MARK FERGUSON

# MAKE MILLIONS IN REAL ESTATE

The ABCs of Creating Massive Wealth



INVESTFOURMORE

MARK FERGUSON

# Making Millions with Real Estate

*The ABCs of Creating Massive Wealth*

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*First edition*

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# I

# Real Estate Works

# 1

# Intro

I am a strong believer that real estate is the best investment for almost everyone. I did not arbitrarily come up with this statement after going to a real estate seminar. I have researched it and lived it.

Real estate is not just a way to invest your money—it is also a way to multiply your money. You can get started with very little cash, use leverage to invest in an asset that is much more valuable than your investment, and create returns based on the value of that asset, not your investment.

You can even pull that money back out of the investment, continue to receive cash flow every month, and use the money you pulled out to buy more assets.

It is entirely possible to double, triple, or decouple your money in a short period of time. Is there a guaranteed return? No. Can it be risky? Yes. Does it work for everyone? No. However, real estate is commonly credited with creating the most millionaires out of any investment or business class.

There is a chance you could lose money, and there is a chance you may not make as much as you hoped (just like with any investment). However, it has worked wonders for me...and for many other people.

The strategies are not complicated, but making them work does does take time and perseverance.

What are some of the challenges?

1. Having enough money.
2. Finding the right properties in the right market.
3. Dealing with a possible housing crash.

These are valid concerns, and I go over how to deal with them and get past them in this book.

# 2

# How Rentals Have Created More Than $3 Million in Net Worth

I bought my first rental property in December of 2010. My wife was pregnant with twins, and I had been in the real estate business quite some time. I had wanted to buy rentals, but I never pulled the trigger.

By that point, I had been a real estate agent for 8 years! I had helped my father flip houses during that time and finally found my niche in real estate with REO listings. REOs are bank-owned foreclosures, and I was fortunate enough to list them for many banks and HUD.

I knew I wanted to buy rentals, but I could not find the perfect property or the perfect time. I was also worried about using all the money I had worked to save on one property and then not knowing how I would save all that money again. I was also not sure if rentals were a good investment. I had convinced myself they were the route to take, but other people kept telling me not to buy one—even other real estate agents who should have known they were a great investment.

Eventually, I convinced myself it was time to invest. I was tired of seeing my money stagnate in the stock market, tired of not having control of my life, and

tired of knowing I would have to scrimp and save for 30 years to have a chance at getting ahead with my current investments.

Even though it is not the popular investment right now—in fact, many people call it a liability—my personal house was the catalyst that allowed me to buy my first rental. I had bought a house in 2003 right before the real estate crash in Colorado. I bought the house for $190,000, and it was worth about $180k in 2009. I had put some work into it and was sad to see all those years go by while the house depreciated! However, I still loved that house and saved money by not paying rent the entire time. I had paid the loan down over time and had some equity in the home.

My wife and I had gotten married the year before, and we started to look for houses. We were not in a hurry, and I had learned from my first purchase: I wanted to get an amazing deal. We looked at a few auction houses and even found a really neat four-level that was not for sale but was going into foreclosure. We tracked down the owner, but he was not interested in selling for whatever reason.

Then we found the house. I was showing a foreclosure to my sister (who was looking for an investment) when we saw a vacant ranch-style house. It looked like a foreclosure, and I looked it up on the local public trustee website. Sure enough, it was a foreclosure, and it was going to the foreclosure sale in a month or two. We had no idea if the price would be right at the foreclosure sale, but we kept an eye on it and prepared.

To buy a house at the foreclosure sale, you must pay cash that same day, at least in Colorado. I did not have a lot of cash. I had a little bit of cash and some equity in my house. I started to ask friends and family if they were interested in a short-term loan. I asked my sister and my father in law. They said yes!

It made sense to them as I was paying a fairly high interest rate to them to use their money for a few months. I wanted to pay cash for the property and then

refinance it into my name and pay everyone back.

I was able to get some financing lined up, but I still did not know if or when we would be able to get that house. Finally, the week came where it was supposed to go to the foreclosure sale. They show the initial bids for the foreclosures on Monday, and in Colorado, the sale is on Wednesdays. The bid came in at $209,950, which was a great price. It was about $75,000 less than the total loan on the house, but it was common to see the bids come in lower than the debt at that time.

I figured the house was worth about $280,000, and I was hoping that no one else would bid on it. There was enough room for someone to flip it if they really wanted to. The big question was what kind of shape was it in. I could see through the windows, and it looked decent, but I could not get inside the house to see everything.

The big day came, and we went to the public trustee to bid on the home. There were a number of other investors at the sale, which was common. There were a lot of foreclosures at the time and a lot of people looking for good deals. Other houses were bid on, but I was not paying attention to them. My dad and I had bid on and bought many houses at the foreclosure sale in the past, but this was different. This was for me and me alone.

At the sale, the bids went very fast. The public trustee would announce the address, the bid amount, and then ask if there were any bids. It felt like she gave people about 4 seconds to announce a bid before she moved on to the next property. I was nervous, but I was ready.

Finally, our house came up for sale, and she asked if there were any bids. My plan was to bid fast and confidently and hope no one else would bid. I bid $210,000 and waited. No one else bid. She asked a second time. No one else bid, and she announced we were the winning bidders!

Yes! Except we did not own the house yet. Colorado has a 15-day period after the foreclosure sale for junior lien holders to redeem a house from the foreclosure sale. It is rare that a junior lien holder redeems a property, but it does happen, and we knew it might happen on this property as there was an HOA lien against it.

We had inquired about the HOA lien, but the company that held the lien said they no longer had it. That could mean it was paid off or someone else bought it. If someone else bought it, they could redeem the property away from us. They would have to pay us interest for the time we owned it, but that would be a very short time.

After we bought the house at the foreclosure sale, we had the right to get into the house. We had it re-keyed and went inside for the first time. You never know what to expect in a house you just bought and have not seen yet!

The house was awesome. It was a little dirty, but the carpet was in decent shape. The paint was fine and the baths and kitchen were fine. The house was only 5 years old, and nothing needed to be updated. The only thing in bad shape was the yard, and we could fix that.

We could not believe how nice it was, but we still did not own it all the way yet.

We waited patiently, and then it happened: a junior line holder placed an intent to redeem against the property, and the public trustee asked us to provide them with payoff information on our bid. While we had never seen inside the house, my wife and I were devastated. We loved that house and knew it was meant to be ours.

I was not going to give up.

While the junior lien holder had every right to pay us off and take ownership of the property, I had every right to pay him off, or at least try to pay him off. I

knew who the person was since I had their contact information on the payoff request. I had heard of the investor before, although I am not sure if we had ever talked previous to this deal.

I called him up and asked him if I could pay him to let us have the house. He said no. He said it was too good of a deal to pass up, and he was going to flip it. I told him I would give him $3,000 to go away and let us take the house. That was 6 times what he paid for the lien and was easy money. He said no.

Things were not looking so good. I was hoping he would go away for a few thousand dollars. This was common practice in the foreclosure world back then. Someone tried to redeem; someone really wanted a house; they paid each other off; and they were all happy. There was nothing illegal about it.

But this investor really wanted the house. as did we. I talked with my wife a few times, and we decided we had to try harder. I offered $5,000 for him to go away, and he said no. Hmmmph.

Finally, we decided to try again. This time, I told him this was going to be the first house we lived in together. We loved the house. It was not an investment but a home. We could give him $7,000, and he could go away without doing any work! He said he would think about it. Well that was progress, but it was still nerve racking!

My wife and I waited a day or two, and he finally called me back. I waited patiently through some small talk, and he finally said he would go away for the $7,000! Yes! We now had our house—well almost. We still had to pay everyone back who lent us hundreds of thousand of dollars.

We ended up getting the Deed, and the house was ours. We moved in, and then we had to work on getting a loan. I knew a few lenders since I was a real estate agent, and they said it should be no problem.

They were right! We had the house appraised and ended up getting a loan for about $230,000, which paid all our costs, including closing costs to get the loan, interest on the loans from our family, and the payoff to the junior lien holder. We even had a little left over.

It was awesome, and we were ecstatic, but what does this have to do with generating $3 million in net worth from rentals? This was the catalyst to my own personal investing!

Shortly after refinancing the house, we put my other house up for sale and sold it. I got a little money from that sale—but not enough to buy a rental. I was lucky enough to be able to qualify for two mortgages at once.

A few months after that, I really wanted to buy a rental again. I had wanted to buy a rental for years, but the timing was never right. The problem was I did not have a ton of money. Story of my life!

I talked to a bank, and they said I might be able to get a line of credit against the house or refinance. I knew the house was worth more than the $230,000 loan we had against it. I talked to a couple of banks, and they said I could take cash out, even though the housing crash was in full effect.

I started the refinance process, and the house appraised for $280,000. I refinanced and was able to take out almost $50,000 in cash. I had just bought the house, and not only had I gotten all the money I used to buy it back but $50,000 more! Now I had the money to buy a rental.

I searched a while for the perfect rental and did not find it, but I found a few possibilities. Then a great house popped up for sale. It was an estate sale on the MLS and listed for $96,900. The house had three bedrooms, two baths, a two-car garage and was five years old!

It was ugly. It was basically a box with windows, but I knew my rental did not

have to be the Taj Majal! I made an offer, and I told the agent to please let me know if any other offers come in. I waited a few days, and then I saw the house went under contract. I called the agent and said, "Hey, I saw the house went under contract, did I get it?" The other agent said, "Noooo. We took another offer that was higher." I replied, "What?! I told you to tell me if any other offer came in!" He responded, "I am sorry. We got a great offer, and the seller decided to go with it." I was not happy, and I let the agent know about it.

I started looking for rentals again when, a week later, that same agent called me. He said the other buyers walked away after the inspection and wanted to know if I was still interested. I said yes, even though I wanted to say no out of spite. He said he would get my offer signed for $96,900. Yes!

We went through the inspection. I saw no major issues, and I closed on the house. It took my lender about 8 weeks to close, which was stressful, but we got it done. I made a few thousand dollars in repairs and rented it out for $1,050 a month. I had my first rental!

This was all in 2010. I was 2 years married; my wife was pregnant with twins; and I had my first rental. It was not the perfect time, but I had done it. As soon as we rented the property out, I knew I wanted to do it again...and again. I was addicted.

It took me another 10 months to buy my second rental. I saved all the money I could and used some of the money left over from the refinance of my personal house. Then, I bought two more rentals the next year, and then two more, and then three more. Along the way, I refinanced a few rentals to take cash out because I always got an awesome deal on every property I bought.

We ended up selling my personal house to friends in 2013 for $343,000 with no real estate agent commission. It was a tax-free gain because we lived in the house for 2 out of the last 5 years. I used that money to buy a 6,600-square-foot house with a 5-car garage. We got a line of credit on that to take all the

cash out to buy more rentals and flip more houses.

I bought 16 rentals from 2010 to 2015, and the Colorado market exploded. I was fortunate that prices increased so much, but I also got good deals on everything. I stopped buying rental properties in 2015 because prices got so high, and then I discovered commercial real estate. I bought 8 commercial rentals from 2017 to 2019, and I have a couple more under contract to buy!

How did I make over $3 million with rentals? Well, I have $4,230,000 million worth of residential real estate with $2,163,000 worth of mortgages. I have $3,410,000 worth of commercial real estate with $1,493,000 of mortgages. That is $1,917,000 plus $2,067,000 is $3,984,000 in equity from my rental properties.

I could have said almost $4 million, but I like to be conservative in my numbers, and $3 million is still pretty impressive to me. It all started with a personal house that we borrowed money for from family and one rental.

I saved, worked hard, and invested as much money as I could. When I invested, I made sure I got the best deals I possibly could. I also could have flipped and made money on just about every rental I have ever bought.

After a year or two, I usually refinanced the rental, took out all the money I had invested into it (sometimes more), and used it to keep buying more and more rentals.

To be honest, I am in Colorado, and our market has been extremely hot. Some of that net worth came from market appreciation—but not all of it. On one of my recent commercial property purchases, I was able to double the value in less than 2 years.

I bought the property for $110,000. The seller rented it back from me for $1,500 a month. After a year and a half, I refinanced the property, and it appraised

for $250,000! I think we spent less than $10,000 on the property for minor repairs and a new furnace.

I bought another property last year for $2,100,000 that we renovated and were able to add two leases on. That property is worth about $4 million now—not due to market appreciation but due to adding value through additional income on commercial real estate.

It is pretty amazing what real estate can do!

# 3

# Why Real Estate is The Best Investment

We have all been told to go to college, get a good job, invest money in the stock market, and retire at age 65. The stock market is said to be the safest and fastest way to an early retirement. There are advertisements all over television, the radio, and online. Retirement calculators tell us how much to save based on how long we want to live. Those calculators are scary because they'll show you that if you live too long, you'll run out of money! For most of us to make money last in retirement, we have to be frugal and spend less money than we did before we retire. I never liked the idea of guessing about my retirement and hoping I don't live too long. I don't want to be one of those elderly people who have to be supported by their children, or worse, have to go back to work.

I have more than a few issues with this plan, and I choose to do something completely different for my retirement. The key to early retirement for me is investing in rental properties or another income-producing investment. I am 40 with three kids and a beautiful wife, and I could retire now if I wanted to. I could have retired a few years ago thanks to the cash flow my rentals provide. Unfortunately for me, I have expensive tastes and love my work (house flipping, real estate broker, blogger)! I will probably never retire, but I could if I wanted to. I have made a lot of money, but there is still no way I could have produced the results I have up to now by investing in the stock market

or mutual funds or bonds. Real estate was the fastest way for me to build a passive income that comes in whether I work or not!

## What is wrong with the stock market retirement model?

Many people make a lot of money from the stock market. I am not bashing the stock market or saying it is a horrible investment, but the way it is advertised as a route to retirement for most people is flawed. We are supposed to invest continually into the market; hope the market goes up; hope we have enough money to live on; and hope we don't live too long.

**Make money –> Invest in Stocks, bonds, mutual funds –> Investment increases –> Start taking money out when you have enough**

Once you start taking money out of your investment accounts, the balances decrease because there is usually not enough money to sustain your living expenses just from the return you are making. But what if you have millions of dollars in your investment accounts?

If you have $2,000,000 in your investment account and make a 7% return, you can take out $140,000 a year. That is awesome, right? Yes, except you might be paying taxes on that money now depending on what type of account you have, or you might be paying taxes 30 years in the future when you are taking this money out. The bad news is that inflation makes that money worth much less than it is worth now.

That $140,000 is only worth $67,000 30 years from now. That may not be enough money to live on each year depending on what your lifestyle is like.

The other problem is that most financial advisers suggest being very conservative when you near retirement age. You don't want to see your $2,000,000 turn into $1,000,000 if the stock market crashes right before retirement, so they suggest investing in bonds that make much less than 7%. If you

follow their advice, you aren't making that $140,000 per year. You're maybe making $100,000 per year, and after inflation, you are only making $47,000 a year...and maybe paying taxes on it.

Now you see why the retirement account starts losing value very quickly, and every year in retirement, you get a little closer to running out of money.

## How much money do you need to save to retire?

The other issue that most people run into is saving enough to grow their investment to $2,000,000. That is not an easy task as it takes 30 years of saving $20,000 a year with a 7% compounding interest rate. You might make more than 7%, but you also might make less or even lose money, which really sucks.

How many people are actually able to save that $20,000 a year? How many of them are able to get that 7% every single year without any setbacks? That also assumes you are paying no fees on your investment either.

The cool thing about rental properties is that you can invest much less money, get better returns, have more stable returns, and not eat into your investment balance in retirement. You can also create the income you need to retire much sooner, and they are a hedge against inflation!

Does all this sound too good to be true? Well for me it did, but I learned as much as I could and invested in rentals, and they have been one of the best things I have ever done in my life, besides personal stuff like having kids, getting married, and all that.

What is the catch? There is none! It is easy! Just kidding. Investing in rental properties is much harder than investing in stocks, bonds, or mutual funds. It takes more research, more time, and more guts, and not every market has

amazing rentals. But, if you are willing to put in a little bit of work, rentals can be an amazing investment.

## Early retirement with rentals thanks to cash flow

One of the biggest problems I have with conventional wisdom regarding retirement plans is we have to guess when we are going to die. We use a retirement calculator to find out how much money we will need in retirement and then put an age in the equation to make sure we don't run out of money. How depressing. No one wants to play the guessing game for when they will die.

This is one of the main reasons I love investing in rental properties. I can use the cash flow from rental properties for retirement without eating away the principal balance.

If I have $5,000 a month coming in from rental properties, that $5,000 is going to keep coming in every month until I sell the homes. It may even increase as rents go up and my mortgage balances go down. No more calculating when you are going to die and worrying about if you will outlive your savings.

You will have income by doing minimal or no work every year for the rest of your life. You can hire a property manager and never worry about the repairs or vacancies and retire in style. Many investors end up quitting their day jobs and concentrating on investing in rental properties at a very young age. They buy a couple of properties, realize how great of an investment they are, and they get hooked.

## What is cash flow?

Cash flow is the money you make from rental properties after paying all the expenses. You do not buy rentals so that one day they will be paid off and finally make money. At least, I don't. I buy rentals that make money now. Here is an example:

- Rent: $1,500 a month
- Property taxes: $150 a month
- Insurance: $75 a month
- Maintenance: $150 a month
- Vacancies: $75 a month
- Property management: $150 a month

The cash flow is $900 a month! That is pretty awesome, right? Yes and no. That is assuming you paid all cash for a property. And to buy a rental that makes $1,500 a month in rent, you may have to pay from $100,000 to $250,000 depending on what market you are in. If you pay $250,000 for the rental, that is a 4% return, and if you pay $100,000 for the rental, that is a 10% return—not horrible, but not amazing, and I like amazing.

You might also notice we included maintenance and vacancies in the expenses. When you own rental properties, you will have times when the properties are vacant or need work. You cannot assume everything will always go perfectly. When I teach people about rentals or flipping, I am as realistic as I can be. I want people to know the real numbers and not what might happen in La La land where nothing ever goes wrong. In my other books and in my coaching programs, I go over the good and the bad.

## Using leverage to increase returns

Leverage basically means you are borrowing money in relation to real estate. If you get a loan when buying rentals, you only have to put 20% or 25% down, not the entire purchase price. Now, instead of spending $100,000 or $250,000 in cash to buy that rental, you are spending $20,000 or $50,000.

It is true that you will now have a mortgage payment, but the returns actually increase with leverage when you buy the right properties. Your payment would be about $400 a month with the $80,000 loan or $1,000 a month with the $200,000 loan. Now you are making from $500 to $1000 a month with the rental property. That doesn't seem like much, but that is a 30% return with the $100,000 property! With the $250,000 property, not so much.

This shows why it is so important to buy good rentals and not just any property you find for sale. Honestly, it will be really hard to find a property for sale for $100,000 that rents for $1,500, but they do exist! I have bought a few commercial rentals with those numbers.

You also may be paying more than $20,000 to get that $100,000 rental because there will be closing costs, some repairs might be needed, and it may be vacant for a little while. You will probably spend at least $30,000. The truth is a good rental will make 10 to 15 percent from the cash flow alone.

## Other advantages of rental properties

The really cool thing about rentals is that the longer you own them, the more awesome they become. Not only are you making a few hundred dollars a month on each one (assuming you buy single-family rentals), but you are also paying the loan down, have tax advantages, properties can appreciate, you can buy below market, and they are a hedge against inflation.

### *Mortgage pay down*

Each month you are paying off at least $100 of the mortgage.

### *Tax advantages*

Rental properties also have some amazing tax advantages. You can depreciate the property, deduct the interest as an expense, and even sell tax-free when you exchange the property.

### *Appreciation*

I do not count on appreciation, but it does happen, and it happened for me in a big way. I live in Colorado, and I am currently selling the first property that I bought for $97,000 in 2010 for $275,000! I would never expect that much appreciation, but it does happen.

### *Buy below market value*

One amazing thing about real estate is you can buy a house worth $150,000 for $100,000. Again, this is not easy, but it is possible. I got awesome deals on all of my rentals. I bought my first rental for $97,000, but it was worth closer to $130,000 at the time.

### *Inflation*

We saw earlier how much inflation destroyed the value of money when you invest in the stock market. Rentals are a natural hedge against inflation because rents go up with inflation. Your mortgage payment will most likely stay the same or close to it, but rents go up, which means your returns increase over time. Eventually, your loans get paid off, which increases your returns even more! Instead of worrying about time destroying the value of your money, you can be happy that time is increasing your investment returns!

## Why are rentals a faster option?

It takes money and discipline to find and buy your first investment property and create passive income. If you had that same amount of money, ($600,000 or $20,000 per year for 30 years) you could buy from 10 to 20 rentals in the same amount of time. Depending on how much you paid for the properties and the cash flow, you would be making from $50,000 a year to $200,000 a year without eating into the principal investment or counting loan pay down, appreciation, tax advantages, or buying below market value. You are making more money per year, which means you can retire faster with more confidence.

## But how did I create enough passive income to retire early?

We went over the basic concept of rentals, but there are many more tricks and techniques you can use to increase your returns even more.

- **Refinancing.** I refinanced my rentals and took cash out to buy faster. I own 20 rentals now that bring in $13,000 a month in income. I bought those rentals in less than 10 years, including a 68k-square-foot strip mall because I took cash out to grow faster.
- **Different types of rentals.** I started with single-family rentals but moved on to commercial rentals when prices got too high to cash flow in Colorado with residential rentals. Commercial properties are riskier but amazing.
- **I make a lot of money.** Real estate has been good to me as a house flipper and a real estate agent. I make a lot of money that I can invest in rentals. I have been able to invest much more than $20,000 a year.
- **You don't always have to put 20% down.** I have bought a number of properties with less money down.

## What are the cons of rentals?

I love rental properties, but there are some downsides to using them as a retirement vehicle.

### *Lack of liquidity*

If you need to sell a rental or take money out of the property, it is not easy to do. You will need to refinance the property or sell it. Each option can take at least a few weeks or longer. Make sure you are not counting on quickly getting money out of a property.

### *Not every market has great rentals*

I bought single-family rentals in Colorado from 2010 to 2015. That was a great time to buy, but prices became too high to cash flow after 2015. I was going to invest in another market, but then I discovered commercial real estate. I have bought 7 commercial rentals in Colorado that cash flow. If your area has very high prices, it will be tough to make money with rentals. You may need to look at different markets or niches.

### *It takes work*

Finding great deals on rentals, analyzing the numbers, finding property managers, finding agents, and finding contractors is not easy. However, most things that are worthwhile in life are not easy. If you want to retire early, it is going to take work no matter what you do. When I coach people, I don't do the work for them. I teach them how to do the work and how to figure this out on their own with a little guidance. No one is going to do the work for you.

## I don't want to wait until I am 65 to retire

I don't want to retire at 65 because I want to live life now. I may work that long, but I don't want to have to work that long. With an average income invested in the stock market or a mutual fund, you are not going to be able to retire at 45 unless you make huge sacrifices. To retire early, you have to start saving at 15 or live extremely frugally before and after retirement. Most of you reading this are probably past the age of 15! In order to retire early without living frugally, you need to change the way you invest or get a higher-paying job. I like the idea of having a high-paying job and investing more wisely.

## Conclusion

Rental properties are one of the best tools to attain early retirement because of the passive income they provide. That money will increase as I get older. I could retire now, but I have too much fun with real estate. If I would have used the stock market to retire, I would have $500,000 in my stock accounts. With real estate, I have multi-millions in equity and more than $100,000 a year coming in without doing any work. To me, the choice is clear.

# II

# Common Questions

# 4

# What If There Is Another Housing Crash?

I have been an agent and investor since 2002: before, during, and after the last housing crash. A lot of people think we are due for another housing market crash because housing prices have skyrocketed. Besides prices, there are many things that drive the housing market. In fact, prices cannot be used as an indicator of what the market will do because they are just a result of supply and demand.

Supply is affected by foreclosures, homeowners' willingness to move, new construction, and many other factors. Demand is driven by the economy, lending guidelines, potential homeowners' confidence, wages, and much more. I believe the supply and demand affecting today's' housing market is much different than what drove the last housing boom. While prices could level out or decrease in some areas, I do not think we are in for a nationwide crash.

## Are we due for another crash?

Many people believe that because of the huge increases in prices, a crash is imminent.

*"Just look at what happened in the mid to late 2000s. Prices are so crazy now that*

*a crash has to come soon!"*

The first thing you have to realize is that the last crash was the worst crash we have ever had. Those crashes do not happen over and over again. An increase in prices does not mean a crash is coming. Prices can increase or decrease, but that is what happens in a healthy market. A crash is very different from a down market.

Also, a lot of people are trying to sell books, products, and coaching based on the impending doom that is coming. Don't buy into what people say based on their motives. Look at the data!

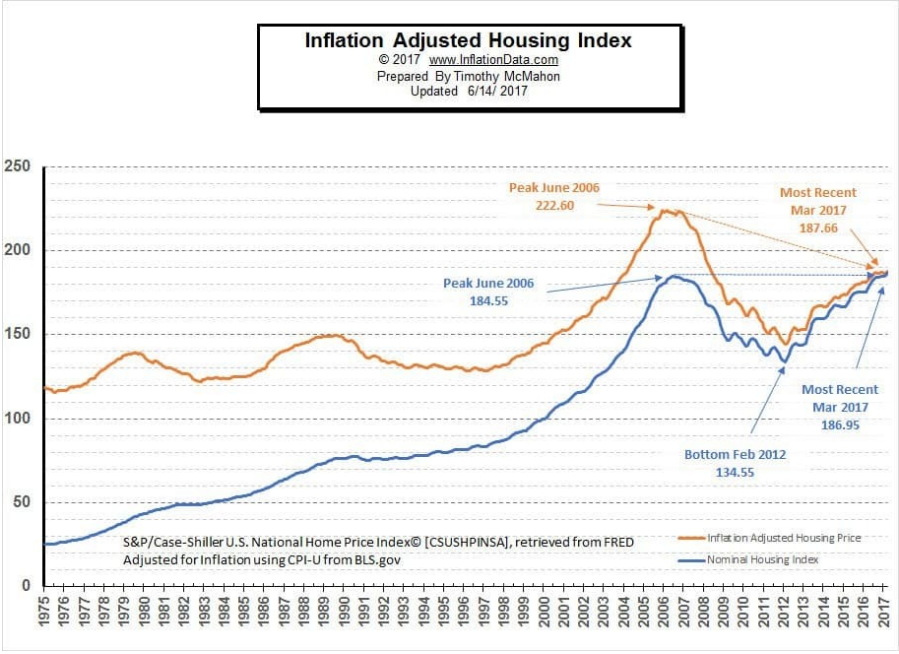
## Data on the current housing market

Dennis Cisterna III was kind enough to provide data that discusses the key factors that drive the housing market. Dennis is CEO of *Guardian Residential* and an expert on housing trends and economic indicators. I chose Dennis to write this piece because I was so impressed with his speaking at a conference and his podcast interview on my show. Dennis talks about the actual numbers when it comes to new house builds and lending guidelines, and he discusses whether we are in fact due for another housing crash anytime soon. I also did a lot of research on my own about lending guidelines, affordability, building starts, and other issues affecting the housing market.

## How likely is another crash?

When some investors think of real estate, they assume that because prices are generally rising across the country, we must be headed toward another crash. The truth is that's simply not the case. A bevy of factors have come together that are serving to safeguard the economy against another national crash. We could see prices slow down or decrease some, but a crash is unlikely. Increasing prices is not the only reason a crash must come. The US and other countries have seen price booms in the past without a crash.

The last crash was also one of the most severe crashes the United States has ever seen. I think it is unlikely we will have another crash like that again for many reasons we discuss in this article.




The last crash was the biggest in recent memory, and if you look at the data further back, it is the same with small adjustments. A lot of people will also tell you we have a housing crash or recession every 10 years. If you average them out, we have recessions every 18 years, but that's not always true for the housing market. The dot-com recession did not affect housing much at all. Sometimes we have a recession 5 years after the last one, and sometimes we have it 25 years after the last one. Even if we did have a recession every 18 years, we have a long time to wait since the last recession was ten years ago.

Also, many people have been predicting a crash for many years. People on YouTube are promoting their gold and silver businesses by talking about how real estate will crash. One of the big marketing messages they use is that they

predicted the last crash! Well, if you look at their predictions, they have been predicting a real estate crash every year for the last three decades. They were bound to get it right one of those years! I was an REO (foreclosure) broker during and after the last crash, and many people were talking about how there was going to be a double-dip recession in 2012. We were going to have a tsunami of foreclosures, and it would be much worse than the crash we just went through. Well, it never happened. In fact, the opposite happened.

*No one knows for sure what will happen to the housing market. It could go up; it could go down; or, it could crash. But just because it crashed before when prices were high does not mean it will crash again.*

## Are loans getting easier to get again?

In 2005, subprime loans were rampant, and as a result, the country over-leveraged itself. Subprime loans, the riskiest loan type, which are given to borrowers with low credit scores, totaled more than $620 billion. Fast forward ten years and subprime origination's make up only 5 percent of the mortgage market and add up to $56 billion. Compare that to 2005 when subprime origination made up 20 percent of the market. This represents a 91 percent decline from the height of bad loans that set up the economic crash.

*Source: Inside Mortgage Finance; Equifax*

Not only has subprime lending seen a major decline, but mortgages have also become much harder to attain due to stringent lending standards. According to CoreLogic's Housing Credit Index, loans originated in 2016 were among the highest quality originated in the last 15 years. This is greatly due to the type of borrowers able to qualify for loans. The current average credit score for borrowers being granted mortgages is 739. In October 2009, the average FICO score was 686 according to Fair Isaac. The lowest one percent of mortgages issued have credit scores averaging 622-624. Compared to the average range in 2001 of 490-510, the standard to get financing has risen substantially, and

as a result, the likelihood of default has dropped. Lenders have done this to ensure the economy doesn't again become propped on bad loans like it was leading up to the Great Recession.

The difficulty in getting a mortgage combined with extremely high student debt strapping down the millennial generation continues to nudge people toward renting. Americans don't have the savings they used to have that allowed them to put a down payment on a home. Historically, the average savings rate of a person's income was 8.3 percent, but today, that number is 5.5 percent. Rising education and housing costs continue to burden the new generation of potential home buyers, driving down home ownership rates in the U.S.

*Source: Federal Reserve Bank*

Interest rates are another important factor to consider. The Fed has only raised interest rates one half of a percent, but actual mortgage rates have come back down. That said, rates could eventually rise, so it's wise for investors to prepare a strategy for when that occurs as it can impact their ability to finance an investment portfolio.

## Is the United States housing market unaffordable?

The affordability index continues to be stacked against potential home buyers. As housing and rental prices steadily increase, wages continue to stay relatively stagnant. Historically, the average income-to-housing cost ratio in the U.S. has hovered near 30 percent, but in some metro areas, that number is currently closer to 40 and even 50 percent! This strips away the opportunity to save money as a significant portion of a person's monthly income is going to keeping a roof over their head.

*Source: U.S. Census Bureau*

However, the United States is still much more affordable than many other countries. Many of those countries have not seen a huge crash. People tend to find ways to buy homes, even when they are very expensive. Affordability in itself will not cause a crash. Although, it could cause a slowdown.

## Is supply or demand at fault?

Housing supply is also an important dynamic to consider when looking at a then-and-now analysis of the housing market. Since mortgages were being given out with little regard to the borrower's ability to pay back the loan, new home building skyrocketed to meet the new demand. In 2005, new home sales hit a 52-year high, with 1.28 million new homes being built. Ten years later, only 500,000 new homes were constructed, dropping 61 percent from the peak ten years prior. An overall lack of inventory continues to be a driver in price appreciation.

*Source: U.S. Census Bureau*

While there are risks for local bubbles in markets experiencing inorganic growth, like the Miami condo market for example, it's wise for investors to focus more on their own investment strategy and less on speculation of the overall market. If they are able to identify and clearly understand a market and its economy, investors can find success with single-family investments.

The biggest factor causing the housing market increase today is low inventory. The last crash was caused by horrible lending guidelines and overbuilding. We will continue to have low inventory until building picks up, and it simply has not happened. I cannot see another crash occurring until we see more new starts.

## Who do you listen to about the market?

As you can see from the numbers Dennis has on the housing market, things are much better than they were before the last crash. Lending guidelines are much tougher no matter what you hear. I always see posts on Facebook talking about how people can get low-money-down loans now, and that means the housing crash is coming. Low-money-down loans have been available for decades, and that is not what caused the housing crash. Really bad loans to people who should not buy houses are what caused the housing crisis.

Those loans do not exist anymore, as you can see by the data Dennis provided. Yes, it is possible to get a loan with less than a 600 credit score, but very few people are actually getting those loans. When you look at the housing market, you need to look at the real numbers regarding how many houses are being built, what kind of loans people are getting, and how much house people can afford. Houses are not being built like they were before. The loans people are getting are much higher quality, and the market is much more stable than it was before.

## When can we expect another decline?

The housing market will not grow forever, but it is hard to say when things will change. As Dennis said, real estate trends are very different in various parts of the country. Some parts of the country may see increasing prices for a few more years, while others may see a drop right away. I agree with Dennis that a housing crash like we saw in the mid-2000s is not coming anytime soon. I could see prices steadying out due to the affordability problems in some areas, especially if interest rates rise. Those two factors will not cause a crash when so few homes are being built and the quality of new loans is so high.

I could see the last housing crash coming, although I had no idea how bad it would be. The loans people were getting were crazy: 120% of the house value with no proof of income! This time around, the market and the lending

guidelines are much different. We have a supply problem, not false demand.

## Conclusion

It is impossible to know for sure what the housing market will do. It will eventually go down, as it cannot go up forever, but the question is when will that happen and by how much? I feel that this market is driven by solid demand and solid lending guidelines. Couple that with low inventory and we will continue to see prices increase. If builders start building like crazy, I would start to worry about another decline.

A lot of investors are sitting on the sidelines waiting for a crash that may never come. Even if a crash does come, how do you know where the bottom is? I use the strategy of always investing. Sometimes the market goes crazy; sometimes it stays stagnant; and sometimes it goes down. If you invest the right way with equity and cash flow, it is tough to lose money in real estate, even in a down market.

# 5

# Can You Invest in Real Estate When Prices Are so High?

I love rental properties, but I stopped buying rentals for almost two years. Prices rose so much in Colorado that I could no longer come close to what I was making before. Prices went up, but rents did not come close to keeping up.

Rental properties are a great investment when the numbers make sense, but not every market has good numbers for residential rentals. Many people in areas with high house prices can't find rental properties that actually cash flow. Just because you cannot buy a good rental property in your area does not mean you cannot buy a rental.

I have been forced to change my real estate investing strategy. I have looked at out-of-state rentals and turn-key rentals and decided to buy local rentals by switching to commercial properties.

Even with high prices, you can still be a real estate investor.

## How can you invest in rental properties when prices are high?

I did not give up on buying more rentals, even though prices were high in my area. I looked at buying rentals in different markets...like Florida. I took a trip to Florida and found markets that I really liked. However, I never bought a house in Florida because I was focused on flipping, and it didn't feel right. You need to find a lender, a great real estate agent, a property manager, and contractors. Buying out of your area is not impossible, but it takes work.

Through my coaching groups, I have talked to many investors in different parts of the country. While I do my best to teach them and help them invest better, they also help me. I know of quite a few places with great rental properties that cash flow well: Florida, Milwaukee, Michigan, the Midwest, Alabama, Maryland, Upstate New York . I have seriously thought about investing in those areas, but I keep getting sucked back into local investing.

Although, I did buy one out-of-state property!

## My turn-key rental

I bought a house in Cleveland from a turn-key rental property provider. That property was bought, repaired, rented out and managed by the turn-key rental property company. Buying that house was an experiment for me since I had money in my IRA that I did not want to put in the stock market.

Normally, that house would not fit my investment strategy because I bought it for cash, it was a cheap rental, and I did not buy it below market value. I would not buy another rental property like that, but I might buy another turn-key rental property if I financed it and was able to get a good deal on it.

I found a company that provides turn-key rentals that can actually be bought

below market value as prehab properties. That means you buy the house and pay for the repairs, but the company handles the management of the repairs, finds renters, and still manages the property. Because the investor pays for the house and the repairs, the turn-key company can sell houses below market value since it takes less of their money to make the deal happen. This company has also put me in touch with a portfolio lender, sells houses in a higher price range, and the properties have good cash flow.

I wish I would have bought my turnkey property from that company instead of the company I bought from. The property I bought in Cleveland was supposed to be remodeled and rented out before I bought it. I was dumb and did not do my due diligence. I did not get an inspection and did not have anyone else verify the condition of the property or the area it was in.

I bought the house for $45,000, and things went well in the beginning. I was collecting rent, although it was much less than the $900 I was quoted—more like $750. Then, the tenant got behind on rent, and they had to be evicted. It turns out the property was never renovated, and the turnkey company bought the property with that tenant in place.

I had to have the property remodeled, which was partially paid for by the turnkey company, but then it took almost 6 months to get it remodeled and rented out. It was sitting there vacant that entire time . It was eventually fixed up and rented out, and I think we get $800 a month in rent for it now.

The rent is okay, but four years later, the house is maybe worth $45,000, maybe less. That is the big problem I have with turnkey properties: you pay full retail value for them or maybe even more than full retail value. They did not want me to get a loan on this property because they did not want an appraisal done, which would have shown what it was really worth.

Not every turnkey property is bad, but many are. I will probably never buy another turnkey property again. If I do invest out of the area, I will find an

agent or wholesalers and have them help me find a deal. It will take more work, but you rarely find success on the easier path.

## How did I invest in a hot market?

I was looking more and more into investing out of state when I found a commercial real estate deal. I am not talking about a multiple unit residential property (many people call them commercial deals); I mean a straight up commercial property.

I was looking on the hot sheet in my MLS, and a very cheap property popped up for sale. Most of the houses in the area were listed and sold for at least $200,000. $200,000 did not get you much. That was bare-bones entry level housing. I found a place for sale for $110,000.

I saw the price, and I was instantly intrigued. Then, I saw it was a commercial property, and I was instantly disappointed. I was not even looking for rentals in the MLS; I was looking for houses I could flip. I had never bought or sold a commercial property, and I almost ignored that listing and kept searching.

Then, I had a thought—why not look at the property details at least, even though it is commercial. It is cheap!

The property had over 3,000 square feet and was a furniture refinishing business. They had a retail front on a somewhat busy road and a workshop in the back. I did not know a whole lot about commercial real estate, but I knew a good deal when I saw it. I saw the size of the building and the location and thought how could this be a bad deal for $110,000 when a similar sized house would be $300,000?

I did some rough math and figured the property would rent for at least $1,500 a month based on very low rental rates. I scheduled an appointment to go see it, but I could not get in for a day or two because the commercial agent wanted

to meet me there.

What did I do? I made a full price offer that day with a 5-day inspection contingency. That way, I could see the property and make sure half of it was not destroyed beyond recognition.

I sent the offer to the agent, and he said he would talk to his sellers in the next few days. What?! I told him it was a full-price offer, and I would really like to move forward on this quickly. He seemed somewhat in shock and said he would talk to his sellers right away.

They agreed to my offer, as they should have. We went under contract, and I saw the property the next day. It was a little old and had some deferred maintenance but nothing I could not deal with easily.

I decided to move forward with the purchase. I also decided to talk to the current business, who happened to be the owner of the property as well. I asked them if they had any interest in staying for $1,500 a month. They said they planned to move soon, but they may need a month or two at that location.

A day or two before closing, I talked to them again, and they said they could use more time because moving was going slowly. We signed a six-month lease for $1,500 a month, and they paid all the utilities. They extended that least for a year and then another year recently.

I did not know exactly how good of a deal I got on that property when I first bought it. But after learning more about commercial real estate in the last couple of years, I wish I could buy ten more of those properties for that price! I refinanced it this year, and the property appraised for $250,000...less than two years after I bought it!

I have since bought 8 more commercial properties ranging from 900 to 68,000 square feet. I love them all. They are all local to me, and they are performing

very well.

One really cool thing about commercial real estate is that I am a bit of a history buff. Most of the properties I buy are a little older. I am buying history with some of these buildings. I can look up old pictures of towns and see the buildings being used for various businesses. I can chat on local Facebook history pages about them. I can even find people related to the old owners.

I won't lie, the history is cool, but the best thing about commercial real estate is the money it is making me. You can see the stats below, and that is with 3 vacant units, which we just bought and are leasing out.

## Conclusion

Just because housing prices are high does not mean you cannot invest in real estate or you must wait for a housing crash to come. There are deals in every market, and if you must, you can invest in other markets as well. There are opportunities everywhere if you know how to look for them. In my coaching groups, I am happy to connect people with others investors or agents that have great properties that will cash flow! Most of those investors and agents know contractors and property managers as well, or they have their own companies.

# 6

# What If My Rentals Get Trashed?

Owning rental properties has not been all smooth sailing. I have had to evict tenants, and tenants have even trash some of my properties. However, with the way I calculate cash flow, I prepare myself for disasters, and they are included in my calculations.

Yes, rentals can get trashed, and yes, there are downside to real estate just like any business. Most people who experience nightmarish problems with their rentals are not managing them right, are not paying attention to them, or approved the wrong tenants. There are many things you can do to prevent major problems, yet they can still happen.

Another thing I have done to reduce the risk and work that comes with rental properties is hire a property manager. Agents on my team manage the rentals for me, which saves me a ton of time. Unfortunately, you will have problems with tenants when you own enough properties over enough time. About 8% of my tenants cause problems.

You will notice that, when I talk about real estate on Instagram, Facebook, YouTube, or on my blog, it is not all roses and butterflies. Real estate can be amazing, and it has been amazing for me, but it can also have its problems. Many people have tried to make it big in real estate and failed, just like any

business.

Real estate is not easy. Buying rentals is not easy. Buying flips is not easy. Being an agent is not easy. Wholesaling is not easy. Real estate offers some amazing opportunities, but they will not just fall into your lap without doing any work. You may be able to make it in real estate without much money, but if you are not willing to work hard, it will be almost impossible.

Be aware that there are many people in the real estate business who are trying to take advantage of people looking for the quick buck and the easy route. If it sounds too good to be true, it probably is. If they pretend there is not a bad side to real estate, they are lying.

We had one rental that we spent over $20,000 fixing up after tenants trashed it. Walking through that house after the tenants left and seeing the damage they had done sucked.

I felt a little bit like puking, but I knew that would not help the situation. Instead, I got to work. We talked to the insurance company, had our contractors come out to look at the place, and fixed it up. The house was rented out again, and it is still rented and doing great.

That kind of repair figure shocks a lot of people, but we also improved that property by putting in new windows and upgrading a few other items. If we had only fixed the tenant damage, the number would have been lower. I also did not have to front the entire amount. I had landlord insurance on the property, which meant tenant damages were covered. Not all of the repairs were covered because we made improvements, but we received a check for $12,000 from the insurance company.

While rentals can get damaged, and you can have bad situations, the more you prepare for them, the better you can handle them. Here are a few things we do:

- Use property managers who know what they are doing.
- Make sure we have landlord insurance and umbrella policies.
- Keep all of our properties in their own LLC.
- Account for future expenses related to vacancies and maintenance.
- Maintain cash reserves in case there is a problem.
- Visit the properties often.

There are many more things that our property managers do to ensure we are approving great tenants and to verify they are taking care of the properties. We probably go overboard with everything we do and do not feel overwhelmed at the list above. We have a lot of properties and a lot of wealth to protect. If you are just starting out, you may not need to go to the lengths we do.

One of the biggest keys to dealing with bad things that happen in real estate is preparing yourself to understand that bad things will happen. Do not expect it to go perfectly, and be prepared for issues that pop up. If you are mentally prepared to hope for the best but plan for the worst, the bad situations become part of the business, not a nightmare.

# 7

# Can You Invest in Real Estate With Little or No Money?

Many people do not have the 20 percent down payment (or more) that most banks require to buy investment properties. However, here are ways to buy an investment property with little money down. The easiest way to buy an investment property with less than 20 percent down is to buy as an owner-occupant and, later, rent out the house, but there are many other options for investors as well. Using a line of credit, refinancing your home, house hacking, the BRRRR method, or even credit cards can provide ways to buy investment properties for less money. Seller financing is a great way to put less money down on a rental property if you can find sellers who are willing. A more advanced technique is to use hard-money financing that you can refinance into a conventional loan. Whichever way you choose to buy a rental property, research the method to make sure that it is legal in your state, your lender approves it, and that you are not stretching your finances too thin.

An investor will have to put down at least 20 percent to buy a property from a typical bank. If you own more than four properties, that figure can increase to 25 percent down, providing that they are even willing to finance more than four properties. On top of the down payment, an investor will have to pay

closing costs, which can range from two to four percent of the loan amount. Buying an investment property using financing from a typical bank is very expensive. I have found a great portfolio lender who will finance as many properties as I want with 20 percent down, but those types of lenders are not easy to find. Once you factor in repairs, carrying costs, down payment, and closing costs, buying a $100,000 rental property can cost as much as $30,000.

The easiest way to buy an investment property with little money down is to buy as an owner occupant, satisfy your loan requirements, rent out the property, and keep it as an investment. Most owner-occupant loans require the buyer to occupy the home for at least a year. Once that year is up, you can rent out the house and turn it into an investment property.

There are many owner-occupied loans available, with down payments ranging from 0 to 5 percent. You can put as much money down as you want, whether it's 20 percent or even 50 percent. USDA and VA have great no-money-down programs and little to no mortgage insurance, which will save an investor a lot of money each month. You will have more costs with little-money-down loans because mortgage insurance is required. Mortgage insurance can add hundreds of dollars to your house payment and eat away at your cash flow. The process of buying as an owner-occupant and then turning the house into an investment property is as follows:

1. Buy a house as an owner occupant, which will cash flow when you rent it out.

2. Move into the house and live there for at least a year.

3. After the year is up, find another house that will cash flow and purchase that home as an owner occupant.

4. Move out of the first house and keep it as a rental. Move into the new house and repeat the process every year!

Eventually, you will be building up equity and extra cash flow, which will enable you to buy properties with a 20-percent down payment. Repeating this process 10 times would be an excellent way to get started, but no one wants to move ten times in ten years. It can also be tough to convince your family to live in a home that would be a great rental.

## What type of loans can owner-occupants get?

If you are going the owner-occupant route, there are many loans available that require very little to nothing down.

### *FHA loans*

FHA loans are government-insured loans that can be obtained with as little as 3.5 percent down. You can only have one FHA loan at a time unless you have extenuating circumstances like a job relocation. You do have to pay mortgage insurance on FHA loans, which I will discuss later in this article. There are limits to the amount a FHA mortgage can be, which varies by state and even city.

### *USDA loan*

USDA is a loan that can be used in rural areas and small towns. The loan can't be used in medium-sized towns or large towns/metro areas. The loan is a fantastic loan for those that qualify and want to buy a home in the designated areas. USDA loans can be had with no money down but do have mortgage insurance.

### *VA loans*

VA loans are run through the United States Veterans Administration. You have to be a veteran to qualify for the loan, but they also can be had with no money down and no mortgage insurance! VA is a great option for those that qualify

because the costs are so much lower without mortgage insurance.

### *Down-payment-assistance programs*

Many states have down-payment-assistance programs. In Colorado, we have a program called CHFA. The program helps buyers get into owner-occupied homes with very little money down. CHFA actually uses an FHA loan but allows for less than a 3.5 percent down payment. Check with lenders in your state to see if you have any programs that help with down payment assistance.

### *Conventional mortgages*

Even conventional mortgages have low-down-payment options available for owner occupants. For owner occupants, conventional loans have down payments as low as 3 percent. You will most certainly have to pay mortgage insurance with any conventional loan that has less than 20 percent down. Unlike some of the other loan options available, you can have as many conventional mortgages in your name as you want as an owner occupant.

### *FHA 203K Rehab loan*

An FHA 203K rehab loan allows the borrower to finance both the house they are buying and the repairs they would like to complete after closing. This is a great loan for homes that need work but the buyer has limited funds to repair a home. There are more costs associated with this loan up front because two appraisals are needed and lenders have higher fees for 203K loans.

### *NACA Loans*

NACA is a non-profit program with:

- No down payment.
- No closing costs.

- No points or fees.
- No credit score consideration.
- Below-market-value 30- and 15-year fixed-rate loans.

This sounds like it is too good to be true, and it is a great program. However, you do not simply apply for the loan and hope the lender approves you. You must take classes and even host classes when in the loan program.

More details can be found on the NACA site.

On almost any loan, you will have more costs than just the down payment. The lender will charge an origination fee, appraisal fee, prepaid interest, prepaid insurance, and possibly, prepaid mortgage insurance. Plus, you may have more costs the title company charges like a closing fee, recording fees, and possibly, title insurance. In most cases, the seller pays for title insurance, but with HUD and VA foreclosures, the buyer has to pay for title insurance. These costs can add up to another 3.5 percent of the mortgage amount or sometimes more. When you talk to a lender, they can give you an estimate of exactly how much these costs will be before you get your loan.

Even though the lenders and title company will charge you more fees than just the down payment, that does not mean you have to pay those up front. You can ask the seller to pay closing costs for you. If you can get the seller to pay your closing costs for you, loans like VA and USDA may be obtained with no out-of-pocket cash. You may still have to put down an earnest-money deposit, but that can be refunded at closing in some cases. When you ask the seller to pay closing costs, it reduces the amount of money they are getting from the sale, so you might actually be paying more for the home than if you didn't ask for closing costs. But in my mind, paying a little more for the house and financing those costs to save cash is better than paying more money out-of-pocket for a little cheaper home.

## House Hacking

House hacking is when you buy as an owner occupant, but you buy a multi-family property instead of a house. By purchasing a multifamily property, you can live in one unit while you rent out the other units. This strategy allows you to rent out the property faster, which may mean the bank will be more willing to give you a new loan as soon as you are ready to move out.

## BRRRR Method

BRRRR stands for buy, repair, rent, refinance, and repeat. It is a great way to get into rentals with less money down. You will need to get an awesome deal to make this strategy work, but you may be able to get all of your money back. You buy a house that is an amazing deal, fix it up, rent out the property, and then refinance it. Once the refinance is done, you repeat over and over!

## Hard money

Using hard money can save you a ton of cash in the short term, but it is more expensive in the end. Fannie Mae lending guidelines allow you to refinance a home with no seasoning period, which means you do not have to wait six months or a year after you purchase a home to refinance at a higher value than what you bought it for. Fannie Mae guidelines base the refinance amount on a new appraisal, and they will allow a 75 percent loan-to-value ratio. Fannie Mae guidelines do not allow a cash-out refinance, but they do allow the refinance to pay off any existing loans. Many hard-money lenders will allow a buyer to borrow up to 100 percent of the purchase price and finance repairs as well.

Since Fannie Mae guidelines allow a 75 percent loan-to-value refinance, theoretically an investor could buy a home for $100,000 and get a loan with a hard-money lender for $100,000 plus $30,000 in repairs for a total loan amount of $130,000. The investor could refinance the home for as much as 75 percent of a new appraisal. If the appraisal came in at $180,000, then a

75 percent loan-to-value would allow a refinance of $135,000. Fannie Mae will not allow a cash-out refinance, but the investor could refinance the full $130,000 loan amount. This strategy can be costly due to hard-money fees, but it allows the investor to refinance the entire purchase price and repairs!

This strategy can also be very risky because you are depending on a high appraisal to get your money out. Most hard-money loans are only a one-year term, and you must pay off the loan after that year. Refinance appraisals are not always as high as we would like them to be. Make sure you have an exit strategy if the appraisal comes in lower than you expect.

## Private money

One legitimate way to buy real estate with no money down is to use private money. Private money comes from a private investor, friend, or family member. The private investor will loan you the funds needed to buy a flip or rental property. Private-money rates can vary from very cheap to very expensive depending on the relationship, investment, and terms of the loan. I use private money from my sister for my fix and flips. She charges me six percent interest. It is a great way to reduce the amount of cash I have in the properties.

I have used private money to buy commercial rentals and then refinance into a long-term loan with a local bank.

## Can being a real estate agent help?

There are many advantages to having your real estate license, but the biggest benefit is you can keep your commission on almost every house you buy. On a $100,000 house, your commission could be $3,000 dollars or more. Here is an article that details why it is an advantage to become a real estate agent if you are an investor. Being a real estate agent also gives me an advantage in finding and purchasing great deals. I detail how hard it is to get your real

estate license here. I saved more than $270,000 a year on commissions by being a real estate agent. That does not include the money I made on deals that I got because I was an agent.

## Turnkey rentals

A new trend in the US is turnkey rental properties that are purchased, repaired, rented, and managed by a turnkey provider. Turnkey properties are a great opportunity for investors to buy rental properties out of state when homes are too expensive in their area. Turnkey properties should require very little repairs in most cases and may be cheaper than homes in your area, which allows you to invest less money. There are downsides to turnkey rentals as well as it is very hard to get a good deal on them.

## Lines of credit

I have had many lines of credit in my career. I have had lines of credit against my personal house (the house I live in) and my investment properties. It is much easier to get a line of credit against your personal house, and some banks will not even offer lines of credit on investment properties. A line of credit is basically a loan against a home, but you do not have to use the money all the time. If you do not need the money, you can pay it back to the bank and not be charged interest on it. When you need the money again, you can borrow it very quickly as long as the line is open.

## Off-market properties

Off-market properties are purchased through direct marketing or by word of mouth. Off-market properties are usually less expensive, and in some cases, owners offer flexible terms such as owner financing. Many investors wholesale off-market properties, which you can purchase with no down payment. Wholesaling is a process of buying and selling properties very quickly. The properties must be very good deals and are usually found by

direct marketing. Many investors make a great living by only wholesaling properties to other investors.

## Seller financing

Some sellers may be willing to finance the house they are selling or finance a second loan on a home that allows a buyer to put less than 20 percent down. If your bank is willing to offer 80 percent loan to value, the seller may offer to loan the other 20 percent, which would amount to no money down for the buyer. The seller may also offer a number of other loan-to-value percentages to help a buyer get into a home for less than 20 percent down.

Finding seller-financed properties is the tricky part. Most sellers are not looking to finance a loan when they sell. To find seller financed listings, look for homes that have no loans against them or an MLS listing description that says seller financing is available. The seller's terms can vary greatly depending on how desperate they are to sell and what exactly they are looking to get out of the deal. Do not expect to pay four-percent interest on a seller-financed loan; they will want a premium on any money they lend. It is also harder to find great deals with seller financing, which is key to my strategy.

## Refinancing

In most areas of the country, home values are rising and interest rates are at record lows. You may be able to refinance your home and get enough money to buy an investment property. Once you are able to buy an investment property, you can refinance it within one year (or sometimes sooner...with the right bank). With rates as low as they are, if you bought the home below market value, you should be able to take out as much as you put into the house and still cash flow. I use this refinance technique all the time. Getting lenders to do a refinance is tricky when you own multiple investment properties. I use a portfolio lender who has allowed me to use a cash-out refinance on as many

properties as I want.

## Move-in ready

A move-in ready property means all the repairs are completed and it is ready to rent out as soon as you buy the home. There can be many advantages to buying a nice home. The biggest advantage is you do not have to pay for repairs. You also do not have to spend time waiting for repairs to be done, which saves money on mortgage payments, utilities, and other carrying costs. The downside of a move-in ready property is that it is usually more expensive and provides less cash flow than a home that needs work.

## Credit cards

A few other ways to get quick cash can be very expensive and are usually reserved for people looking to do a quick flip. If you have a killer deal you cannot pass up, you may want to consider these options, but I do not recommend using them unless it is necessary. The easiest way to get quick cash is with credit cards. You can get a cash advance or pay for repairs using your credit card. If you use a credit card to finance your down payment or repairs and cannot pay it off right away, do not pay the 17 percent interest rate. Do your best to get another card that will allow a balance transfer. Often, you can transfer all of your balance and pay little to no interest for up to a year. That may give you enough time to pay off the card and not to be stuck with a high interest rate eating all of your profits. I also suggest using a rewards card for repairs on your investment properties. If you pay the balance off every month, this is a great way to make a little extra money.

## Self-directed IRA

If you have money invested in an IRA, you are not limited to investing in stocks or mutual funds. There are special self-directed IRAs that you can use to purchase an investment property. You can use your IRA for down payments

and repairs and then collect rent in the IRA.

## 401k

Some 401ks allow an investor to take out a loan against them. You usually have to pay back the loan relatively quickly and pay interest on the loan. You have to be very careful when borrowing from a 401k because the money you borrow is no longer earning interest or growing in your retirement fund. If you lose your job, you also may be required to pay back the loan within 60 days or pay a 10 percent penalty and income tax on the loan.

## Subject-to loans

With a *subject-to* loan, you buy a house without paying off the previous owner's mortgage. This is another tricky situation—investors must be very careful with it. Most bank mortgages are not assumable. When the homeowner sells the house, they have to pay the loan in full. The bank most likely will have a due-on-sale clause that says the loans must be paid in full once the property transfers ownership. With s*ubject-to* loans, the new investor buys a house *subject to* an old mortgage and does not pay off the loan. There is a chance that the bank will require the loan to be paid off if they find out that the home has been sold.

Investors buy homes *subject to* a mortgage so that they do not have to get a new loan. It may be hard for the investor to qualify for a mortgage, or they may be maxed out on being able to get new loans. If you buy a home for $80,000 that has a $75,000 mortgage in place, the investor would only need $5,000 to buy the house instead of the normal 20 percent or more.

## Conclusion

Rental properties can be expensive, but there are ways to purchase them with less than 20 percent down. If you are short on cash, buying properties with little money down can accelerate the purchasing schedule and increase your returns. However, you will most likely make less money on each property because borrowing that last 20 percent can be much more expensive than borrowing the first 80 percent.

On my residential rentals, I have actually gotten more cash back through refinances than I spent buying and repairing them! They still make great money every month, and I have money to invest in other assets like commercial real estate.

# III

# Getting Started

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# Putting It All Together

A lot of people convince themselves not to invest in real estate. They may tell you:

"The market is too hot."

"You need too much money."

"There is too much competition."

"Tenants will trash my properties."

Many people will tell you all this, even though most of them have never invested in real estate. In fact, most of them are probably not in a good place to be giving advice about finances. Yet, people still give in to their doubts and keep doing the same things they have been doing, things that are not getting them to where they want to be.

If you don't want to change things, you will find a reason why you should keep doing what you are doing. If you really want to change things, there are always opportunities in real estate.

Could the market crash? Yes, it is possible, but I invested through the last crash and did just fine, as did many other investors.

Do you need money? Yes, you need at least some money, but you might not need as much as you think if you use the right strategies.

Can you even buy good rentals? Yes, though some markets may be tough to buy in, or you may not be looking for the right type of property. There are deals and properties that cash flow if you know where to look.

Real estate has been an amazing business for me. It took me a long time to realize that buying as many rentals as I could was the ultimate goal. To get there, I sold as many houses as possible as an agent and flipped houses.

If you can combine a decent income with the right investing strategies, money will start to build up very quickly.

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# Where to Start

A lot of people want to be real estate investors. They have a burning desire to change their lives and go after what they have always wanted, but they have no idea where to start.

You have already started by reading this book, but it will not show you how to do everything. In fact, you will never know how to do "everything." That is one of the best things about real estate for me. I am always learning, and there is always more to learn.

While you may never know everything, it doesn't hurt to learn as much as you can before you jump into the business. I have written multiple books to help people learn all about real estate. These books go into the details of how to invest, how to find deals, how to finance them, how to manage them, and much more.

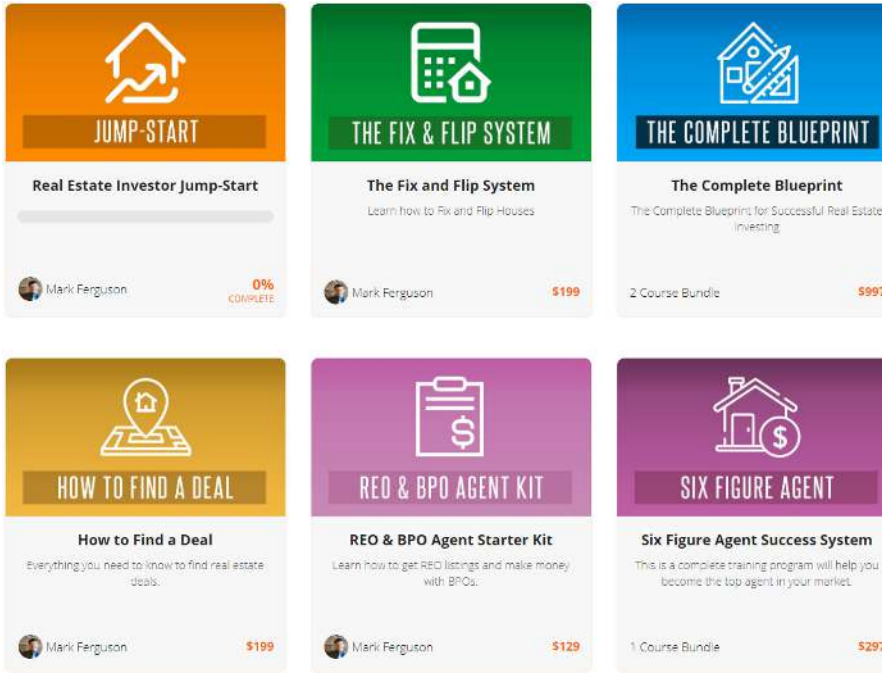



*See my books on Amazon.com.*

I love books, and I first learned all about rentals through books. However, some people are looking for a little bit more help. I put together a few coaching groups to give people hands-on help with their real estate.

A lot of people ask me to analyze deals. Learning what a good deal is takes time, and I reserve my time for my family, my work, and those in the coaching programs. I would love to help everyone, but then I would sacrifice time with my wife and three kids. I simply won't do that.

You can see some of my coaching programs below. The Complete Blueprint is the program that comes with monthly calls with me and email coaching where I can help you analyze deals as well as help with anything else.




*Find my courses at learn.investfourmore.com. Use coupon code **BOOK** for 50% off.*

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