex being built nearby
*Local factory laying people off – hundreds may need to move soon
*You are in a very desirable school district
*City is making improvements in beautification
*Gentrification
*Crime is on the way down
*Your sister-in-law is a loan officer at a bank or mortgage company
*You have weekends and evenings free and unencumbered
*You have a wide network of contacts from business, church, bowling league, etc.
*You have hundreds of Facebook friends who like and respect you.
*Home prices and rents have both been rising in your neighborhood
*Your cousin or other friend is an established investor and willing to listen to you present ideas.
*You know a very good contractor willing to do work for you at reasonable rates.

Threats

*The economic cycle can always reverse, driving down home prices

*Another investor is bidding against you on the same houses

*A huge local employer may shut its doors or relocate, laying off many people in your area. This could be an opportunity if there is another employer coming in that might bring people from out of the neighborhood wanting to buy homes vacated by displaced workers. The combination of destruction and growth creates great opportunity for the real estate investor. It's much tougher, though, if there are only layoffs in the community with no balancing force bringing people into the community who need to buy houses!

*You could lose your job or income – and with it your ability to borrow money against your income to finance purchases.

*Your spouse could lose his or her job and/or income.

*You could become disabled.

*Your first-call lender could go out of business or simply cease lending to your community.

*Interest rates could go up, increasing borrowing costs for you and driving down what eventual buyers can afford to purchase.

Obviously, the SWOT analysis can go on and on - and it should. At the very least, you should be updating your SWOT analysis every quarter, to keep it current with events on the ground.

The Next Step in SWOT Analysis

Lots of entrepreneurs do a SWOT analysis and stop there. But that's not enough. Once you've done the SWOT analysis, you should take some time and go the extra mile:

Look at each "strength" and develop a specific business strategy to help you maximize it. For example, if your strength is that you have terrific knowledge of painting, you should be on the lookout for houses that are sorely in need of a coat of paint. You can do the work yourself very efficiently – and turn a much-improved house around, at a nifty profit, for a minimum amount of risk.

Look at each "weakness," and come up with a series of countermeasures to mitigate them. For example, if one of your weaknesses is that you don't have much cash on hand, lending and liquidity will be critical factors in your business plan. Your mitigation plan should include identifying multiple lenders in your community, so that you enter every project with a Plan A, B, C, D, E, F to Z.

You should also make an extra effort to identify potential partners - people who could 'bird dog' you early deals in exchange for a 'finder's fee,' or who can take over your projects before you have to commit much money in a wholesale arrangement.

Do the same for every entry in the "opportunities" column, and for every entry in the "threats" column. Use a spreadsheet like Excel, which you can continue to update as your business and knowledge evolve. Share them with other investors, too - especially ones not in direct competition with you. The more you share, the more you can refine your own business plan.

Building Your Local-Area Knowledge Base

Unless you're a veteran realtor, or contractor in your community, you won't know much when you're going in. Everyone starts somewhere. Now is the time to aggressively build your base of knowledge about your community. Here are some things you can do:

Start with searching the internet to see what the recent trends are for homes in your area, giving specified sizes and neighborhoods. It would benefit you to go to any realtor website that is connected directly to your states local MLS (Multiple Listing Service) - this is a site that most states have and where most realtors list their properties to sell. Become very familiar with your local MLS sites because most of your deals will come from these listings.

Read the local paper - particularly, the housing ads. You can get a lot of information quickly, by being familiar with what people are asking for different kinds of houses, in different neighborhoods.

Monitor all possible real estate sources - from the local real estate magazines, to sites like Craigslist. You absolutely should be monitoring those sources, too. But don't forget that the local newspaper gives you something those other resources don't: public announcements of bankruptcies, estate auctions, foreclosures and so much more. The newspaper also gives you birth and death announcements – which can give you leads about people looking to buy a bigger home, or widows who might want to move into a smaller home. Information is good; more information is better. Information feeds your marketing and prospecting efforts, both when you buy, and when you sell.

Feed the beast.

Identify Your Market's VIPs

Your market has many VIPs – that is, community or industry leaders who can help make or break your real estate investment practice. Examples include, but are not limited to:

*Established real estate investors
*Prominent contractors and specialists
*Lenders
*Local homeowners' association officers
*Prominent employers and HR officials who can refer new employees
*People moving away who need to sell their homes quickly
*Local church and synagogue leaders
*Real estate agents – particularly successful ones
*Insurance agents and financial planners
*Accountants
*Bankruptcy attorneys – who can frequently refer their own clients that need to sell their homes

Make a list of your own, and identify your market's VIPs by name. You want to create a plan to get to know them, and form a professional relationship with these people.

Then… Go to where they are!

Once you've identified them, it's time to go meet them. There are many different strategies. The easiest is to go to networking meetings and join the local Chamber of Commerce. That's the bare minimum and everyone does that. Even better, join your local civic service organization: The Rotary Club, Kiwanis, Lions, American Legion, VFW, or any other local civic group, and become a leader who serves his or her community. Get out more, and network wherever you go. If you're social (and I encourage you to be so), go to high end hotel bars and lounges. I've met some great clients just by being at various events and nice establishments around town.

Think about it: we've all gone to those networking meetings where everyone hands everyone else a card, and the rest of it is, "what can you do for me," with a bunch of time wasters. The best VIPs on your list will avoid these events and send their underlings.

To rub shoulders with leaders, be a leader yourself. People can't help but notice a leader. Good things will happen in your business because you make good things happen when it's not business.

Then, when you want to present a wholesale deal, or when you want to open a line of credit, or when you want to talk to a distressed homeowner about buying their home at a discount to solve their problem quickly, you'll have credibility to do so. This credibility will be established by your actions in the community and your track record of helping others.

Opening the Relationship

Once you get a feel for who the major players are, don't be shy asking them to let you get their feedback over a cup of coffee with them (you buy). Start with the ones you can get to quickly, then move onto established investors. Here are the things you want to know:

*How are you finding deals?
*What do you look for in a deal?
*What sorts of things do you try to avoid?
*What advice would you give to someone just starting out?
*What would you do differently now, looking back on your own experience?

Take notes! These experienced investors are your lifeline in your early deals, because chances are very good you'll want to 'punt' on one or more, wholesaling the deal to him or her.

They will appreciate having someone help them create a steady flow of profitable deals, so it's a win-win.

Yes, they will occasionally be a competitor. However, it's much more important to add them to your network as a resource, than it is to worry about them possibly bidding against you on a property.

With your VIP list in place – and a plan to meet every VIP on your list, while turning them into an ally and resource, you are now ready to move to the next step:

Building your team.

“DON’T WAIT TO BUY REAL ESTATE. BUY REAL ESTATE AND WAIT.”

— RUSSELL SAGE

CHAPTER 3: WHO'S BUYING? DEVELOPING YOUR BUYERS' PROFILE

Begin with the End in Mind

By this point you should have a pretty good handle on your allies, colleagues and resources as you embark on your career as a real estate investor. Now it's time to get a handle on your end customer. Whom do you want to sell houses to?

The answer will have a lot to do with the neighborhood you work in. However, knowing the final buyer – the person or people who will move into your properties and live happily ever after – will be invaluable in guiding every decision you make as an investor.

Here's an example of developing a buyer profile:

Are you working in a community of 3-bedroom houses in a desirable school district? Then, you are probably going to be catering to families with children. After all, who is going to be willing to pay extra for the school district? The quality of the local-area schools only works for you, as a seller, if it's something that your buyers will see as desirable.

So, when you acquire a property, you will want to optimize any renovations you do for the family with children. What does that mean? You probably don't want to be putting in a swimming pool, for example. That can work against you with parents of toddlers and young children.

You probably don't want to be right on a main road. If you do buy there, you might want some fencing or a hedge in place, so a young child is less likely to run into the street in front of a car.

A good-sized lawn is usually a good thing for parents of young children. Safe and presentable bedrooms for the children, as well as for the parents, and a separate bathroom, are usually held in high regard. Put yourself in the parent's shoes. Seek out homes that are good for children and make all your decisions – from prospecting to purchasing – with these thoughts in mind.

(Note: You rarely want to buy a home that just has one bathroom. However, if you do, it would be worth the money to add an extra full bathroom somewhere in the house. This will increase the value of the home immensely.)

It won't hurt you with the non-parents, but not taking children into account with your property selection and renovation decisions is a deal-killer with parents.

Let's take another example: do you want to focus on a neighborhood that has a lot of townhomes and is right on a golf course? Well, that's a very different buyer. Your end buyer – your ultimate customer – is quite likely to be an empty-nester or retiree. So make your decisions with an older buyer in mind. For example, you'll want to avoid properties that have a lot of stairs, or tricky interior/split-level designs, that could be difficult for people who are at the stage where they are developing hip problems, or having more trouble walking.

This crowd may also enjoy a garage or workshop area for the man of the house. With the kids away, many men in their 50's and up, who enjoy golf, also enjoy other hobbies, like firearms, musical instrument repair, ham radio, home theater or other "hands-on" pastimes. A ready-made space for a workshop or home theater could be a strong selling point in a neighborhood largely populated with older folks.

That judgment is going to be different with each neighborhood you're in. So, your own independent assessment is going to be what makes or breaks the project for you and puts you in the best position to provide value for your potential buyers.

All this being said, you don't have to navigate blind. The real estate industry is pretty good at tracking who is buying what, and if your imagination with a given property isn't exactly telling you what needs to be done to make it appeal to your target buyer, you can and should fall back on the best baseline market data you have available to guide your decision-making, or contact a local real estate expert in the area. There is nothing wrong with getting help from others that are more experienced than your.

One potential resource: The National Association of Realtors periodically publishes a study called the *Profile of Home Buyers' Feature Preference* survey. This document breaks down the overall trends by region, income, and other economic fields. As of this writing – spring of 2014 – the study survey identified the following basic trends:

**Home sizes are pretty modest. The average home that someone actually bought last year was hardly a "McMansion." In fact, it was only about 1,860 square feet. The occasional McMansion sale, of course, skews that figure upward. The takeaway: modest sized homes are probably a good foundation for your real estate practice – at least in your first couple of years, until you get your feet on the ground.
**The average home sold is about 17 to 21 years old. If you're a fix and flipper ("home reseller"), you will want to look at older homes especially, because these are the homes in which you may have the opportunity to add value through your own renovation/improvement projects.

**The typical buyer bought a three-bedroom home. Family sizes are smaller than they used to be, so the three-bedroom single family home is still the bedrock of the market.

**The typical buyer bought a home with two full bathrooms. Most parents don't want to share a shower and bathroom with their teenage daughter!

**78 percent of the time, buyers chose a home with a garage. Midwesterners were especially likely to prefer homes with garages. If you can add a garage, or at least a carport, cheaply and efficiently, then you could be looking at a profitable investment.

**94 percent of buyers went for homes that are cable, internet or satellite-TV ready. Still,, many older homes don't have any such functionality built into their structures, so be aware of what you're buying!

**Central air was a big winner – especially in the South.

**Older buyers want single-level homes. At a minimum, they want the master bedroom on the first floor. Remember what I said above about older buyers? This is a big deal to them!

Some of these trends change over time – and some are actually counterintuitive. For example, The National Association of Realtors' (NAR) survey found that it was single men who wanted the latest kitchen appliances! Women didn't care as much about having the latest gizmos in the kitchen!

Profile of Buyers and Sellers

Another resource you may find useful is the National Association of Realtors' annual Profile of Home Buyers and Sellers. This annual profile is usually published in November, and is readily available online at the Realtor.org website.

Some insights from the 2012 edition:

**The average buyer was 42 years old. That number has been falling in recent years – it was 45 years old in 2011. However, it was still a bit older than the average age was during more normal economic times, before the Great Recession of 2008.

**65 percent of buyers were married couples.

**Only 16 percent of buyers were single females. That is the lowest figure since 2001.

**The desire to own a home was the primary motivator for only 30 percent of buyers that year.

**90 percent of buyers used the internet during the home search process. For buyers under age 44, it was 96 percent.

**The average buyer searched for 12 weeks and visited 10 homes.

**The top three considerations buyers reported to be driving their purchase decisions were (1) the quality of the neighborhood, (2) convenient proximity to their job, and (3) overall affordability. Note that affordability was not the number one concern. This is good news for anyone with an investment mindset, because it gives you opportunities to build value into the home before you slash the price!

**87 percent of homebuyers financed their purchase, according to the 2012 Profile of Home Buyers and Sellers (some later studies from mid-2013 indicate that there has been a surge in cash purchases – likely investors and institutions).

**96 percent of all first-time buyers bought via mortgage – and the average down payment among those who financed was 9 percent of their purchase price.

**33 percent of sellers knew the buyer before they sold their home. (This is important - the more people you know, who know you buy houses, the more times you will get first crack at a house coming on the market).

**In 15 percent of cases, the home was sold because the buyer contacted the seller directly.

Now, there is no substitute for a wise, independent assessment of your market and the most likely buyer, based on knowledge specific to your neighborhood and your own boots-on-the-ground market research. Yet, outside research like the two NAR studies, can help you validate some of your assumptions, and provide a baseline to go by as you accumulate knowledge and develop your own strategy.

Now is the time to put pen to paper and imagine your buyer. Who is likely to be looking in the neighborhood you plan to be doing your first deal or deals?

**How old are they?
**Is it a working class, blue collar, white-collar middle management or professional?
**Are they likely to have children?
**Where are they likely to work? Is there a huge employer nearby?
**Are they retired?
**What is their probable income range? This is important, because you can use this to estimate the mortgage they can qualify for. Not precisely – you don't know their credit or their debt situation or all-important debt-to-income ratio. However, you will know enough to know when the cost of a planned renovation would turn the home into an unrealistic budget-buster.

**Write down everything you can about them. If you know your neighborhood well, then trust your instincts when it comes to potential buyers. The more you can "profile" them, the better your decisions will be.

Use your buyer profile to 'reality-check' your purchases and renovation decisions. If you can't match the home to a buyer who you are likely to encounter "in the wild," hold up! Reconsider the decision! You'll probably want to bring your game-plan back into line with the real-world buyer you are most likely to see.

CHAPTER 4: STAY OUT OF TROUBLE

Know the Law

Real estate is very simple. Anyone can understand it! Buy low, sell high, and perhaps, get some income out of the property in the meantime. That's it! At the shoe-leather and brow-sweat level, nobody needs a master's degree to be a (very) successful real estate investor. All you need is imagination, courage, access to capital, and loads and loads of common sense.

But while real estate investing is conceptually very simple, any well-developed industry has a body of legal and regulatory knowledge that you must become familiar with – from the very beginning. While a judge may be lenient at sentencing, or in assigning a judgment after a lawsuit, there are no exceptions in the law carved out for rookies. New investors and veterans are treated the same in the eyes of the law.

This means it is critically important that you get to know not just basic principles, but the very specifics of the law at the federal level, and specific to your state. In addition, you should be keenly aware of zoning laws in the neighborhood in which you expect to be operating.

Here are three things you should do right away. Two of them you already know about from previous chapters:

1. Get a good attorney on your team from the very start. Run your key business decisions by that attorney on a regular basis, especially at first, to get the lawyer's eye view of your decision-making with respect to the legal landscape in your county, city and state. Make sure you are dealing with an experienced attorney – he or she will have learned much from many of their clients' mistakes! An experienced attorney is also less likely to hamstring you with overly-restrictive guidance, or try to blog profitable deals just to be seen as doing something – a common ailment among attorneys.

2. Get a good accountant right from the get-go and use him or her for financial advice regarding your investments.. Don't take shortcuts on accounting and reporting. Failure to set up a good and workable accounting system from the very beginning, and lack of familiarity with the tax code can lead to unpleasant and distracting audits, as well as, costly penalties. In the worst cases, it can even cost you jail time.

3. Get a real estate license. Yes, some people say you don't need one, and it can be distracting with the ongoing continuing education requirements at this stage of your career, but verily I say unto you - continuing education is a feature, not a bug!

Any good real estate licensing course is going to give you a basic foundation of ethical principles to guide you when the moral thing to do is not clear on its face.

When I started out as a novice investor I was told by some of my counterparts that I did not need a real estate license. I began to practice real estate as an investor and assumed a lot of things a real estate class would have taught me from the start. Also, I missed out on a lot of extra money I could have made (and saved) because having your real estate license is like having a lifetime discount card to buy property. Whatever you buy listed (or not) can be potential commission in your pocket going back to your profit margins. Not having your real estate license is more of a handicap than anything.

For example, a lot of investors try to get paid commissions by receiving "consulting fees" at closings for doing real estate transactions. In most states, if not done properly, you can be considered to be practicing real estate without a license, which is highly illegal. To avoid jail time, it's worth your while to get a real estate license and get paid as much commission as you want, LEGALLY!

Moreover, the license will arm you with knowledge so that other people, and agents, don't take advantage of you for not knowing. I suggest to go all the way, and get your broker's license, to further develop your understanding of real estate law. I can't count how many times real estate agents tried to force me to do certain deals, or try to rip me off. Due to my persistence and hunger for real estate knowledge, having my real estate license has helped me to stay aware of bullying tactics by other agents, and has saved me from situations where I may have been ripped off, otherwise.

Fraud and the Law

The FBI has been cracking down on real estate and mortgage-related fraud over the last several years. For good or for ill, the old house flippers and purveyors of sub-prime mortgages have become targets of populist wrath in recent years. You shouldn't need a book or real estate mentor to tell you this, but here you go:

You want to scrupulously avoid anything that smells of fraud or deception – even by omission. I don't care what anyone else tells you.

Here are some of the things I've heard so-called real estate and banking "professionals" actually say over the years:

**You make $76,000/year? Put down $100,000. Nobody checks that anyway.
**Don't mention the radon contamination. Let them figure it out.
**I have a property appraiser I work with who will really boost the appraisal. Let's use him.
**I can unload that property for you before anyone figures out the title problems.
**Don't worry. You can borrow way more than the property is worth! Then just go bankrupt!
**Just pull the cash out the home and let if foreclose.
**Give me money back at closing but don't disclose this on the contract.
**Say you are buying a home as an owner occupant, but you are really an investor looking to

to rent it out.

If you hear anyone trying to convince you to falsify information or fail to disclose material facts about the property in your dealings, run - and consider reporting that individual to the appropriate licensing/disciplinary authority or law enforcement authority. The more dishonest people we can get kicked out of the real estate business, the better off all the honest people are.

Getting your feet on the ground

The process of taking the real estate prep coursework and sitting for your exam will give you a strong foundation in the basic principles of real estate, the required documents and disclaimers, and the code of ethics required of all real estate agents.

You won't know everything, but you'll know the most important things! Indeed, most newly-minted real estate agents only know enough to be dangerous. Furthermore, you'll know what you can and cannot do, legally, without a license.

This is vitally important because when you are a brand new real estate investor, your lack of experience limits your knowledge pool – and you may not yet know, what you don't know!

If you accidentally practice real estate – defined differently in every state - you may well be committing a felony. In New Mexico, to take a state at random, the unauthorized practice of real estate is a 4th degree felony that can get you nailed with a $5,000 fine and 18 months in prison.

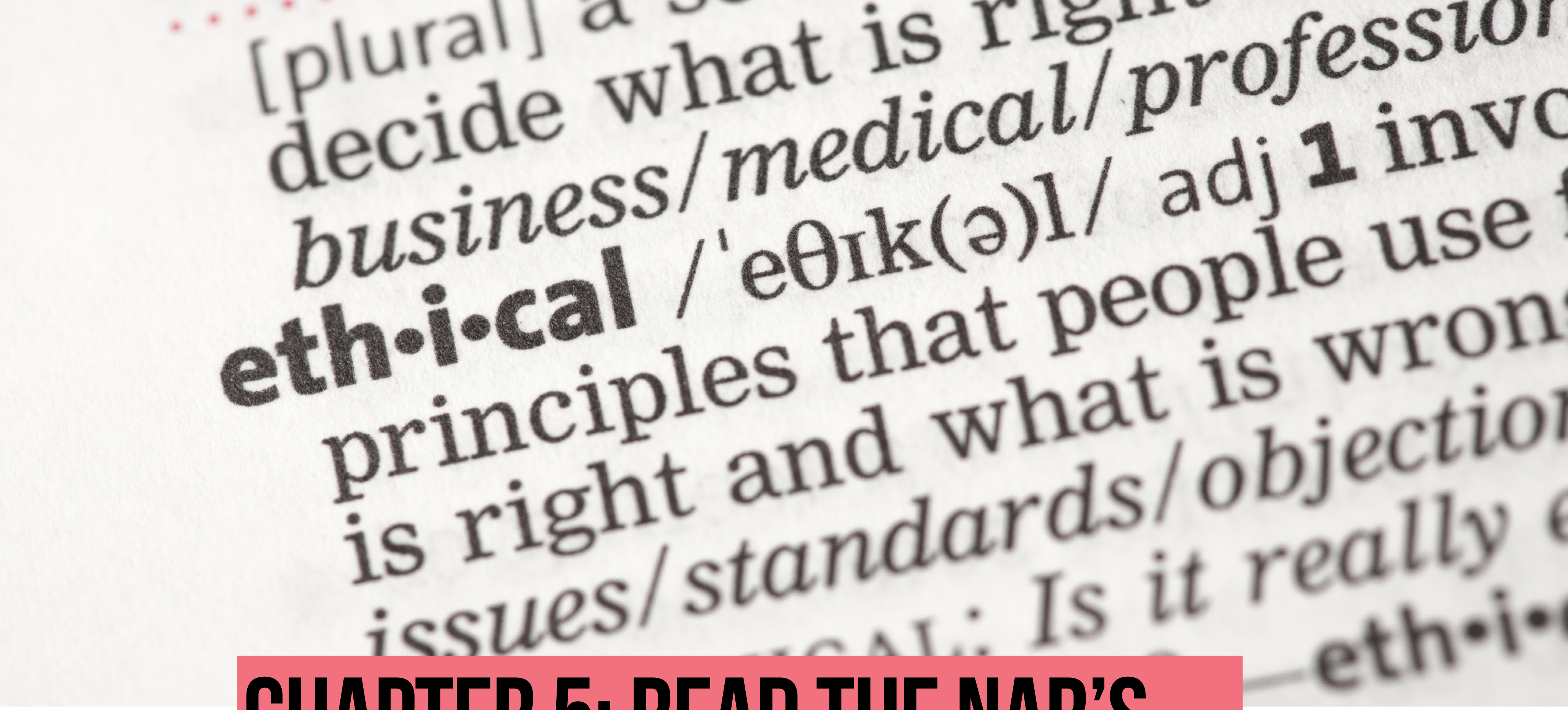
Experience is the best teacher

Most state commissions and most large agencies sponsor regular workshops – often free – entitled "How to stay out of trouble," or variations on that theme. They will walk you through the most common mistakes people make, and the most common violations that other real estate professionals commit. You will hear about many of them in class before you get a chance to read about them in the media. Remember, it is better to learn from other peoples' mistakes rather than making them yourself.

There may come a time that you let your real estate license lapse, for whatever reason. Yet, in the long run, you'll be glad you got it – and the knowledge that you gain during the training and licensing process will be more than worth the investment. Over the course of your career, you will save time, money and hassle! Go ahead and get your real estate license!

“IF YOU DON’T HAVE INTEGRITY, YOU HAVE NOTHING.”

— HENRY KRAVIS



CHAPTER 5: READ THE NAR'S CODE OF ETHICS

Then, Re-Read the Code of Ethics

This chapter is devoted entirely to the National Association of Realtors' Code of Ethics and Standards of Practice. While I have attached only Articles 1-9, which detail a realtor's duties to clients and customers, I strongly encourage all prospective (and current) agents to immerse themselves in this code. Great business starts with integrity, and confidence in one's skill set. You don't have to cheat to make big money.

"If you don't have integrity, you have nothing. You can't buy it. You can have all the money in the world, but if you're not a moral and ethical person, you really have nothing." - Henry Kravis

Code of Ethics and Standards of Practice of the NATIONAL ASSOCIATION OF REALTORS®

Effective January 1, 2014

Where the word REALTORS® is used in this Code and Preamble, it shall be deemed to include REALTOR-ASSOCIATE®s.

While the Code of Ethics establishes obligations that may be higher than those mandated by law, in any instance where the Code of Ethics and the law conflict, the obligations of the law must take precedence.

Preamble

Under all is the land. Upon its wise utilization and widely allocated ownership depend the survival and growth of free institutions and of our civilization. REALTORS® should recognize that the interests of the nation and its citizens require the highest and best use of the land and the widest distribution of land ownership. They require the creation of adequate housing, the building of functioning cities, the development of productive industries and farms, and the preservation of a healthful environment.

Such interests impose obligations beyond those of ordinary commerce. They impose grave social responsibility and a patriotic duty to which REALTORS® should dedicate themselves, and for which they should be diligent in preparing themselves. REALTORS®, therefore, are zealous to maintain and improve the standards of their calling and share with their fellow REALTORS® a common responsibility for its integrity and honor.

In recognition and appreciation of their obligations to clients, customers, the public, and each other, REALTORS® continuously strive to become and remain informed on issues affecting real estate and, as knowledgeable professionals, they willingly share the fruit of their experience and study with others. They identify and take steps, through enforcement of this Code of Ethics and by assisting appropriate regulatory bodies, to eliminate practices which may damage the public or which might discredit or bring dishonor to the real estate profession. REALTORS® having direct personal knowledge of conduct that may violate the Code of Ethics involving misappropriation of client or customer funds or property, willful discrimination, or fraud resulting in substantial economic harm, bring such matters to the attention of the appropriate Board or Association of REALTORS®. *(Amended 1/00)*

Realizing that cooperation with other real estate professionals promotes the best interests of those who utilize their services, REALTORS® urge exclusive representation of clients; do not attempt to gain any unfair advantage over their competitors; and they refrain from making unsolicited comments about other practitioners. In instances where their opinion is sought, or where REALTORS® believe that comment is necessary, their opinion is offered in an objective, professional manner, uninfluenced by any personal motivation or potential advantage or gain.

The term REALTOR® has come to connote competency, fairness, and high integrity resulting from adherence to a lofty ideal of moral conduct in business relations. No inducement of profit and no instruction from clients ever can justify departure from this ideal.

In the interpretation of this obligation, REALTORS® can take no safer guide than that which has been handed down through the centuries, embodied in the Golden Rule, “Whatsoever ye would that others should do to you, do ye even so to them.”

Accepting this standard as their own, REALTORS® pledge to observe its spirit in all of their activities whether conducted personally, through associates or others, or via technological means, and to conduct their business in accordance with the tenets set forth below. *(Amended 1/07)*

Duties to Clients and Customers

Article 1
When representing a buyer, seller, landlord, tenant, or other client as an agent, REALTORS® pledge themselves to protect and promote the interests of their client. This obligation to the client is primary, but it does not relieve REALTORSt® of their obligation to treat all parties honestly. When serving a buyer, seller, landlord, tenant or other party in a non-agency capacity, REALTORS® remain obligated to treat all parties honestly. *(Amended 1/01)*

• Standard of Practice 1-1
REALTORS®, when acting as principals in a real estate transaction, remain obligated by the duties imposed by the Code of Ethics. *(Amended 1/93)*

• Standard of Practice 1-2
The duties imposed by the Code of Ethics encompass all real estate-related activities and transactions whether conducted in person, electronically, or through any other means.

The duties the Code of Ethics imposes are applicable whether REALTORS® are acting as agents or in legally recognized non-agency capacities except that any duty imposed exclusively on agents by law or regulation shall not be imposed by this Code of Ethics on REALTORS® acting in non-agency capacities.

As used in this Code of Ethics, “client” means the person(s) or entity(ies) with whom a REALTOR® or a REALTOR®’s firm has an agency or legally recognized non-agency relationship; “customer” means a party to a real estate transaction who receives information, services, or benefits but has no contractual relationship with the REALTOR® or the REALTOR®’s firm; “prospect” means a purchaser, seller, tenant, or landlord who is not subject to a representation relationship with the REALTOR® or REALTOR®’s firm; “agent” means a real estate licensee (including brokers and sales associates) acting in an agency relationship as defined by state law or regulation; and “broker” means a real estate licensee (including brokers and sales associates) acting as an agent or in a legally recognized non-agency capacity. *(Adopted 1/95, Amended 1/07)*

• Standard of Practice 1-3
REALTORS®, in attempting to secure a listing, shall not deliberately mislead the owner as to market value.

• Standard of Practice 1-4
REALTORS®, when seeking to become a buyer/tenant representative, shall not mislead buyers or tenants as to savings or other benefits that might be realized through use of the REALTOR®’s services. *(Amended 1/93)*

• Standard of Practice 1-5
REALTORS® may represent the seller/landlord and buyer/tenant in the same transaction only after full disclosure to and with informed consent of both parties. *(Adopted 1/93)*

• Standard of Practice 1-6
REALTORS® shall submit offers and counter-offers objectively and as quickly as possible. *(Adopted 1/93, Amended 1/95)*

• Standard of Practice 1-7
When acting as listing brokers, REALTORS® shall continue to submit to the seller/landlord all offers and counter-offers until closing or execution of a lease unless the seller/landlord has waived this obligation in writing. REALTORS® shall not be obligated to continue to market the property after an offer has been accepted by the seller/landlord. REALTORS® shall recommend that sellers/landlords obtain the advice of legal counsel prior to acceptance of a subsequent offer except where the acceptance is contingent on the termination of the pre-existing purchase contract or lease. *(Amended 1/93)*

• Standard of Practice 1-8
REALTORS®, acting as agents or brokers of buyers/tenants, shall submit to buyers/tenants all offers and counter-offers until acceptance but have no obligation to continue to show properties to their clients after an offer has been accepted unless otherwise agreed in writing. REALTORS®, acting as agents or brokers of buyers/tenants, shall recommend that buyers/tenants obtain the advice of legal counsel if there is a question as to whether a pre-existing contract has been terminated. *(Adopted 1/93, Amended 1/99)*

• **Standard of Practice 1-9**

The obligation of REALTORS® to preserve confidential information (as defined by state law) provided by their clients in the course of any agency relationship or non-agency relationship recognized by law continues after termination of agency relationships or any non-agency relationships recognized by law. REALTORS® shall not knowingly, during or following the termination of professional relationships with their clients:

1) reveal confidential information of clients; or
2) use confidential information of clients to the disadvantage of clients; or
3) use confidential information of clients for the REALTOR®'s advantage or the advantage of third parties unless:

a. clients consent after full disclosure; or
b. REALTORS® are required by court order; or
c. it is the intention of a client to commit a crime and the information is necessary to prevent the crime; or
d. it is necessary to defend a REALTOR® or the REALTOR®'s employees or associates against an accusation of wrongful conduct.

Information concerning latent material defects is not considered confidential information under this Code of Ethics. *(Adopted 1/93, Amended 1/01)*

• **Standard of Practice 1-10**

REALTORS® shall, consistent with the terms and conditions of their real estate licensure and their property management agreement, competently manage the property of clients with due regard for the rights, safety and health of tenants and others lawfully on the premises. *(Adopted 1/95, Amended 1/00)*

• Standard of Practice 1-11

REALTORS® who are employed to maintain or manage a client's property shall exercise due diligence and make reasonable efforts to protect it against reasonably foreseeable contingencies and losses. *(Adopted 1/95)*

• Standard of Practice 1-12

When entering into listing contracts, REALTORS® must advise sellers/landlords of:

1) the REALTOR®'s company policies regarding cooperation and the amount(s) of any compensation that will be offered to subagents, buyer/tenant agents, and/or brokers acting in legally recognized non-agency capacities;
2) the fact that buyer/tenant agents or brokers, even if compensated by listing brokers, or by sellers/landlords may represent the interests of buyers/tenants; and
3) any potential for listing brokers to act as disclosed dual agents, e.g., buyer/tenant agents. *(Adopted 1/93, Renumbered 1/98, Amended 1/03)*

• **Standard of Practice 1-13**

When entering into buyer/tenant agreements, REALTORS® must advise potential clients of:

1) the REALTOR®'s company policies regarding cooperation;
2) the amount of compensation to be paid by the client;
3) the potential for additional or offsetting compensation from other brokers, from the seller or landlord, or from other parties;
4) any potential for the buyer/tenant representative to act as a disclosed dual agent, e.g., listing broker, subagent, landlord's agent, etc., and
5) the possibility that sellers or sellers' representatives may not treat the existence, terms, or conditions of offers as confidential unless confidentiality is required by law, regulation, or by any confidentiality agreement between the parties. *(Adopted 1/93, Renumbered 1/98, Amended 1/06)*

• Standard of Practice 1-14

Fees for preparing appraisals or other valuations shall not be contingent upon the amount of the appraisal or valuation. *(Adopted 1/02)*

• Standard of Practice 1-15

REALTORS®, in response to inquiries from buyers or cooperating brokers shall, with the sellers' approval, disclose the existence of offers on the property. Where disclosure is authorized, REALTORS® shall also disclose, if asked, whether offers were obtained by the listing licensee, another licensee in the listing firm, or by a cooperating broker. *(Adopted 1/03, Amended 1/09)*

• Standard of Practice 1-16

REALTORS® shall not access or use, or permit or enable others to access or use, listed or managed property on terms or conditions other than those authorized by the owner or seller. *(Adopted 1/12)*

Article 2

REALTORS® shall avoid exaggeration, misrepresentation, or concealment of pertinent facts relating to the property or the transaction. REALTORS® shall not, however, be obligated to discover latent defects in the property, to advise on matters outside the scope of their real estate license, or to disclose facts which are confidential under the scope of agency or non-agency relationships as defined by state law. *(Amended 1/00)*

• Standard of Practice 2-1

REALTORS® shall only be obligated to discover and disclose adverse factors reasonably apparent to someone with expertise in those areas required by their real estate licensing authority. Article 2 does not impose upon the REALTOR® the obligation of expertise in other professional or technical disciplines. *(Amended 1/96)*

• Standard of Practice 2-2

(Renumbered as Standard of Practice 1-12 1/98)

• Standard of Practice 2-3

(Renumbered as Standard of Practice 1-13 1/98)

• Standard of Practice 2-4

REALTORS® shall not be parties to the naming of a false consideration in any document, unless it be the naming of an obviously nominal consideration.

• Standard of Practice 2-5

Factors defined as "non-material" by law or regulation or which are expressly referenced in law or regulation as not being subject to disclosure are considered not "pertinent" for purposes of Article 2. *(Adopted 1/93)*

Article 3

REALTORS® shall cooperate with other brokers except when cooperation is not in the client's best interest. The obligation to cooperate does not include the obligation to share commissions, fees, or to otherwise compensate another broker. *(Amended 1/95)*

• Standard of Practice 3-1

REALTORS®, acting as exclusive agents or brokers of sellers/landlords, establish the terms and conditions of offers to cooperate. Unless expressly indicated in offers to cooperate, cooperating brokers may not assume that the offer of cooperation includes an offer of compensation. Terms of compensation, if any, shall be ascertained by cooperating brokers before beginning efforts to accept the offer of cooperation. *(Amended 1/99)*

• **Standard of Practice 3-2**
Any change in compensation offered for cooperative services must be communicated to the other REALTOR® prior to the time that REALTOR® submits an offer to purchase/lease the property. After a REALTOR® has submitted an offer to purchase or lease property, the listing broker may not attempt to unilaterally modify the offered compensation with respect to that cooperative transaction. *(Amended 1/14)*

• **Standard of Practice 3-3**
Standard of Practice 3-2 does not preclude the listing broker and cooperating broker from entering into an agreement to change cooperative compensation. *(Adopted 1/94)*

• **Standard of Practice 3-4**
REALTORS®, acting as listing brokers, have an affirmative obligation to disclose the existence of dual or variable rate commission arrangements (i.e., listings where one amount of commission is payable if the listing broker's firm is the procuring cause of sale/lease and a different amount of commission is payable if the sale/lease results through the efforts of the seller/landlord or a cooperating broker). The listing broker shall, as soon as practical, disclose the existence of such arrangements to potential cooperating brokers and shall, in response to inquiries from cooperating brokers, disclose the differential that would result in a cooperative transaction or in a sale/lease that results through the efforts of the seller/landlord. If the cooperating broker is a buyer/tenant representative, the buyer/tenant representative must disclose such information to their client before the client makes an offer to purchase or lease. *(Amended 1/02)*

• **Standard of Practice 3-5**
It is the obligation of subagents to promptly disclose all pertinent facts to the principal's agent prior to as well as after a purchase or lease agreement is executed. *(Amended 1/93)*

• **Standard of Practice 3-6**
REALTORS® shall disclose the existence of accepted offers, including offers with unresolved contingencies, to any broker seeking cooperation. *(Adopted 5/86, Amended 1/04)*

• **Standard of Practice 3-7**
When seeking information from another REALTOR® concerning property under a management or listing agreement, REALTORS® shall disclose their REALTOR® status and whether their interest is personal or on behalf of a client and, if on behalf of a client, their relationship with the client. *(Amended 1/11)*

• **Standard of Practice 3-8**
REALTORS® shall not misrepresent the availability of access to show or inspect a listed property. *(Amended 11/87)*

• **Standard of Practice 3-9**
REALTORS® shall not provide access to listed property on terms other than those established by the owner or the listing broker. *(Adopted 1/10)*

• **Standard of Practice 3-10**
The duty to cooperate established in Article 3 relates to the obligation to share information on listed property, and to make property available to other brokers for showing to prospective purchasers/tenants when it is in the best interests of sellers/landlords. *(Adopted 1/11)*

Article 4
REALTORS® shall not acquire an interest in or buy or present offers from themselves, any member of their immediate families, their firms or any member thereof, or any entities in which they have any ownership interest, any real property without making their true position known to the owner or the owner's agent or broker. In selling property they own, or in which they have any interest, REALTORS® shall reveal their ownership or interest in writing to the purchaser or the purchaser's representative. *(Amended 1/00)*

- **Standard of Practice 4-1**

For the protection of all parties, the disclosures required by Article 4 shall be in writing and provided by REALTORS® prior to the signing of any contract. *(Adopted 2/86)*

Article 5
REALTORS® shall not undertake to provide professional services concerning a property or its value where they have a present or contemplated interest unless such interest is specifically disclosed to all affected parties.

Article 6
REALTORS® shall not accept any commission, rebate, or profit on expenditures made for their client, without the client's knowledge and consent.

When recommending real estate products or services (e.g., homeowner's insurance, warranty programs, mortgage financing, title insurance, etc.), REALTORS® shall disclose to the client or customer to whom the recommendation is made any financial benefits or fees, other than real estate referral fees, the REALTOR® or REALTOR®'s firm may receive as a direct result of such recommendation. *(Amended 1/99)*

- **Standard of Practice 6-1**

REALTORS® shall not recommend or suggest to a client or a customer the use of services of another organization or business entity in which they have a direct interest without disclosing such interest at the time of the recommendation or suggestion. *(Amended 5/88)*

Article 7
In a transaction, REALTORS® shall not accept compensation from more than one party, even if permitted by law, without disclosure to all parties and the informed consent of the REALTOR®'s client or clients. *(Amended 1/93)*

Article 8
REALTORS® shall keep in a special account in an appropriate financial institution, separated from their own funds, monies coming into their possession in trust for other persons, such as escrows, trust funds, clients' monies, and other like items.

Article 9
REALTORS®, for the protection of all parties, shall assure whenever possible that all agreements related to real estate transactions including, but not limited to, listing and representation agreements, purchase contracts, and leases are in writing in clear and understandable language expressing the specific terms, conditions, obligations and commitments of the parties. A copy of each agreement shall be furnished to each party to such agreements upon their signing or initialing. *(Amended 1/04)*

- **Standard of Practice 9-1**

For the protection of all parties, REALTORS® shall use reasonable care to ensure that documents pertaining to the purchase, sale, or lease of real estate are kept current through the use of written extensions or amendments. *(Amended 1/93)*

- **Standard of Practice 9-2**

When assisting or enabling a client or customer in establishing a contractual relationship (e.g., listing and representation agreements, purchase agreements, leases, etc.) electronically, REALTORS® shall make reasonable efforts to explain the nature and disclose the specific terms of the contractual relationship being established prior to it being agreed to by a contracting party. *(Adopted 1/07)*

For the remainder of the NAR's 2014 Code of Ethics and Standards of Practice, including your duties to the public and duties to other realtors, I strongly encourage you to visit the following website:
http://www.realtor.org/governance/governing-documents/the-code-of-ethics

“REAL ESTATE PROVIDES THE HIGHEST RETURNS, THE GREATEST VALUES AND THE LEAST RISK.”

— ARMSTRONG WILLIAMS

CHAPTER 6: BUILDING YOUR SALES PIPELINE

There's nothing so good that it should not be sold!

Think about this: Everything under the sun that is desirable to people in ANY sense, can be marketed and sold at a profit. Fresh water? Evian and Aquafina are constantly locked in a death struggle for market share amongst people who want fresh bottled water. At the same time, others have been selling expensive charcoal and various household filtration systems for generations now.

Sunshine? Someone is "selling the sun" every time a hotelier in Hollywood, Florida books a room for a winter tourist from icy Quebec, Canada.

Fitness? Heavily marketed. Health? Marketed as a benefit of many different products and services - from acai berries, to diet books, to fat-burning cleansing systems.

Every one of these commodities receives the intensive efforts of the best marketers and salespeople in the world.

The most important part of the sales process is prospecting. This is the difficult, time-consuming process of going out into the markets and finding people who are likely to want or need your services. That is, this is the process of identifying people and establishing the fact that YOU can help them.

This is a huge project, and will likely take up much of your time – at least in the early years of your practice. If all goes well, you will get a greater percentage of your deal flow from referrals. But, you can't count on referrals because you cannot directly control them. You can, however, control the number of people you contact regarding buying or selling a home!

Prospecting versus marketing

There is a difference between prospecting and marketing, but I recommend you hit both of them as hard as you can, and as fast as you can! Prospecting is like being a hunter - you leave the cave, go poking around in the woods, bash something over the head and drag it home.

Sure, you aren't literally bashing a prospect in the head. You are simply speaking to person after person and establishing that they have a need to either buy or sell a home. Your focus for now should be on finding people who need to sell a home quickly, even if they have to make some price concessions.

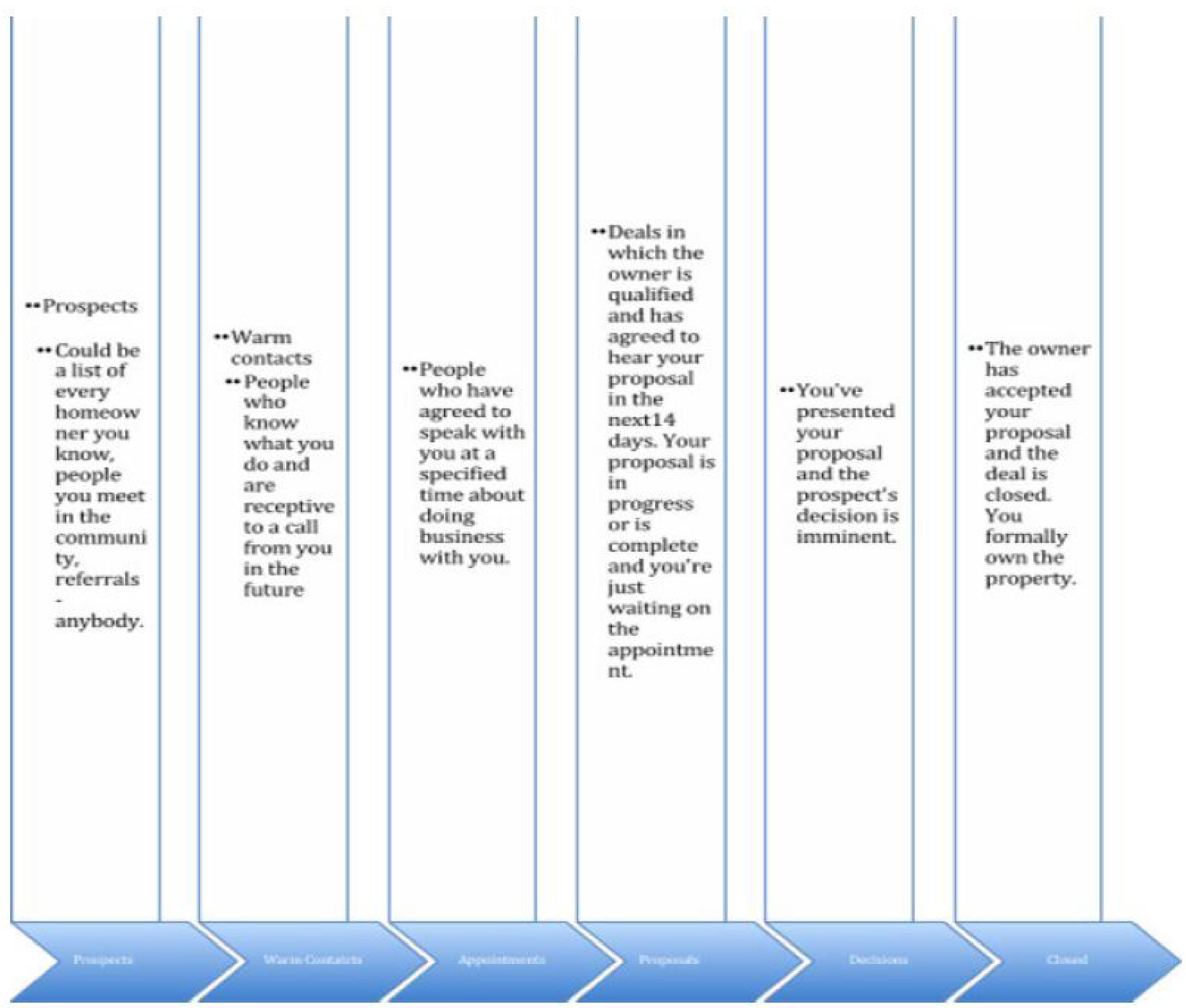
Marketing, on the other hand, does not involve you leaving the cave. Rather, the marketer is slowly creating a farm, or setting some 'traps' in the neighborhoods he or she usually works, that will yield a reasonably predictable flow of deals.

In both cases, the object is to fill your "pipeline" with people whom you can profitably help.

Key concept: Building Your pipeline

In sales, your pipeline is a snapshot of everybody and every deal you have, in various stages of completion. It's inseparable from your real estate investment process and part and parcel of your business model. Your pipeline is the engine that will drive your eventual success in the business of real estate. Almost all failures are pipeline failures, one way or another.

Here's what a sales pipeline looks like:



Every night, before you go to bed or knock off for the day, do two things: (1) Add more names to the top of your pipeline, and (2) bump more names down the filter. You can continue to update the sales pipeline every day – and every day, strive to move names forward at each stage of the pipeline.

That means every day, you are going to do a little bit of cold marketing – adding names to the prospect list, or calling people on the prospect list and moving them to the warm contact list. Also, every day, you're going to do some warm sales, too. That is, you're going to call on people who have *already* agreed to speak with you at some point about what you can do for them as a real estate investor.

Real world story: Jim was a factory worker who lost his job in the last recession. He had a nice pile of money saved, he was very good with his hands and had some solid home improvement skills. So, he inventoried his strengths and weaknesses and even did a full SWOT analysis during his startup phase.

The problem was that Jim was scared to death of cold prospecting and cold marketing. He worked very hard to develop his warm contacts and in doing his research, but he had a hard time calling or walking up to strangers and asking them if they had considered selling their houses. So, once he had exhausted his friends and neighbors, his pipeline ran dry, even though he was determined to start flipping houses.

Jim fell into the trap of avoidance. He worked on doubtful warm contacts, attended seminars, workshops, read real estate investing books, and went to networking events. But, all of that wasn't working! Jim was pretending to work! In reality, he was avoiding the pain of rejection that comes with cold prospecting. Yes, you must work with your warm market and it's absolutely crucial to close on the lower rungs of the pipeline depicted on the last page, but don't ever catch yourself doing busywork or spinning your wheels to avoid the tough part of the business!

Pro-Tip: If you're a part-time real estate investor, make a personal vow to yourself - talk to at least 10 people every day about what you do and ask for an appointment to talk about selling their home.

If you're a full-time real estate investor, you'll want to (at least) double that number.

That's what it takes to keep the pipeline full and flowing. Do that, and you'll never want for possible deals. Even better, you can be choosy. If you have more deals than you can possibly pull off, you can focus on the ones that are going to be the most profitable.

CHAPTER 7: KEY REAL ESTATE FINANCIAL CONCEPTS

Know Your Assets and Liabilities

I remember the old Saturday Night Live skits with Chevy Chase playing President Gerald Ford, showing up to a presidential debate and responding to a tricky question with, "it was my understanding when I came to this debate that there would be no math."

Well, in real estate, at the boots-on-the-ground investor level, there is some math. I promise you two things, though: (1) the math is not particularly difficult and (2) the math you do is critically important.

The monthly cash flow statement never lies. Either you have cash coming in, or you are bleeding it out. This is not to say that the objective is to accumulate cash. It's usually better to own a profitable real estate property than an equivalent amount of cash. But, if you sold off all your assets at market prices and paid off all your debts with the cash, and had to start again with what was left over (that is, the book value, or liquidation value of your portfolio), that 'start over' figure should get bigger and bigger every year.

Let's take a closer look at these key financial concepts, because they are the foundation for all your real estate investment decisions going forward.

Assets. An asset is something that you can use to better your own economic position. It can be cash in the bank, or it can be something that generates cash, like a rental property. It can also be something that you can sell to raise cash. All these things are assets to you. Examples of assets include, but are not limited to:

**Cash and cash equivalents (money markets, CDs, etc.)
**Houses
**Accounts receivable (money people owe you)
**Prepaid advertising expenses or insurance premiums
**Land
**Automobiles
**Office supplies and equipment

Liabilities. A liability is an obligation you owe to someone else. Common examples of liabilities include:

**Mortgage balances
**Hard money loan balances (note that mortgages and hard money loans are assets to the lender, but liabilities to you!)
**Earned, but unpaid wages to employees
**Taxes due
**Insurance premiums
**Unpaid balances on contracts

Liabilities can be both short-term (due in less than one year) and long-term (longer than one year). The list of potential assets and liabilities is endless.

Balance Sheet. Your balance sheet is a list of all your assets (traditionally listed in order of their liquidity, or how easily and cheaply you can convert them to cash), along with a list of all your liabilities.

Net Worth. Your total assets, minus total liabilities. As I mentioned above, this is also your portfolio's book value. You can combine everything you own, both within your real estate enterprise and your personal assets, but for a variety of reasons, I strongly encourage you to separate your investment assets and liabilities from your personal ones. In the real estate world, your book value with any given property also represents your equity in the property.

Equity. Your ownership position within a specific deal. If you sold any given home in your investment portfolio, and paid off all debts secured by the home with the proceeds, this is your equity position within that specific home. Your equity can rise as the value of the home rises, or as any debts on the property are paid down - or some combination of the two. In fact, for intermediate and longer-term real estate investors, this is the whole idea!

Return. Your return is what you receive back after risking money on an investment. Returns come in two basic forms: income and capital gains. Generally, capital gains income is more favorable to you because it's normally taxed at a lower rate, and you can subtract any losses you take on other properties during the year against your capital gains. Income, on the other hand, is taxed at your full marginal ordinary income tax rate, and in some circumstances you may have to pay self employment tax of 15.3 percent on top of that.

As far as real estate investors are concerned, rental proceeds are generally counted and taxed as income, while profits on the final sale of a property are counted as capital gains.

Leverage. Leverage is a foundational concept for the real estate investor. Leverage, or as they call it in the U.K. and Australia, "gearing," is simply investing with borrowed money. If your investment grows in value faster than your interest rate, you get to keep all of the increased value of the property, even though you only put up a part of the money.

Here's a simple example: You find a house that costs $250,000 and you want to buy it. You put $50,000 down and borrow $200,000 for the rest of it at 6 percent. Six months later, you sell the house for $300,000. You pay off the $200,000 loan, plus about 3 percent, or $6,000. You recoup your original investment in the house, plus an additional $44,000 ($50,000 - $6,000).

So what just happened? Even though the house only appreciated by 25 percent, you got an 88 percent return (44,000 / $50,000) on the actual cash you put up yourself. This is a big part of the potential power of real estate as an investment vehicle. Because real estate historically does a good job of retaining its value over long periods of time (the real estate crash of 2008-2011 notwithstanding), bankers and other institutions are generally eager to lend on it. Sometimes they are too eager, which was one of the key factors leading to the last real estate crash.

This brings us to another critical real estate investment concept:

Return on investment. This is the return on the assets you actually own that you invested, disregarding any borrowed money. As illustrated above, your return on investment, or ROI, can be very different from the total return on the asset. In the long run, your ROI is the critical factor to look at for any given real estate investment, along with your ability to handle the inevitable disappointments. The more leverage you use, the greater your potential returns because leverage magnifies your ROI.

Risk. Risk is another concept that is foundational to all investing, and real estate is no exception. Risk is defined as the uncertainty of future returns. You can make all the projections you want, on all the latest "gee-whiz" software, based on the advice of all the most brilliant analysts and consultants, but bad things can still happen. You might find out that there are title problems on the car, or the home you just bought may have problems with its foundation that you didn't know about until you tried to sell it – substantially reducing the home's market value. You may find out the soil was contaminated by a chemical spill. There could be a flood, that will cause you loss, with or without flood insurance (at best, a total destruction by floods or wind will cost you loads of time, and delay your eventual sale of the house, even with a very low deductible!)

Now, this brings us to the dark side of leverage. Yes, leverage can potentially increase your ROI, but it also increases your risk. If the returns on the property are negative – that is, if you can't sell the property for as much as you have invested in it, leverage also magnifies your losses.

With leverage, it is quite possible to lose more than you have invested in the property – or find yourself "upside-down," owing much more on a house than its market value. This would require you to come up with cash at closing, if you wanted to sell the house. This is never any fun, and when the amount of cash required is large, it can become impossible.

Leverage can be your biggest potential ally and your worst enemy. So use leverage with caution, and always consider risk!

CHAPTER 8: FIND YOUR TRACK TO RUN ON

Make Your Schedule and Stick to It

Through my experience, I've found that every successful investor needs a routine. That is, some sort of way of organizing and prioritizing time and tasks that doesn't need to be totally reinvented every day.

Generally, this means settling on a consistent approach for finding deals and moving them forward to completion (that works for you and your market).

Why is this important? Because almost everyone needs to wake up in the morning and get to work with a sense of purpose. When you sit down to work at 9 AM, you need to know exactly what you're going to be doing the entire rest of the day.

You're not an employee working for "The Man" anymore. You are working for you. As an employee, working for someone else, it was their job to have the plan, but when you are a real estate investor, you are The Man. So, YOU must have the plan! You must figure out exactly what you are going to read, whom you are going to meet, whom you are going to call, where you are planning to go and what you are planning to accomplish - and you must be ready and primed at the starting block no later than 9AM every day, if you are a full-time investor. (You part-timers know what you have to do to mesh things with your full-time careers).

This is what I call having a track to run on, every day. When Usain Bolt runs a 400m dash, he doesn't spend any time or energy trying to navigate. Once the gun goes off, he doesn't strategize anymore. He takes off like a madman, hits the accelerator, and doesn't stop until he crosses the finish line.

Think of it this way: if you don't have a plan for the day already set, well before 9AM, you may not even make the attempt to pick up the phone and talk to people at all. It will be 11 or 12, and time for lunch, and you still haven't accomplished anything! But you're hungry, so you get lunch - and there goes another hour!

You have got to have a track to run on. But, before you can get "on track," you have to make some decisions about the kind of practice you want to run.

Do you like going to the courthouse? Do you like canvassing your neighborhoods? Do you like licking stamps, sending and tracking letters? Are you a web-friendly, technology-savvy guy? Are you comfortable when there are lawyers involved? Is your state a judicial or non-judicial foreclosure state? How far do you have to drive to visit properties? Do you want to wholesale properties to other investors? Do you want to get involved in renovations? Are you great with antique or historic buildings? Do you want to be landlord? Do you want to sell to young families, or older, more established people? All these things figure into what kind of niche you are going to operate in, and there's no right or wrong answer to any question! There are fabulously successful real estate professionals who have made great livings occupying and working in almost any niche you can imagine.

So take what I say with a grain of salt. Your mileage will vary, because markets vary and people vary. Here are the basic approaches that have worked for me: I primarily invest in short sales, foreclosures and other distressed assets.

Foreclosures – When someone can't pay their mortgage anymore, and the mortgage is secured by the property itself, the home eventually goes through the foreclosure process. This is usually a lengthy court process in which the bank or lender has to go before a magistrate judge and demonstrate that they are the true owner of the debt (this can be tricky in and of, itself), that the property itself is the collateral for the mortgage, and that they have sent all the proper notifications required by state law. After a certain amount of time has passed, which varies by state, the home eventually becomes REO, or a bank-owned property (if the property is not purchased on the courthouse steps by an investor). REO stands for "real estate owned", that is, real estate owned by a bank or other lender.

At that point, the lender usually wants to sell the house as quickly and painlessly as possible. So, they usually advertise an auction, and have investors bid on the property either on site, or more generally, at the courthouse or municipal building.

Foreclosures are matters of public record. Every single day, I can wake up check the foreclosure listings for my county and any nearby counties (if I feel like going further afield, or live, or work, near the county line).

I already have a time set aside to go see a property I'm considering bidding on. (Always go see a property. Never bid blind. The property may not even exist, or may be wrongly recorded). If there's an auction that day, I already know it. They usually start at 9 or 10, and I'm there early, proof of funds in hand, ready for success.

If there's no auction that day, I'm looking at properties, or I'm on the phone or meeting people who might need to buy or sell properties. On many occasions, I have a breakfast appointment with someone well before 9. The bottom line is – 9 o'clock never takes me by surprise. I have a track and I'm disciplined about running it, every day.

Short-Sales – A short-sale is simply the purchase of a property for something less than the outstanding balance on the mortgage, with the assent of the lender. In these cases, the lender knows full well that it will not get full satisfaction out of the house sale if they go through the foreclosure process – especially given the time and legal expenses involved. By getting in between the homeowner and lender and making them an offer that's better than the prospect of foreclosure, everyone can win. In some cases, the homeowner can even get some cash to start over with.

I have always done well in the short-sale market, but it's often a byproduct of long days, weeks and months of effort. I meet people, I tell them I can help them solve mortgage problems and buy homes fast, with minimal fuss.

It doesn't pay off right away, but it pays off eventually – sometimes months or years after I make an initial contact with someone. By telling people what I do, I may receive a call from someone's nephew asking for my help because his uncle spoke highly of my services. However, that only happens because I make a point of speaking with people in groups and individually, every day, and I get my name out there!

Specifically, I am looking to make two or three appointments every day with either a qualified seller, buyer or investor whom I can do business with. If I don't have those appointments scheduled, I fight, fight, fight to get those appointments! And I do that all day long, day in and day out! I make calls, follow-up calls, send thank you letters and follow-up letters, I go speak to real estate groups and homeowners associations, or I'm making contacts in organizations like Kiwanis, the Rotary Club or the local chamber of commerce. I am always busy – and I never have trouble wondering what I should be doing when the clock hits 9 AM.

Distressed Sales – Distressed sales should be a staple of every property "flipper's" diet. These are properties that have a motivated seller. That is, someone who is under some pressure to make a deal happen. Perhaps it's not a foreclosure or pre-foreclosure situation. Perhaps there's no lender involved at all.

People need to sell properties quickly for all kinds of reasons:

**There's a baby on the way
**Their children are grown and they want to downsize their home right away
**The owner got laid off and needs to move somewhere cheaper.
**The owner accepted a job out of state and starts in a week.
**The owner got sick or hurt and needs to be closer to where he or she can get quality medical care or living assistance
**The owner is considering a reverse mortgage but would rather have a lump sum
**The neighborhood is gentrifying and the taxes are getting too high for the current occupant
**The owner is deceased and the family just wants to sell the home quickly.
**The owner cannot pay the mortgage anymore and will shortly default if he can't sell – but there are no foreclosure proceedings underway.

Some of these reasons are sad, and some are joyous. But in each case, the owner wants or needs to sell quickly. I provide a service to all of these people if they are willing to sell at an attractive price that seems fair to everyone.

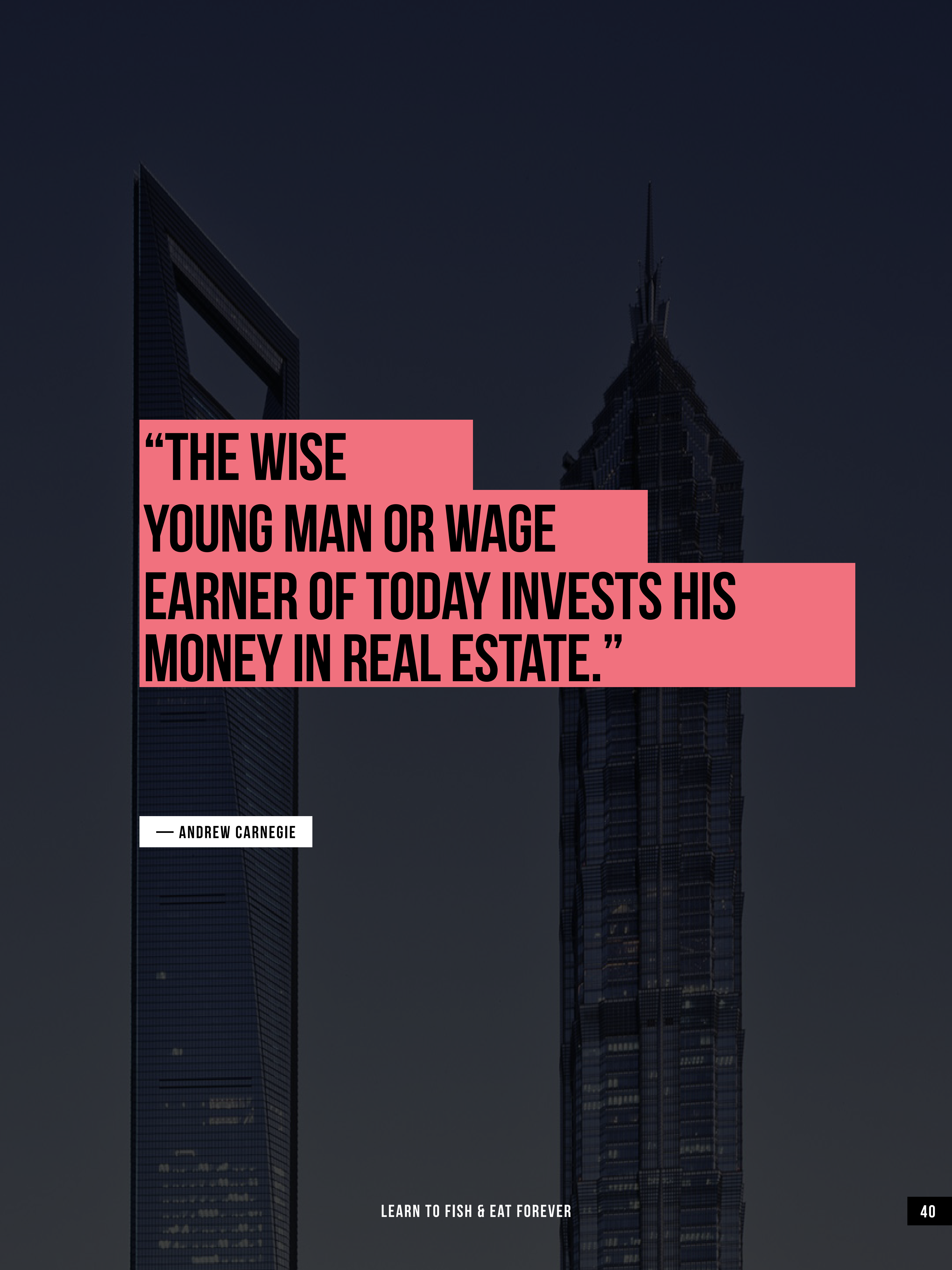
As a flipper, you need this attractive price, because you must have room to profit at the end of the day.

How do I find these properties? Simple - I talk to people! I build my "brand" in the neighborhood, social media, my network, extended network, etc. Everyone I meet, I make it a point for them to know who I am in the real estate business.

Branding doesn't have to be more involved than that – but if enough people know you as "the homebuyer guy," or "the homebuyer lady," you will get referrals. Or, you will uncover the need directly, because you talk to enough people about what you do!

That is the track I run on…

…starting at 9AM everyday, sharp!!!



“THE WISE YOUNG MAN OR WAGE EARNER OF TODAY INVESTS HIS MONEY IN REAL ESTATE.”

— ANDREW CARNEGIE

CHAPTER 9: HOW IS REAL ESTATE TAXED?

The Basics

For this chapter, we're going to focus on the federal taxation of real estate investments, as opposed to taxation of your personal residence(s). At the federal level, taxation for the two kinds of properties is very different.

Note: Before we get too far into this chapter, understand that this is not a tax book. The tax ideas I present here are general concepts only, designed to give you a very basic grasp of tax information and vocabulary. The nuts and bolts of real estate taxation are easily learnable and graspable by the average person over time. It's not rocket science – but the details are far too complex to squeeze into a couple of chapters in a general real estate investment book.

Any tax information in this book is for general information purposes only, and should not be construed to be actual tax advice. The best tax advice I can give you is this: Get a professional tax expert on your team – and consult them early and often!

Types of Taxes

For the most part, there are two main kinds of taxes you need to worry about a real estate investor, ordinary income tax, and capital gains tax.

Ordinary income tax is taxed just the same way as income – and is usually quite high. What's subject to ordinary income tax? Well, income from salary, wages and tips, of course – which is also generally subject to self-employment taxes – but also income from annuities and most bonds and bond funds as well. Similarly, any income you receive from rent – net of expenses – is also taxed at ordinary income rates, as well.

Rental income is better than a kick in the head, but it's still subject to rather severe ordinary income rates.

The other tax system you have to worry about, at the federal level, is capital gains tax. This is a tax that the federal government imposes on profits from investment activities, as opposed to labor (and not counting bonds, annuities or stock dividends).

It's important to understand that the IRS doesn't tax the entire sale proceeds – only your profits from the sale, if any (hopefully the vast majority of your deals will be very profitable and you will pay lots of taxes!)

Short and Long-Term Capital Gains

There are two kinds of capital gains: Short-term, which applies to properties you buy and sell within a year, and long-term, which applies to anything you hold for a year or more. Congress has long tried to encourage people to buy and hold investments for a fairly long time, rather than get in and out of them quickly, and so they impose a more favorable rate for long-term capital gains than they do for short-term capital gains.

These rates include the effect of an additional 3.8 percent tax imposed on capital gains for investors with incomes of over $200,000 and couples earning over $250,000.

Individuals earning between $36,250 and $400,000 will pay a 20 percent tax on capital gains on investments held longer than a year. People with incomes below that limit will pay no capital gains as long as they hold it for a year.

Note that the long-term rate is lower than the short-term rate at all income levels, across the board.

Offsetting Gains and Losses

So what if you lose money on one or more properties? Capital gains tax rules allow you to deduct capital losses from gains in any year. So, if you make $50,000 on one deal but lose $30,000 on another, and you sold both properties in the same year, you only pay income taxes on the $20,000 difference.

What if you lost more money than you made in a given year? In investing, here's what you do: you cancel out all your gains, dollar for dollar, against losses. Once your gains are zero, then you can write off up to $3,000 per year against income. If you still have unused capital losses at that point, you can carry them forward each year, writing off capital gains first, then ordinary income, year after year, until you use up all your losses.

Here's an example:

**You sell two houses in 2014, one at a gain of $10,000, the other at a loss of $19,000.

**In 2015, you have no capital gains. In 2016, you sell one house at a gain of $2,000. You have $60,000 of gross income from wages in each year.

**In 2014, you pay no capital gains tax. You use $3,000 of your $9,000 in excess losses to reduce your taxable income. You then carry forward the remaining $6,000 into the next year.

**In 2015, you have no capital gains, so you can't offset any losses against gains. You can still, however, use up to $3,000 of your losses to reduce your taxable income. That leaves you with $3,000 in losses left over that you carry into tax year 2016.

**In 2016, you can cancel out your $2,000 in gains, dollar for dollar. That leaves you with $1,000. You can then offset $1,000 in ordinary income before you run out of capital loss carryforwards.

Capitalized Expenses and Depreciation
t
Generally, if you buy investment property of any kind, designed to produce income, you can deduct the amount you invest, but not all at once. Instead, you have to spread out your deduction across the useful life of the property. This is called "capitalizing." The deductions you claim over the useful life of the property reflect *depreciation*, and are called *depreciation*

deductions.

This is also true of any investments you make in renovating or improving the property. However, you can take a first year deduction of the cost of basic repairs that simply keep the property functional. If you aren't sure which is which, check with your tax advisor.

For example, if you buy a home for $200,000, and sell it for $250,000, and don't put any other work into the property, your basis in the property is $200,000. Capital gains (or losses) are defined as sale minus basis.

Now, if you sink additional money in the property, that counts as basis, too. So, if you bought the property for $200,000, did a renovation that cost you $60,000, and sold it for $250,000, you'd have a $10,000 capital loss.

If you hold the property longer than a year, however, you take depreciation deductions. These give you a nice tax benefit during the year, but they also decrease your basis, gradually, over the useful life of the property. For residential real property, you generally have to discount the property over 27.5 years. So, divide your $260,000 basis by 27.5, and that gives you $9,455 - which is the amount of depreciation each year using the straight-line method. (There are other ways that increase your depreciation deductions early in the life of the property and can increase your cash flow, but they are beyond our scope here.)

This is nice, because you can deduct $9,455 against income each year (subject to passive activity rules, but don't worry about them for now). That also means it's that much easier to have the property become cash flow positive. Your first $9,455 in rental income is effectively tax free!

(Note that only houses depreciate. Land does not depreciate.)

Why do they make it so complicated? The general rule in accounting is that you try to get the numbers to reflect the reality on the ground, as closely as possible. Houses wear out, wood rots away, termites set in, and everything will need to be replaced eventually. Your depreciation deduction reflects the reality that you are taking a theoretical loss each year, as your house gradually accrues wear and tear. So you deduct a 1/27.5th of your basis each year for 27.5 years.

In theory, if you saved that money, and invested it each year at a rate that kept up with inflation, you would have enough after 27.5 years to buy or build a new one!

Tax Basis. Your basis in your property is how much money you have invested in it. For example, if you buy a home for $200,000, and sell it for $250,000, and don't put any other work into the property, your basis in the property is $200,000. Again, capital gains (or losses) are defined as sale proceeds minus basis.

Each year, however, you must subtract any depreciation deductions you took from your tax basis. So your basis, in this example, would decline by $9,455 each year. If you were to sell that property, your capital gains would increase by that amount every year, all things being equal.

Renovations vs. Improvements

Remember that only renovations and improvements count towards your basis. Any routine repairs for which you took an immediate first year deduction don't count towards basis. For example, landscaping is a capital investment. Mowing the lawn is maintenance.

Installing a toilet is a capital investment, whereas fixing a leaky pipe is maintenance.

The general rule is that you cannot take a tax deduction for the same thing twice.

Again, I reiterate – I'm boiling a lot of complex information into a very small space. Hopefully, I'm giving you some ideas on things to be aware of, and to ask your accountant about. But again, you should be regularly consulting with a professional, licensed tax advisor.

CHAPTER 10: SPECIAL TAX CONSIDERATIONS FOR SHORT-TERM INVESTORS & "FLIPPERS"

Buy at Wholesale Prices, Sell at Retail Prices

Now that you know just enough information about real estate taxation to be dangerous, I have to break the news to you: much of it won't apply to you. That is, it won't apply to you if you do real estate the same way I do - Short-term "flipping."

Here's why:

Unlike the traditional long-term investor who buys property in the anticipation of holding it for many years and renting it out for income, you, as a flipper, are essentially running a retail store.

Sure, there's no walls on your store. Your inventory isn't sitting on shelves in a shop window. You don't have a sign out front. But like any retail merchant, you are in the business of buying up inventory at wholesale prices and selling it at retail prices, as quickly as possible.

The IRS treats profits that any sole proprietor earns through running a retail store as ordinary income – and if you flip properties a lot, you are going to fall under the same rules.

That means you won't be worrying about capital gains and losses. You won't worry about taking depreciation deductions on homes you hold in your inventory for sale (although you can create two entities – one to hold flipping properties and one to hold rental properties).

The relevant section of the law is IRC Section 1221, which defines capital assets. The IRS differentiates between traders – or 'flippers,' in common parlance, and investors.

The IRS has similar rules for people who day trade stocks and options online, and for auto dealers as well. For more information, see IRS Publication 544, especially pages 11 and 12.

Short-Term Gains:

If you're a flipper, the vast majority of your properties will be bought and sold in well under a year – and hopefully far short of that, in most cases. So, long-term capital gains rates are not a consideration for you. Indeed, as a flipper, I wouldn't get hung up on the advantages of long-term capital gains tax treatment too much.

Here's why:

If you buy a home for $200,000, renovate it for another $20,000, and hold on to it for a just over a year and sell it for $240,000, you've got capital gains of $20,000. You pay $4,000 (20 percent) in capital gains tax, and so you have an after-tax profit of $16,000.

Well done.

Now, as a flipper, you take the same $200,000 initial commitment. Add another $20,000 in renovation, and sell the house in 90 days for a $20,000 profit. Of that, maybe you'll have to pay the higher tax of, say, 33 percent, or $6,600. So you only have an after tax profit of $13,400.

But now you've got your $200,000 back – and the $50,000 you can renovate with. So you do the same thing every 90 days. If you can duplicate your results every three months, that means four deals every year – for after tax profits of $53,600.

So that nice little tax break for long-term capital gains doesn't seem like such a big deal now, does it?

So don't worry too much about long-term gains. The rule with investing is this: don't let the tax tail wag the investment dog. A big component of flipping is velocity. Studies show that the more deals flippers do, the more money they make.

I understand there's some selection bias involved in studies like that. People who lose money tend to quit after just a few deals, while people who make money early, tend to want to do more. But, you can't argue with the math, and like any retailer, you want to turn over your inventory as often as you can.

Self-employment tax

Probably the worst thing about falling under dealer rules is that the IRS considers your dealer profits to be ordinary income – and therefore tags you with self-employment tax. This runs up to 15.3 percent for most self-employed individuals. You can deduct self-employment tax from your flipping profits, but it still hurts. However, it does count toward your Social Security benefit in the long run. So (if you live long enough), you stand to get a chunk of it back in Social Security benefits and Medicare. (In theory, anyway.)

No Installment Sales

Long-term investors can sell property over time, paying taxes on money received for a property as they receive it - dealers can't! Under principles of accrual, if you sell a property on a 10-year dealer-financed payment plan, you have to book that profit right away – boosting your taxable income. If you're not careful, you could wind up with a tax bill in the first year that is much greater than the actual amount of cash you received.

This could put you in a bind. (The fix – do a rent-to-own deal, and transfer the title at the end of the term. Don't transfer title at the beginning. The IRS charges rental income as taxable only as you receive it. Either that, or find a new buyer with the cash or credit to buy outright).

Advantages to Dealer Classification

There is an upside to being classed as a dealer rather than an investor. Any losses you incur are ordinary losses, not capital losses. This means that you aren't limited by the $3,000 per year rule. Instead, you can offset an unlimited amount of ordinary losses against income in any given year – subject to passive activity rules. This shows up on Schedule C of your personal income tax return, if you don't own a corporation.

CHAPTER 11: BUILDING BUSINESS THROUGH REFERRALS

Great Service Leads to More Great Business!

By this point, every reader should have a solid grasp on the importance of being organized about marketing, and about having a carefully planned approach to networking, complete with targeted "centers of influence" that can really help you accelerate your practice.

Anyone can find one deal and put it together - maybe that's your comfort zone (and that's okay). However, I want you to have the tools to make your practice a career – a full-blown enterprise. A business that builds and builds on itself, where deals beget deals, as more people realize what you can do to help them, and where (hopefully) profits stack up on top of profits.

No single deal is going to get you there. What gets you to the point where you have an enterprise and not a real estate hobby is going to be the marketing and prospecting machine that you've built. That's what will carry you through the dry spells and give you a track to run on when you have a hundred things trying to distract you.

Ah, but you still have to work the deal, right? Of course! And you want each deal to go as well as it possibly can.

Now, there's more than one way to do this. There are many paths to success, but let me walk you through some fundamentals that are common to all of them:

Find Motivated Sellers

The keyword is motivated. For my business model to work, I need to find a seller with a problem that I can solve. That problem is usually the need to sell the property fast! It could be for a number of reasons, but the common denominator is they have some outside pressure that is not me!

This is important to remember. I don't use high-pressure sales tactics. I never need to muscle a closing. The seller already has a problem. I'm the one with the solution to their problem: ready cash to buy their house quickly!

Nobody sells to me to make me go away. They sell to me because it solves their problem. I come in positioning myself as an ally and consultant, on their side of the table, as much as possible.

When I can do that, many of the psychological barriers the seller has to making the deal, come down very quickly. When they are signing the sale documents, they often do so with a sense of relief.

Get Referrals

That's what I want, because when they have the weight of the world lifted off their shoulders, thanks to the quick cash I provided to buy their house, they are a primed and ready for the next step: becoming referral sources.

Here's the deal: people tend to know people who are like them, financially speaking. If you have someone who needs to have a short sale done in a hurry because of a job loss, or divorce, or illness or anything else, chances are he or she is friends or family to someone in the same boat. People who are successful tend to hang out together, and people who are struggling also tend to hang out together, to a large degree.

When I am closing one deal, I am always thinking about the next one already. Here's a way I can often get the next deal going, even as I'm putting one to bed:

Me: So you feel better, getting this off your shoulders?

Sellers: Oh, much! It's such a great feeling getting this over with!

Me: That's terrific! I'm glad I could help. That makes me feel great, too, if I can do business and help the people I do business with. I love win-win situations like this! Don't you agree?

Seller: (Agrees)

Me: Great. Do you mind if I ask you a question? (Always ask permission before asking a qualifying or closing question!)

Seller: Sure.

Me: If there was someone else like you, that you knew and cared about, who was in a similar situation, and really needed to sell their house fast, would you help them if you could?

Seller: (Has no alternative but to say yes).

Me: Great. I do appreciate that. Would you be willing to simply introduce me to that person, if you knew one?

Seller: Almost always says "yes."

Me: Great! Now, let me ask you this, if I could help one family member, who would be the first to come to mind?

Go on down the list as far as they let you… Family members, friends, co-workers, colleagues, etc. Always be specific as to the group which you are inquiring about. You can also use people they know with the same problem: divorce, illness, the need to move, recent births, etc. The point is, that you have to lead them to specific mental file cabinets. If you don't narrow down the categories of people they know, they will get overwhelmed and you will get a goose-egg for a referral.

Now, here's where you can separate the referral pros from the wannabes: At this point, I will frequently say, "Hey, let's give them a call!" I'll get the new referral on the phone, on the spot, with the seller, and say, "Let's get a cup of coffee!"

Not too many people will jump at dinner with a stranger, and lunch can be iffy. But, mention coffee (or a beer or glass of wine, depending on the context) and they are usually up for it.

BOOM! Even as I have my contractors painting the new house, and mowing the lawn, and prepping it for sale, I'm at a Starbucks or Panera or a sports bar with my happy seller and someone who trusts him, who has a problem, and is (generally) favorably disposed to letting me help him in the same way I helped his friend.

If it's a miss? I'm only out three cups of coffee. If I have a prospect, I can be pulling comps and looking at their house that day – and coming back with an offer, provided I have the funding for it.

CHAPTER 12: KEEP IT SIMPLE

Bat for Singles and Build Your Circle of Competence

Enough about the theory of marketing. Let's get to the fun stuff! What do I look for in a property, and how do I, personally, go about finding and flipping properties?

First of all, I believe firmly in the K.I.S.S. Principle. You can call it the K.I.S.S. Principle of Investing, but it really works in any endeavor that involves downside risk, where there may be something you overlooked, or something goes wrong that was not within your control.

If you haven't heard it before, K.I.S.S. stands for "Keep It Simple, Stupid." There may be some disagreement among experts about the precise word that the final "S," stands for, but for the purpose of this book, I'm going to say:

K.I.S.S. = Keep It Simple, Smarty!

The K.I.S.S. Principle itself, is your best defense against the near-universal truth called "Murphy's Law," which simply states that in any endeavor, anything that can possibly go wrong, will go wrong.

Murphy's Law: Anything That Can Go Wrong, Will Go Wrong!

Now, in some businesses, you can get away with the occasional visit from Murphy, because the downside risk from any one misfortune is very small. If you're a short order cook, and you mess up - let's say you dropped an egg - no big deal! You can always get another egg.

In the real estate business, though, if something goes wrong, the costs can run to four, five, six figures in nearly a blink of an eye. Sometimes it's even more.

That's not something most people starting out in this business can absorb.

Hit for Average To Get Started

That's why I believe in "batting for singles" – especially early on. Just pick your swings wisely, get wood on the ball on a regular basis, and don't swing for the fences. You don't need to make a gazillion dollars on every deal – especially just starting out. I've been at it for years and I still keep things very simple, and very conservative.

I'm batting for singles.

Case in point: the engine that drives my returns, in my practice, is being able to buy a property quickly from a motivated seller. In exchange for simplicity and speed, I'm able to negotiate a discount from the market value of the property. The seller just needs a problem solved, and is willing to sell for less to get the problem out of the way quickly.

Now, when I turn around and sell that property, I'm not a motivated seller. I can wait a bit, because I have the patience to sell and get a good price. That's it. It's that simple.

Sure, I'll do a clean-up. I'll send someone in to clean carpets, maybe mow the lawn, water it up a bit so brown grass turns green. I'm willing to throw up a coat of paint to get a property looking decent, and that's a good way to unlock some value when you sell the house. (I want to attract families, not bargain hunters like me!)

But it's very simple, and I can control those expenses.

What's Your 'Circle of Competence?'

Let's come back to the idea of the circle of competence once again. This is simply the set of things in which you have significant expertise. At a minimum, it's the set of skills, where our confidence in said skills is so significant, that they amount to a significant marketplace advantage.

Your circle of competence is simply a graphic representation of what you do best – along with the kinds of things you don't do well or even do poorly, compared to others.

Everyone's circle of competence is different. Once again, there are no right or wrong answers. I divide everything into three broad categories: the first being, my "sweet spot," where I can tear the cover off the ball. I can work deals in my sweet spot as well as or better than anyone else. The main point is that when working the "sweet spot," near the center of the circle, I have a significant and perhaps decisive marketplace advantage compared to other people.

The second category is peripheral skills. These are things I can do OK, but I don't have a particular marketplace advantage. I may not have a ton of experience in these types of deals, or my marketing plan may not really be set up to pursue them efficiently. It may be these could be good deals for me, but I'd want to do them with a partner with more strength in these areas.

The last category is "outside the circle." These are things that I am just not good at. Not only do I not have a marketplace advantage with these types of projects, I'm actually at a disadvantage when bidding against other people who are attracted to these kinds of deals.

So here's a breakdown of my own personal "Circle of Competence."

In the sweet spot

Finding short sales
Valuation
Locating Deals
Minor Renovations
Price Negotiation
Real Estate Law
Real Estate Agency
Contracts
Residential/Commercial Leasing
Commercial Real Estate

At the periphery

Major Renovations
Note Buying/Purchasing Debt
Buying at auctions
High End Homes
Tax Sales
Commercial Real Estate Acquisition

Outside the circle

Nothing is outside my circle

Now some things that will be at the center of my circle might be outside your circle, and vice versa. That's what makes a market, as they say - and if everyone had identical circles, there wouldn't be much of a market. The key is to be honest with yourself about what is inside and outside that circle. Due to my 10+ years experience and the subsequent relationships I've developed with lenders, contractors, other investors, closing attorneys, and real estate gurus, there really isn't anything outside of my circle of competence. As you gain experience in the industry and create your connections, your goal should be the same - to find your sweet spot or spots, as well as, bringing the outside of your circle to the periphery.

My Background

My circle of competence is a product of my background, training and disposition. My background is in economics. That's what I went to school for at Cornell, and that's what I was passionate about growing up. I am very good at economic projections and raising capital (I started a hedge fund that helps us finance our properties and hopefully generates returns for our investors). I am very good at cash flow analysis, and can quickly do a lot of rough calculations in my head. That gives me a decisive advantage in accurately valuing and pricing properties that I understand.

That does not mean I understand every property!

Major renovation work is at my periphery because I'm not the most experienced in terms of hands-on work, compared to people who do it all the time, but my relationships with contractors in neighborhoods where I operate frequently gives me a competitive advantage in certain fixer-upper deals. I can price a major renovation very quickly, and then know exactly how much a seller will have to discount a property that needs extensive renovations (i.e., a brand new roof, major duct or HVAC work, or other significant work to be brought up to code). Due to my work ethic and my relationships with contractors, I've gained a wealth of knowledge when it comes to major rehab work.

I have a network of reliable contractors that will do good work for me at bargain rates, because I have contracted with them on many construction projects in the past.

I am definitely working towards bringing major renovation of properties into my sweet spot, but I still consider it to be on the periphery because there are investors out there with more experience and more capability to do the hands-on work themselves. I can do some things better than them, but I cannot reliably outbid them on a home that needs a ton of remodeling – at least at any acceptable risk level. If I guess wrong and misprice a major renovation, I could lose thousands of dollars. So will they, but they are less likely to guess wrong than I am. I tend to be more conservative and bid low on these projects to minimize my risk, as there could be a savvy investor/contractor who can afford to pay a little more, knowing they're going to do the work themselves.

My circle of competence is different than theirs, which tends to lead us to different kinds of properties.

I'm happy with mine, though, because I can raise capital easily, via the hedge fund. (I'm not usually scrambling for cash to close a deal and don't need to spend a lot of time in mortgage applications!)

I also rarely have capital tied up in a given house for very long. I can sell a home and buy another within a month, easily, while the contractor flipping properties is still working on the house. I can make $5,000 three times, with less risk, in smaller flips with minimal renovation, in the same space of time that some flippers, who do a lot of renovation work, complete a project with a profit of $10,000.

That gives me more velocity, lower risk on a given deal, and better cash flow. It tends to lead me to lower-priced markets that are very much within the grasp of the average working family to afford – and I like that, too. While some renovators like to work on properties north of the $350,000 mark, where they can really make their skills felt, that's a pretty narrow market segment to sell to. Meanwhile, I can flip houses all day long at $60-80 thousand, clean the carpets, paint the place, and sell at $90 – 120 thousand, and turn right around and do it all again.

I never have to do a big dig to renovate a basement and accidently break a sewer main. I never have an issue with asbestos, or problems with Chinese drywall, because I'm not tearing apart walls.

It's very straight forward, and while neither I, nor my shareholders in the hedge fund, get rich off of any single transaction, I do many of these transactions, and make a consistent, reliable profit.

How?

Because I always stick close to the center of my circle of competence, and I always, always observe the K.I.S.S. Principle: *Keep It Simple, Smarty!*

"NEVER DEPEND ON SINGLE INCOME. MAKE INVESTMENTS TO CREATE A SECOND SOURCE."

— WARREN BUFFETT

CHAPTER 13: TRUST YOUR GUT

Learn From the Best

Remember, this book is meant to be a guide for the up and coming investor to use as a resource, in helping them form their real estate game plan. While I have knowledge and experience that has helped me create a successful real estate practice, there will be things you learn, in your neighborhood, and in your experience, that may differ from some of my opinions and conclusions.

You are the ultimate determining factor in what your real estate business becomes. Your ability to learn your market and target prospective buyers in said area will make or break your practice.

Knowing the law is of utmost importance when flipping properties, and knowing the legal lingo to apply when and where, can make or break a deal.

Your business ethics and integrity will be paramount to developing your reputation in and around the real estate markets that become your niche. That reputation will help you build your sales pipeline for future deals. Remember to monitor and update your SWOT analysis as often as possible!

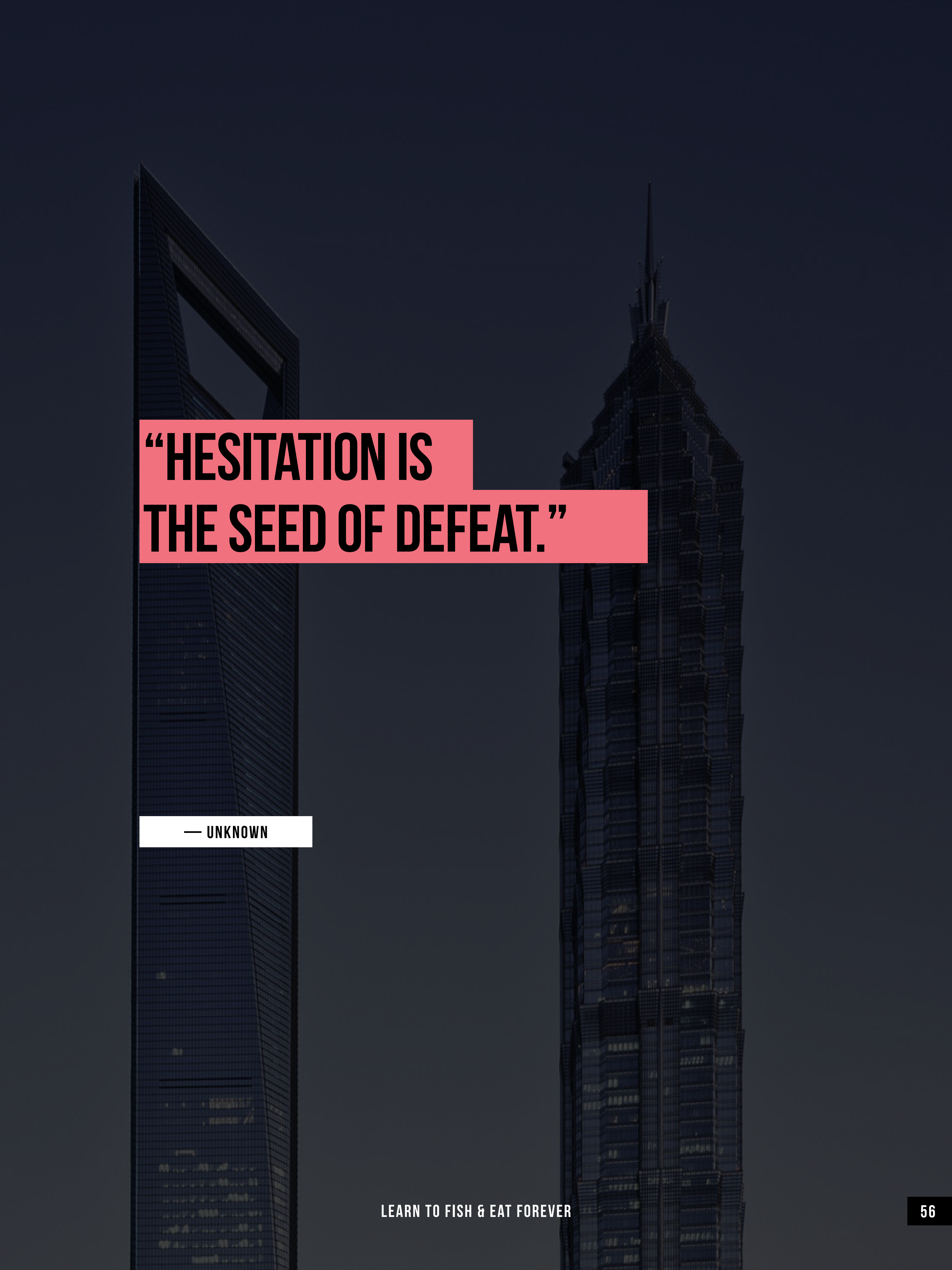
Your reputation and overall real estate where-with-all will be instrumental in developing connections to other peoples' money, and utilizing alternate financing sources to increase the amount of deals you do in any given month or year.

Knowing your track and having a daily game plan as to how, where and when to run on it will provide fuel for your future successes as you gain confidence in your particular market and accumulate knowledge to master that market.

Your ability to understand the taxation of real estate profits (and losses) is of utmost importance when it comes to creating a viable and sustainable real estate practice.

Don’t forget to KEEP IT SIMPLE SMARTY and know the value of referrals in perpetuating good business, and future business. The more experienced and knowledgable you become, the more confidence you will have to create a steady pipeline of referrals as your reputation will speak for itself.

I encourage you corroborate my knowledge with other resources and through your experience. As a full time real estate investor and advisor in the Atlanta area, I am available for conference calls, webinars, seminars and any other serious networking opportunities. If you find value in this book, then don’t hesitate to reach out to me directly as you hone your market skills and build your circle of competence.



"HESITATION IS THE SEED OF DEFEAT."

— UNKNOWN

ABOUT THE AUTHOR

Justin Giles, is the founder of hedge fund GHI Capital. He is also the principal Broker and founder of Real Estate Gurus. After graduating early from Cornell University with a B.A. in Economics, he started his own real estate business buying and renovating single family homes. From his experience working on Wall Street paired with 1st hand life experience in real estate investing, Mr. Giles has developed a lucrative business strategy that works in good and bad markets.

Mr. Giles began his real estate career in 2006, learning what NOT to do when investing in real estate. Then in 2008, he weathered the economic housing crash to make significant profits where others have lost fortunes. In fact, Mr. Giles earned large profits during the housing market crisis. Having built his real estate business in one of the worst markets ever, Giles has since acquired over 300 properties becoming one of the youngest self-made millionaires at the time. Since then, Giles has been featured in various publications such as Black Enterprise, Uptown Magazine, Ebony Magazine and many others. Justin authored the best seller "Learn to Fish and Eat Forever" The Ultimate Guide to Real Estate Investing, in an effort to teach people all across the globe, the basics to being a successful real estate investor.

Additionally, he consults individuals on the art of real estate investing. Since the start of his real estate consulting practice in 2015, he has helped countless people change their life trajectory by building wealth in real estate.