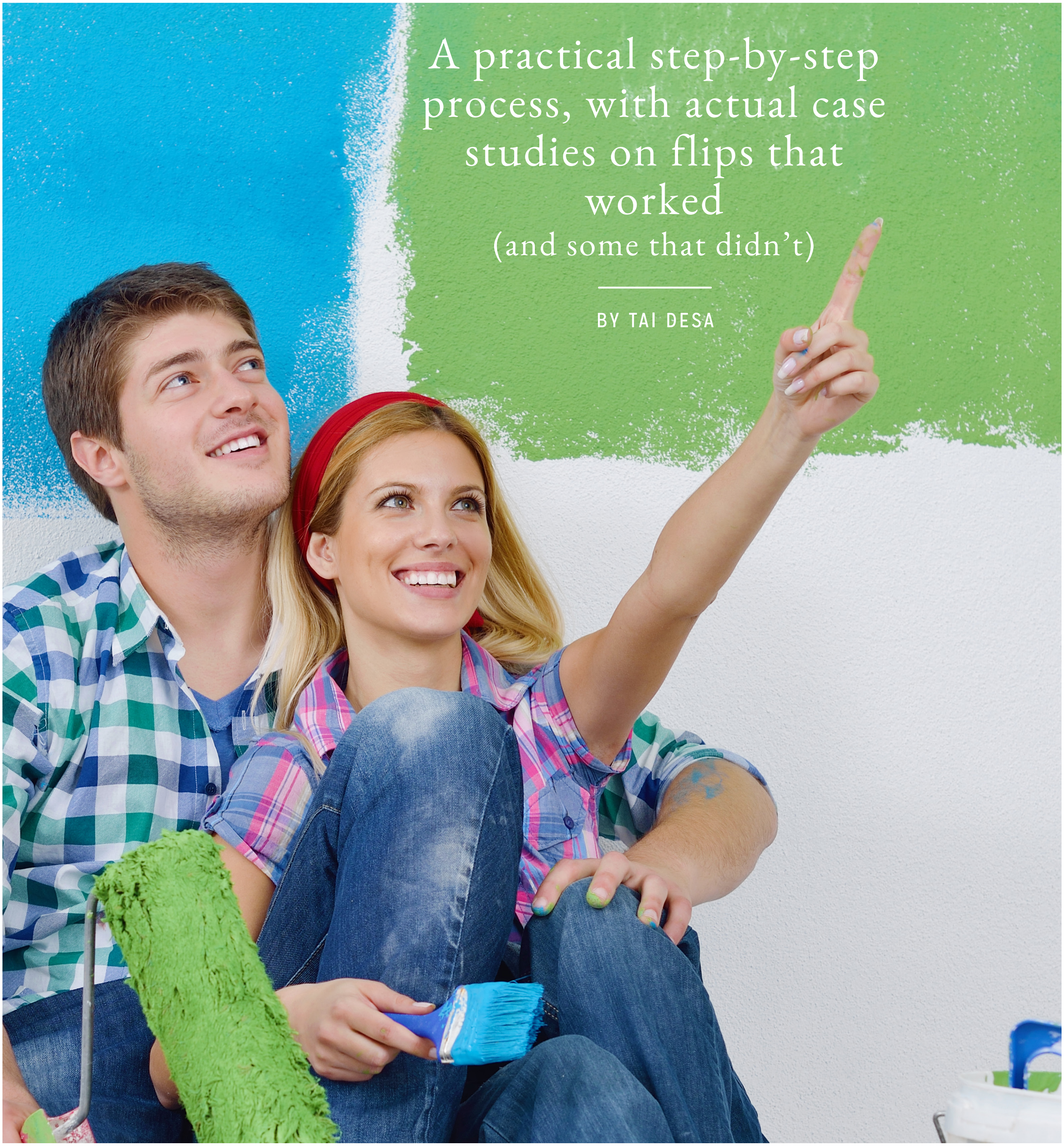
INVEST & TRANSFORM

GUIDE TO FLIPPING

ON A BUDGET



A practical step-by-step process, with actual case studies on flips that worked
(and some that didn't)

BY TAI DESA

ABOUT

Tai DeSa

Tai DeSa saved up money for years while serving in the Navy and then became a full-time real estate investor. Without a mentor who had his best interests at heart, Tai lost his life savings and went into massive debt. Tai turned it all around and is passionate about being the trusted guide for others that he wishes he had. Tai has been involved in hundreds of transactions as a wholesaler, flipper, landlord, and broker.

Integrity
Transparency
Honesty
Reliability

Tai served his country as a naval officer, participating in The Kosovo Campaign, The Global War on Terror, and The Iraq War. A graduate of The Wharton School of the University of Pennsylvania and the former CEO of a large real estate brokerage, Tai possesses the leadership skills and business acumen that real estate investors and agents need. Tai will shoot it to you straight, sharing stories of failure and of success so you can know how to reach success in real estate.

Some real estate gurus charge their students tens of thousands of dollars for training materials and coaching. Tai believes that if you have that kind of money, you should spend it on your real estate deals. Tai provides reasonably priced, high value content to give you the confidence to take action. Tai and his wife Amira are passionate about helping people with their real estate needs. They search daily for deals. Together they parent their twin girls, Alexis and Ashley. They love the flexibility the real estate lifestyle provides, and they want others to experience this freedom.

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INTRODUCTION

This eBook will inspire you to take action. Not just think about what you want to do, yet actually take action, get started, and realistically make money in real estate. It's concise enough that you can read it cover to cover in a coffee shop, or while you're waiting on soccer practice to end, or in the evening before bed.

There are many real estate gurus who pitch things like "No Money Down" and making a million dollars year flipping houses. Can a person flip a house with no money of their own? Yes, I've done it myself and will describe it later in this book. However, this is not a get rich quick book. You can become wealthy in real estate, yet let's be realistic. You have to be methodical and follow proven formulas. You need to have some money of your own, although not as much as you may think. You must make your first deal profitable and not get carried away with emotions.

You can flip a house on a limited budget if you follow the principles that I will share with you. We will examine the techniques to find properties, make acceptable offers, buy them, renovate them if necessary, and sell them for profit – all without breaking the bank.

I dreamed of being a full-time real estate investor. I read dozens of books. I spent years saving up money, quit my day job, made huge rookie mistakes, lost it all, went into massive debt, and then turned everything around.

I remember when I got started. I lacked confidence. I said the wrong things. I took rash action. I surrounded myself with people who took advantage of my naivete and walked away with my hard earned money. I clearly remember every mistake I made, and I am passionate about sharing those mistakes so you can accelerate your results.

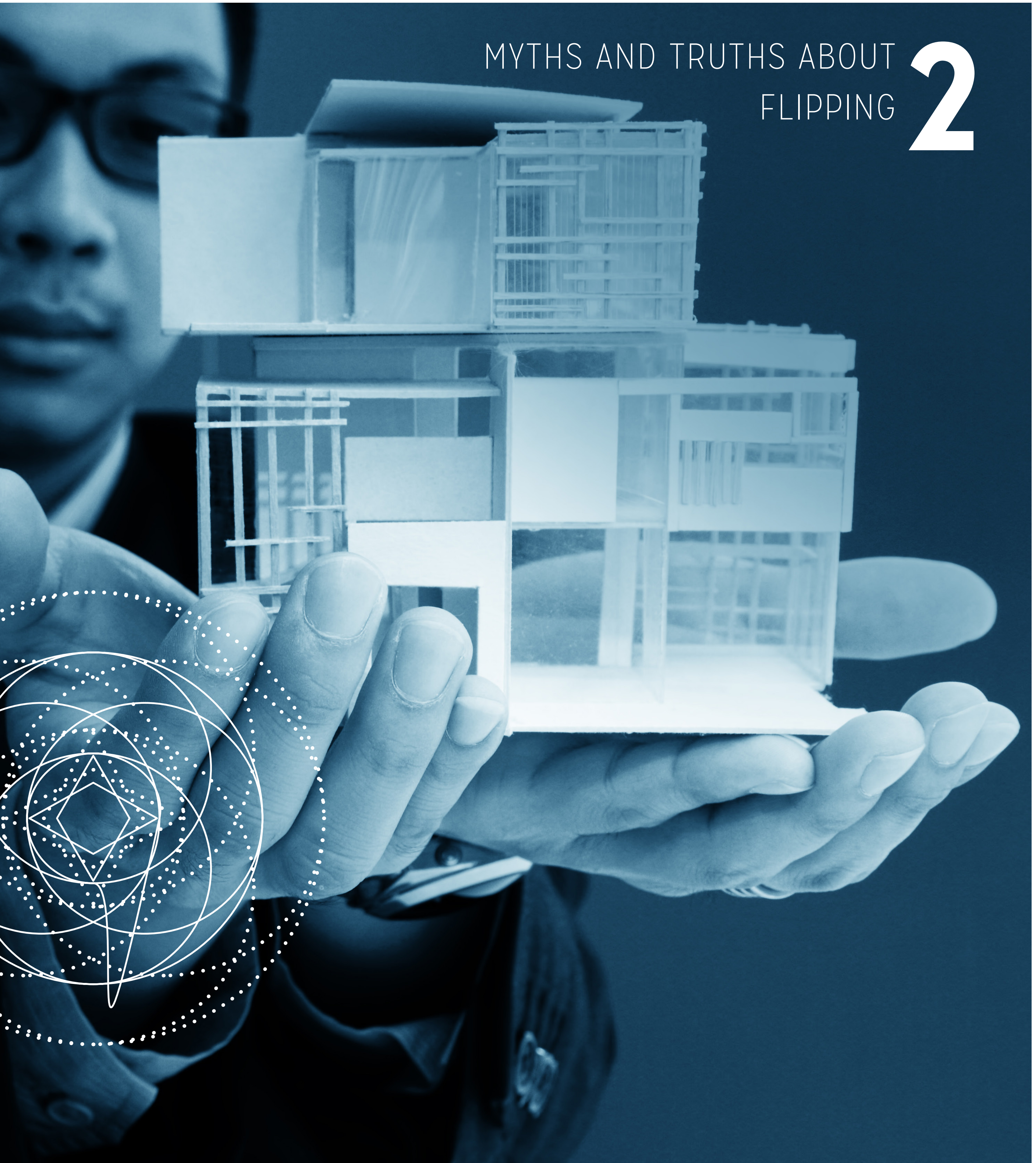
The majority of Americans believe that investing in real estate, whether as a flipper or a landlord, is out of their reach because they think it is too costly, too risky, and requires skills they do not think they have. According to a Harris Interactive poll of 2,198 U.S. adults from March 16-20, 2017, 64 percent of males and 68 percent of females believed that flipping a home is a good way to make money. However, only 38 percent believed that they would be able to complete a house flip. If you have always wanted to be a real estate investor yet feel overwhelmed by a lack of knowledge or constrained by a lack of money, this eBook is for you.

As real estate investors, you and I have the opportunity to add value to our communities, one house at a time. We are privileged to provide quality, affordable housing. We enhance our economy by buying real estate and home improvement materials; by working with professionals like Realtors®, home inspectors, title agents, mortgage loan originators, contractors, and attorneys; and by increasing the value of real estate for ourselves and our neighbors.

You will learn from my costly failures, and my successes, so you can become wealthier and more confident. I don't want you to go through the pain and years of financial struggles I went through.

In this fun and information-packed guide, you will discover how to find deals and what specific questions to ask those sellers. You will be given tips on creative ways to fund these deals. You will receive insights on how to negotiate and get your low offers accepted by sellers. You will know what not to say to contractors. You will see the best ways to maximize your profit once you're in a transaction. I point out clearly the biggest mistakes that new investors make. I'll help you attract the right people and repel the wrong ones. I'll lead you along the path, step by step, so you move forward with confidence.

So, let's get started.



MYTHS AND TRUTHS ABOUT FLIPPING

Every person who invests in well-selected real estate in a growing section of a prosperous community adopts the surest and safest method of becoming independent, for real estate is the basis of wealth.
- Theodore Roosevelt

First, we will uncover some commonly held myths about flipping.

Myth: You need money to make money.

Truth: There are ways to flip a house using little of your own money, and there are even ways to flip a house without spending any money.

Myth: You can only flip a house if a lot of repairs are needed.

Truth: There are flips where no work, or little work, is needed.

Myth: The best deals are always taken by people who are smarter than me.

Truth: Real estate is an inefficient market, and lucrative deals can be found in every neighborhood. Savvy real estate investors are constantly looking for the next deal, and they let everyone around them know that. They take less time to submit offers, and once the offer is accepted they usually spend considerable time inspecting the property to see if they should move forward with the transaction. Inexperienced real estate investors often spend little time looking for deals and are slow to make offers.

Myth: Real estate investing is risky and complicated.

Truth: Real estate investing is only as risky and complicated as you make it. Savvy investors do their research up front. It is easy to figure out which neighborhoods are more desirable than others. It is easy to make an offer on a property. It is easy to obtain a renovation estimate from a reputable contractor. It is easy to evaluate the After Repair Value (ARV) from local real estate agents, appraisers, and online information sources. It is easy to stay disciplined enough not to overspend on a renovation project. Some people overcomplicate real estate investing to convince themselves not to become involved so they can avoid failure. Others overcomplicate investing because they are trying to overcome the fear of the unknown. Savvy real estate investors stick to simple investing models and have advisors they can turn to when they need guidance.

Myth: The only way to get a deal is to wait for the national market to crash.

Truth: Savvy real estate investors keep an eye on the national market, and they realize that the local market trumps the national market. They know that there are good deals in every type of market. Furthermore, in the current market, savvy real estate investors engineer deals that produce equity and positive monthly cash flow.

All millionaire real estate investors started without a property to their name. If you talk to a savvy investor, you may find that they once had one or more these myths in their head. You will also find that they realized it was a myth, overcame their fear, and took decisive action. The inner dialogue a real estate investor has with themselves helps to determine if they will become wealthy.

If you are reluctant to move forward due to a lack of resources, I can certainly understand. I've been there. I would say that when we do not achieve our goals, it's not because of a lack of resources; it's because of a lack of resourcefulness. We didn't use all that was available to us. Resources are everywhere, from knowledge to technology to ideas to money to people.

What attracts people to a deal? Value. If people with resources like money and experience see value in a deal that you've brought to them, chances are they will want to participate in some way.

THE TWO BASIC TYPES OF FLIPS

Everything should be made as simple as possible, but not simpler.
- Attributed to Albert Einstein

There are essentially two types of flips: One where you never own the property, and the other where you buy it and sell it (even if you only owned it for an hour!).

While it is certainly possible to flip a commercial property, a vacant lot, or a multi-unit apartment building, this guide focuses on a single-family house. Why? Because it is the simplest path to flipping a property because of the number of homebuyers in the market.

Wholesaling

The first type is known as wholesaling. Real estate wholesaling occurs when a party – known as a wholesaler – goes under contract to buy a house from a seller, typically at a low price. The wholesaler does not intend to actually buy the house. Rather, he or she finds someone else who can buy the house. The wholesaler assigns his or her rights under the contract to the buyer, and the buyer purchases the property. The wholesaler is paid an assignment fee in exchange for selling their rights to the contract. The wholesaler never owns the house.

It's also known as an A to B to C transaction. A is the seller; B is the wholesaler; C is the end buyer. A goes under contract to sell the house to B, and B finds the party C who wants the house. B assigns the contract to C for a fee. C buys the house from A under the terms and conditions of the original contract between A and B.

Case Study:
State Road and the Two Davids

In 2007 I was a full-time wholesaler. I was networking aggressively, constantly telling people that I was looking for investment properties. I ran ads in the newspapers along with the newsletters for Home Owner Associations (HOAs).

This was the ad:
"We buy houses cash. Any style, any condition. Quick closing possible. Offer in 48 hours. Call XXX-XXX-XXXX."

A landlord named David called me after seeing my ad in his HOA newsletter. He had some tenants move out of a house on State Road, leaving it in rough condition. David said he had no mortgage and wanted a sale in 14 days. I told him that we would have to pay a price below market value, and that I would have to see the house. Upon viewing the house, I sensed that it was worth around $135,000 to $150,000. I offered David $90,000, and my contract with him had an earnest money deposit of only $1.00. David accepted my offer.

Through networking, I was introduced to a general contractor and house flipper, also named David. David had said he was busy running his business and didn't have time to find investment properties, so he wanted to meet people like me who could bring him deals. I told him about the State Road house, and I said it could be his for $105,000 ($90,000 purchase price plus a $15,000 assignment fee). David looked at the house for just 10 minutes. He walked outside, lit a cigarette, and said, "I'll take it." He wrote me a check right away for $7,500 – half of the assignment fee – and he paid me the remaining $7,500 less than two weeks later at the settlement.

David the buyer cleaned out the debris, repainted the interior, installed new appliances, and sold the house six months later for:

$150,000

$90,000
Money paid to David the seller by David the buyer

$15,000
Assignment fee paid to me by David the buyer

$105,000
Total amount that David the buyer paid

$150,000
What David the buyer eventually sold the house for

In this scenario, I was a wholesaler and David the buyer was a flipper. It worked out well for each of us. In fact, David the buyer ended up purchasing five more deals from me after that one.

As you can see, a wholesaler is a middleman. A wholesaler does not need a real estate license because the wholesaler has equitable title in a property. In other words, the wholesaler is selling their right to buy the property to someone else.

A real estate agent has a license that allows them to broker deals between buyers and sellers. The agent does not have equitable title. They are not acting as the buyer or seller, hence their need for a license.

I became licensed in 2008 because I saw numerous opportunities and benefits to being a real estate broker. After all, I could be paid money for brokering deals without having to be under pressure to buy every property. I moved away from wholesaling because I have more options as a broker, and I see that it is much simpler to scale my business as a broker. Also, there are more tax advantages available to me as a broker.

Wholesaling tends to appeal to novice investors who have little to no money to invest. If done ethically and correctly, you can make a nice amount of money without the burden of funding and owning a house.

There are some wholesalers out there who lack experience, or worse, will attempt to manipulate sellers and deceive buyers. After all, wholesalers do not need to be licensed. If you are considering being a wholesaler, ensure that you are operating within an ethical and lawful manner.

Flipping

The second type of flipping is the one in which you buy a property and later resell it to someone else. It typically involves improving the property through renovations or other work, although you can flip a property without performing any improvements.

It is possible to flip a house without putting in any of your own money. Realistically, in most flips you will have some skin in the game. When you don't have any money to put into a deal, chances are that you will pay a high price for the money you use.

The type of flip where you do not put in any money involves:

- Buying it by borrowing all the money from a mortgage lender, private lender, or hard money lender. Realistically, most lenders want to see you put some money into the deal so you shoulder some of the risk. Read the Willow Lane Case Study.
- Buying it with a funding partner who puts up all the money. The beauty of real estate is that you can structure the deal through negotiation. Read the 50-50 Partner Case Study.
- Buying it using your end buyer's money

Case Study: Willow Lane

I was negotiating short sales – properties that are worth less than the outstanding liens – and a foreclosing mortgage lender stated that they would allow Willow Lane to be sold for $128,000.

I knew a busy executive who wanted to grant a mortgage loan of $160,000, with the caveat that he receives $170,000 within six months. In other words, he wanted to make $10,000 in six months, with his money protected by a mortgage. He was so busy that he did not have time to see the property. He had me send paperwork via email, including comparable sales and my renovation plan. I showed him how the house had sold as a newly built home just five years earlier for $299,900. I showed him that for $15,000, we could renovate the property to make it appealing. He and I both knew that $128,000 was a steal. He agreed to loan the $160,000.

I purchased Willow Lane on July 21st for $128,000. With closing costs, I was into the deal for $130,000. I used $15,000 of the remaining $30,000 for the renovation, staying within that budget. I had granite countertops installed; I paid a painter to repaint the interior; I had the carpets stretched and shampooed; and I had a professional home stager stage several rooms.

On January 4th, the property sold for $201,000. I paid my private lender his $170,000. After paying closing costs and commissions, I walked away from the closing with another $16,000. Remember I had pocketed $15,000 when I first bought the property, bringing my total profit to $31,000. I put none of my own money into the deal.

$128,000	Purchase price
+ $ 2,000	Closing costs
$130,000	Acquisition costs

$160,000 mortgage loan - $130,000 = $15,000 for renovation and $15,000 profit up front.

PARTNER'S CONTRIBUTION IS 100%

Case Study: 50-50 split with a funding partner who contributed 100% of the money.

A wealthy and busy business owner had no time to find or manage deals, and he wanted a trustworthy partner. He saw my website and contacted me. We met and built a business relationship.

- His contribution: 100% of all money, including the earnest money deposit, proof of funds, and down payment.
- My contribution: I had to find the deal, make the offer, oversee the inspections, handle the paperwork, obtain insurance, obtain contractor estimates, manage the renovation, and find a buyer.
- How we structured the deal: His Limited Liability Company (LLC) and my LLC were both on the deed. His LLC paid all the bills.
- How we split the money: First, he would receive back all of his investment, and then we would split the proceeds 50-50.

On one of our deals, we bought a house for $72,000. It needed $6,000 worth of work. We sold it for $101,000 in three months.

$72,000	Purchase price
+ $2,000	Closing costs
+ $6,000	Renovation costs
+ $5,000	Sales costs (auctioneer's commission)
+ $1,000	Carrying costs (insurance, taxes, and utilities)
$86,000	Total

$101,000 - $86,000 = $15,000

For putting up $81,000 (the $5,000 auctioneer commission was paid at the closing), he made $7,500 profit in three months without ever having to go to the property. That's an 9.3% gross Return On Investment (ROI) on this money. Considering the velocity of money, if you look at it on an annualized basis, that's an ROI of 37%.

This was not a spectacular home run type of deal. It was a realistic, simple, quick deal where we both made money.

Realistically, your flip projects will involve you putting up some money. It's not easy, especially early on in your flipping career, to put together deals with none of your own money. I presented the previous case studies to give you ideas on how it can be done.

So, let's look at how you can put together a flip on a budget with some or all of your own money.

- Buying a house using a low-money down loan, like an FHA loan (3.5% down), a VA or USDA loan (0% down), a renovation loan, or a specialty conventional loan in which you might only put down 3%, 5%,10%, or 15%. The majority of these loans involve you living in the house for at least a year. This "slow flip" may be a prudent option for you. If you buy a house as your primary residence and sell it after a year and a day, instead of paying your ordinary income tax rate on the profit, you only pay the long-term capital gains tax rate of 15 percent. If you live in a house for two out of the previous five years, then you pay no capital gains tax on the first $250,000 of profit ($500,000 if married, filing jointly).
- Using a credit card to finance repairs.
- Doing a lot of the work yourself.
- Finding a contractor who will share the profit.
- Finding a contractor who will wait until the closing to get paid.
- Finding a contractor who will take some money now and some money at closing.
- Finding a low-priced, quality contractor. I work with a retired carpenter who does not do labor-intensive work like demolition, yet he performs skilled work like installing cabinets and doors.
- Having a funding partner who puts up a chunk of the money. I know funding partners who will contribute most of the money, yet they want to see some skin in the game.
- Working a deal with the seller for seller paid closing costs or better yet, owner financing. There are numerous ways to have the seller financially contribute to your purchase or your financing. When a seller provides financing to you, they participate in the upside.
- Buying a house that doesn't need a lot of work, perhaps just paint and a cleaning. These types of houses can be found if you search hard enough. There are estates, banks, and private sellers who have a house to sell that does not need much work.
- Buying a really low priced house. Some houses are priced so low that you could buy them on a credit card. Just because a house is available at a low price does not make it a deal. I bought a 2 bedroom house in a rough neighborhood for $17,000. I invested $13,000 into it and tried in vain to sell it for $40,000. No homebuyers wanted it, and I discovered that many banks do not want to provide mortgage loans below $50,000. Eventually I rented it for $600 and sold it to a landlord for $30,000.
- Don't buy a house with structural problems for your first deal. Don't buy a total rehab project for your first deal. Acquire something you can resell quickly.

SEVEN STAGES TO SUCCESS IN FLIPPING

If your only goal is to become rich, you will never achieve it.
- John D. Rockefeller

There are seven stages in flipping a house. I'll lead you along this path to give you the best chance of success.

1 **Dream** – Why are you driven to invest in real estate?

2 **Network** – Meet the right people.

3 **Find** – A single family house with potential.

4 **Analyze** – Protect your profit and lower your risk with the right offer.

5 **Buy** – Fund it properly and have a smooth closing.

6 **Improve** – Complete the project on time and within your budget.

7 **Sell** – Choose the right sales technique to get it sold fast.

Stage 1: Dream

Why do you want to invest in real estate?

A common trait of millionaire real estate investors is that they have vivid and compelling reasons why they want to create wealth. Some reasons include the desire to have enough money to build a hospital to help the sick, the desire to travel the world with family every summer, the intent to send one's children to the best colleges, and the deathbed promise to one's father to financially provide for mom.

The overarching personal reason why one wants to create wealth is what motivates real estate investors when they face ever-increasing challenges. Every real estate investor, from the novice to the seasoned professional, will encounter problems. The problems become bigger as the deals become bigger. When a challenge seems insurmountable, only those with a compelling reason to build wealth will overcome that challenge.

If a real estate investor does not have a deeply-held, inspiring personal reason to create wealth, they will falter when faced with a challenge. There are many would-be millionaire real estate investors who fall far short of their potential because they give up when faced with a problem that is greater than their desire to overcome it.

John D. Rockefeller, the world's first billionaire, famously stated, "If your only goal is to become rich, you will never achieve it." If a person wants to buy investment real estate simply to make a lot of money, they will not achieve that goal.

The first step on the path to becoming a millionaire real estate investor is to figure out what your purpose is. It should be something general that can be achieved every day, not something you have to wait until you are on your deathbed to achieve.

The purpose of my life is to be a leader and writer, and to do insanely good things for myself, God, and others.

My purpose is something I can achieve daily. So, what is yours?

Once you know and feel your purpose, establish huge, specific goals that you need to reach on the way to fulfilling your purpose. Review these goals daily, because it is easy to forget or minimize them. Establish bold new habits that can help you achieve these big goals.

When you are powered by a compelling personal reason to create wealth, then you will have the strength to overcome the roadblocks on the path to success in real estate.

Stage 2: Network

Meet the right people.

Networking has been cited as the number one unwritten rule of success in business. Who you know really impacts what you know.
- Sallie Krawcheck

Small Network =
Small Net Worth.

Large Network =
Large Net Worth.

Savvy real estate investors are constantly looking to establish relationships with contractors, real estate professionals, potential buyers and sellers, and other people. If a lot of people know that you are in the market to buy investment property, you'll massively increase your chances of having deals flow your way. Figure out what professions you need to support your real estate wealth building strategy. You need to fill out your inner circle of trusted advisors, your support circle of professionals you actively call upon, and your service circle of reliable vendors and contractors who occasionally perform work for you.

A. Inner Circle.

Your inner circle should include mentors, consultants, and partners. Even if you are the sole owner of your real estate investing business, it is wise to selectively allow people into your inner circle so you have knowledgeable experts to confide in. Be careful about who becomes part of your inner circle. Pick people who are quick to give you constructive criticism and who can share their experience through helpful anecdotes. Your inner circle will hold you accountable, and you need that to achieve great wealth in real estate.

B. Support Circle.

Your support circle needs to have at least one real estate agent, remodeling contractor, real estate attorney, accountant, mortgage loan originator, private lender, and property manager (if you're renting properties). You can have more than one of each profession. These are people who have a close relationship with you. You should be speaking with each of them on every deal. They should be proactive in creating value for you, by finding properties for you to buy or guiding you through transactions. Each of these people will have a network of their own that you can call upon to fill out your service circle. Ask them who they know that you should know, and then have them personally introduce you to those people.

C. Service Circle.

Your service circle will be comprised of contractors, to include roofers, plumbers, electricians, masons, carpenters, flooring installers, painters, and landscapers. Your service circle should also include insurance agents, financial advisors, architects, engineers, home inspectors, appraisers, courthouse clerks, professional cleaners, title agents, and home builders. Establish a face-to-face relationship with them before you hire them for a large project.

Do you know a trusted professional in each profession named above? If not, set goals to develop a relationship with at least one person per profession. The fastest way to do this is to call upon those already in your inner circle, support circle, and service circle. Ask them who they know in the other professions. Ask them to connect you to those people. When you meet with new people, ask them how you can give them more business. Offer to help them with referrals. If they are ethical, motivated businesspersons, they will be impressed and will want to help you too.

Everyone in your network should know what type of properties you're looking to buy. Teach them what constitutes a good referral for you. Every time you speak with them, remind them of what you're looking to buy. Those who pass referrals to you should receive more business from you in return.

The wealthiest investors constantly seek to align with other professionals. The larger your network, the larger your net worth. If you have a small network, you can count on having a small net worth.

Stage 3:

Find a single-family house with potential.

The trick is that you can't find the hidden treasure until you start digging. Often enough, if you take the leap and do something, something will happen. Probably not what you thought, but something.
- Debbi Fields

A savvy real estate investor typically considers 100 properties, physically looks at 10 of those, makes offers on 5, gets 3 offers accepted, and then buys one of those. Finding hundreds of properties to consider can be accomplished if you develop several key deal sources. Below are the top four sources of investment deals.

1. Networking with Other Investors. There are numerous real estate investing seminars and groups. Some are big, some are small, some are organized, some are great for deal-making, some have wealthy attendees, and all are great for meeting new people. At most investing groups, you can meet investment-savvy real estate agents and wholesalers. You might also meet a tired landlord. I'm not talking about a sleepy landlord; I'm talking about a landlord who is sick and tired of dealing with tenants and property problems. Tired landlords are often a great source for deals.

2. Real Estate Agents.

The savvy real estate investor has close relationships with multiple real estate agents. Some investors use only one agent, and so they only have access to a certain number of potential deals. By working with more than one agent, you will increase the pool of properties that you can consider. Agents provide investors not just with listings from the Multiple List Service (MLS), but they also give insights into particular neighborhoods. Agents also have relationships with local contractors and other professionals. If you choose to work with more than one real estate agent, I recommend you have non-exclusive business relationships with them. In other words, you only owe a commission to an agent if you buy a property they find for you. With an exclusive business relationship, you owe a commission whenever you buy a property, even if the agent did not find it for you.

3. Strolling Through your Neighborhood. Own your neighborhood! Walk or jog through.

gh your neighborhood on a consistent basis. The typical homeowner sells their property every 7 to 10 years. Envision that 10 to 15 percent of the homeowners in your neighborhood will want to sell their house this coming year. Look for For Sale By Owner signs and call those sellers. Many will want more than what an investor would pay, but at least you will plant a seed in the seller's head. Perhaps they will call you after a few weeks. Another tip is to proactively inform the people in your neighborhood that you're looking to buy a property for investment. If your neighbors know that you're looking to buy real estate, they might introduce you to someone they know who wants to sell.

4. Newspaper and Internet Advertisements.

Try calling For Sale By Owner advertisements. Another good source for investment properties is to call For Rent ads and talk to the landlord on the other end of the line. Some of those landlords will have a property or two that they want to sell. Some landlords are "accidental landlords," meaning that they never set out to rent the house to tenants yet saw that as their only viable option. Accidental landlords might be highly motivated to sell.

The real estate investor with the most sources of potential deals will make the most money in the long term. Always look for ways to find more deals.

Next, let's determine what neighborhoods to search within.

I recommend you start close to home or close to work. Driving too far to work on a property will take its toll on you eventually. When I first started, I bought two properties 100 miles apart on consecutive days. One was an hour away from where I lived, and the other was at least a 2-hour drive. That was foolish. I exhausted myself driving back and forth trying to fix them, manage contractors, and deal with other issues. I should have looked at houses within a 30-minute drive from home.

I loosely categorize residential areas into what I call A, B, and C neighborhoods. An A neighborhood is typically comprised of higher priced single family homes with the overwhelming majority of residents being homeowners. A B neighborhood is a working class area with entry level and step-up houses. A B neighborhood has a good mix of renters and homeowners. Depending on where you are, houses in a B neighborhood may range from $100,000 to $250,000. Move-in homebuyers would love to purchase a home in an A or B neighborhood. A C neighborhood has low property values and has many renters. Landlords may be the prime buyer in a C neighborhood. While you can flip a house to a landlord, expect a landlord – like any investor – to want to pay less than fair market value.

Since your target buyer is likely a move-in homebuyer, consider other factors like the reputation of the school district, population growth rates, amenities, proximity to major employers, and night life. You want to flip in desirable and up-and-coming neighborhoods where demand for housing is strong.

Next, what type of house are you looking for? Below are my guidelines.

What style of house to flip

- Flip a 3 to 5 bedroom house. Do not flip a house with 2 or fewer bedrooms, nor should you flip a house with 6 or more bedrooms. Focus on what most homebuyers want.
- Only flip houses 1,200 square feet or larger. A move-in homebuyer will typically pay the most money for a home, and it's hard to find a homebuyer who wants a small house.
- If you have a 4 bedroom, 1 bathroom house, convert it if possible to a 3 bedroom, 2 bathroom house.
- Flip a house in an urban to suburban setting. Do not flip a house in a rural area where there is low demand for housing.
- Overall I recommend a single family detached house. It is possible to flip a townhouse, row house, or condo.
- Overall I recommend a house outside of a Home Owners' Association (HOA) or Condo Association. Sometimes an association may have restrictive rules on exterior work, and sometimes buyers prefer not to be in an association. Nevertheless, there can be good flip deals within associations.

Stage 4: Analyze

Protect your profit and lower your risk with the right offer.

Most decisions are not binary, and there are usually better answers waiting to be found if you do the analysis and involve the right people.
- Jamie Dimon

Your ability to analyze a deal will make you more money and protect you from expensive mistakes. You will need to know the After Repair Value (ARV), sometimes referred to as the After Renovation Value or the After Improvement Value.

The key criteria to consider in evaluating the ARV are:

- Square footage of the house
- Dollar per square foot that similar houses sold for
- Sale prices within the past 6 months
- Number of bedrooms and bathrooms
- Days on market
- School district
- Year built
- Property taxes
- Special features and amenities

There are a number of tools to use to determine the ARV. Zillow, Trulia, and a number of other websites have automated valuation models (AVMs). Your Realtor® will be an even better resource for the ARV. Your Realtor® also may have access to Realtor® Property Resource (RPR), which is an AVM that I believe is more accurate than Zillow and Trulia because it pulls from more datasets. You can also look at recent sales in the area.

The Analyze stage also includes gathering information and repair estimates during the inspection contingency phase. Sometimes you may decide to walk away from the transaction during the inspection period.

Realistically, it is hard to obtain all your contractor estimates prior to making an offer. Therefore, you make the offer and if it is accepted, you can have contractors go into the house during the due diligence period.

If your area is in a Seller's Market, typically there is high demand and a low supply of houses. Therefore, you must move quickly to make offers.

So, let's say you find a 3 bedroom, 2 bathroom fixer upper single family detached home in a desirable neighborhood near where you live. You see it is listed below the ARV.

What do you offer?

There is a simple rule of thumb in property flipping known as the 70% rule. The 70% rule holds that a flipper should take 70% of the After Repair Value and then deduct the renovation costs.

For example:

$150,000 After Repair Value

- $45,000	30% of $150,000
- $30,000	Projected renovation costs
$75,000	Maximum Allowable Offer

I have a variation on that rule of thumb that I prefer to use. It factors in closing and carrying costs.

	$150,000	After Repair Value
-	$ 37,500	25% of $150,000 to cover your profit and cost overruns
-	$ 30,000	Projected renovation costs
-	$ 9,000	Real estate commission (6%)
-	$ 4,500	Closing and carrying costs (3%)
	$ 69,000	Maximum Allowable Offer

This formula makes it unemotional when making offers. You don't have to worry about letting the excitement of doing a deal interfere with your more logical approach.

If you can buy the property for the MAO, then do it. If you can buy it below the MAO, that's wonderful. A seasoned, professional investor would not hesitate to go under contract for the MAO price.

So many people think only of price when making an offer. Price and terms matter. If you're offering a low price, you should include some favorable terms to entice the seller to accept your offer.

Terms that might appeal to the seller are:

- Large earnest money deposit, to give the seller confidence that you're serious.
- A quick closing, to give the seller certainty that this will all be over soon.
- No inspections or a brief inspection period, so the seller does not fear that you could walk away late in the process.
- Stating that you'll take the property "As-Is" so the seller feels that you will not ask for repairs or concessions.
- Stating that you'll remove debris left behind, so the seller does not have to spend time and money cleaning out the house.
- If your offer is accepted, ensure that you abide by the provisions of the agreement to avoid default.

Stage 5: Buy

Fund it properly and have a smooth closing.

If you don't own a home, buy one. If you own a home, buy another one. If you own two homes, buy a third. And, lend your relatives the money to buy a home.
- John Paulson

Congratulations! You've put a house under contract, and you've navigated through the due diligence period. This stage should be the most straightforward as you prepare for the closing. If obtaining financing, respond quickly to your mortgage lender's requests. If using a Realtor®, let them guide you to the finish line.

Ensure that you review the settlement statement from the closing company at least a day prior to the closing. Double check every line, and do not be afraid to ask questions. My lack of understanding and fear of asking questions once cost me $2,300 at a closing, as I ended up paying twice for an auctioneer's fee. That was a painful lesson. I did not have a Realtor® nor a lawyer protecting me on that transaction.

Stage 6: Improve

Complete the project on time and within your budget.

Let our advance worrying become advance thinking and planning.
- Winston Churchill

This is the one step that in some cases you could skip if your plan is to sell the house to an investor. As you saw in some earlier case studies, I have sometimes immediately sold a property to an investor. Otherwise, you should have your renovation plan and budget in place before you purchase the house.

You can enjoy the renovation process, yet you should not fall in love with the house. It is not your home. I overimproved my first property to the tune of tens of thousands of dollars because I was fixing it up to my high personal standard for my own residence. I could have done it faster and for less money, while still making it look sharp.

There are different levels of materials. The lowest grade is known as builder grade or contractor grade. This is defined as inexpensive products made from low-grade materials, instead of quality or custom grade materials that are more durable. For example, the cheapest toilet, the cheapest paint, and the cheapest tile you find at a home improvement store would fall into the builder/contractor grade level. Many people confuse the term builder grade, assuming that this is the standard for home builders. That is typically not the case, as builders often use materials above builder grade.

When painting, I choose premium paint over the cheapest can. Premium paint can include primer, doesn't splatter, requires a single coat, and is more durable. Cheap paint requires a separate coat of primer, drips everywhere, requires multiple coats, and is hard to clean when scuffed.

Contractor grade materials may be suitable, at times, for a flip of an entry-level house. If you're working on the kitchen of a higher-end flip, I suggest you go with quality materials. While I look for discounts, you still get what you pay for.

Lowest price does not equal lowest cost. A business partner and I once hired a homeless man to live in a house while fixing it up for us on a tiny budget. We were being cheap, not smart. He was so slow that we ended up installing the carpet long before the rest of the work was done. This man spilled wood varnish all over the new upstairs bedroom carpet because he didn't bother to lay down any plastic or painter's tarps. In his efforts to clean up the varnish, he spread it around even further and then gave up. When I stopped by the house at 10:00 a.m. with the City Inspector, the man was lying naked on a mattress in the kitchen. He shrieked and ran upstairs screaming, "I don't have any clothes on!" I can't unsee that. We ended up having to drive the 30-something man to his mother's apartment to pull him off the job. We had to bring in another set of contractors and pay them to undo a lot of what our homeless laborer had done. We did not make any money on that deal, and the only thing that kept us from having to bring money to the closing at the end was that we had a great listing agent who took a fraction of his commission.

It's up to you if you want to incentivize your contractor by offering a bonus if he finishes the work on schedule or ahead of time. Alternately, you could work it in your contract with the contractor that he is penalized something like $50 a day if he fails to finish on time.

A quality contractor can complete about $5,000 of work a week. I prefer contractors who commit their time and tools to one project at a time. It is maddening to see a contractor bounce from job site to job site, trying to appease a host of customers.

When a contractor says to me that they can complete the job in a month, I personally add at least a week for unexpected delays and additional work.

Use licensed contractors for work that requires a license, or if you are qualified and pull a permit, you can do the work yourself.

Kitchens, bathrooms, and the master bedroom sell houses. On a limited budget, invest in making the kitchen and main bathroom look sharp. Upgrade the master bedroom and master bathroom if your budget allows.

I personally think a flipper should include the full complement of kitchen appliances. Make sure the appliances match. I don't think you need to include a washer and dryer.

If the mechanical systems are functioning yet old, you could replace them only if your budget allows. Otherwise, have a professional service the systems. Also, clean the top of the furnace and water heater to make them look better.

Know this about hiring contractors:

If you want it done cheap, it won't be good or fast.

If you want it done fast, it won't be cheap or good.

If you want it done good, it won't be fast or cheap.

Eight things you should never, ever say to a contractor

1 "You're the only one I asked to give me a quote."

I recommend you obtain two to three bids. Another tip is to separate the costs of labor and materials so you can compare apples to apples with other contractors. You also avoid any major markups. I learned this lesson the hard way with a young mason who was pursuing me for business. He gave a quote for $5,700 to do some brick pointing and install new front steps. I sensed it was really high, yet I didn't bother to consult any other masons. I told him that I wanted to re-use the cast iron railings in my original front steps, so he should design the steps to utilize those. When performing the job, he hired a helper, and the two of them casually would point brick only as high as they could reach. As for the steps, he told me need additional concrete and that it would cost me $500 for it. I paid him the $500, and I stood there stunned when I observed the concrete truck driver give the contractor a bill for $238 for the concrete.

2 "If I pay you in full up front, will you give me a discount?"

No! That strategy may work for buying a car that you get to drive off the lot. That does not work for a contractor who hasn't performed the work yet.

3 "Here is my budget."

There is a mysterious force in the universe that if you tell someone your budget, the quoted price aligns with your budget. Instead of revealing your budget, be specific about what you want completed. Then negotiate if necessary. As mentioned above, know the true cost of materials.

4 "Take your time. We're not in a hurry. I know you'll get it done when you can."

Why would a contractor make your job a priority when they believe that it's ideal for them to take care of other jobs first? Make sure you state your deadlines and expectations. A professional should be able to complete about $5,000 of work a week. Lay out your weekly expectations. Time is money. Think about this – a flipper loses money with every day that goes by where they cannot sell the house, yet a contractor can delay completion of the project and still expect the same amount of money you agreed to pay.

5 "Sure, I'll pay you 50% up front."

If a contractor asks for 50% up front, ostensibly for materials, be wary. I've allowed this to happen to me before, and I've been burned. What happened is that the contractor took my 50% and paid their bills with it. After I badgered him enough as to when my project would start and why it was taking so long, he presumably took money from another potential customer to start work on my house. He never finished the work. If you are asked for 50% up front, you can reply by saying, "I'm not comfortable with this. How can I be made more comfortable?" or by simply saying, "No." You could also offer to buy the materials. That way if the contractor fails you, you at least have the materials on site for the next person. If you decide to allow the contractor to pay for materials, ask to see the receipts.

6 "We don't need a contract. A handshake works for me."

I was swindled out of $1,100 by a contractor. I had tested him by giving him a simple $65 job, which he completed immediately. I gave him an $8,000 roofing job using my contract, which he finished quickly. Oddly, he drove two hours to come to me to ask for immediate payment as soon as the job was done. Then I hired him to do some additional work, and he insisted via text message that we had a relationship and didn't need a contract. Trusting him, I sent him the money. When I asked him when he would perform the work, he sent me pictures of his son's wedding. I figured it out – he used my money to help fund his wedding expenses. He avoided me thereafter, and I filed suit in court. I obtained a judgment. I am still waiting for him to pay me back.

7 "Bring whomever you want to complete the job – I don't care as long as it gets done."

I had light fixtures, my razor blades, and my tools disappear from my home. I learned that the general contractor I hired was using inmates from the county work-release program. I further learned that they were operating a cash-only business in which the foreman was stealing cash from his subordinates. I remember a helper for an electrician walking around my house drinking from a bottle of liquor in a paper bag. That was extremely reckless and put liability on me. Also, every sub for a general contractor must be covered under their liability insurance. There was also a person I suspected was an illegal alien working as a sub for another contractor I hired, and that alien showed up at my mother's house demanding payment from me because his contractor didn't pay him.

8 "Here's the final payment. Sure, come by to finish the job when you have a moment."

Do not pay the final amount until the job is 100% completed to your satisfaction.

Stage 7: Sell

Choose the right sales technique to get it sold fast.

People don't buy because what you do is awesome. People buy because it makes them feel awesome.
- Tara Gentile

I strongly recommend that you not put the house on the market until you are 100 percent done with your renovation. Most homebuyers have difficulty looking past holes in the floor, unfinished countertops, and unpainted walls. If they make an offer, it will be far less than what you are hoping to receive. Do yourself a favor and complete your work before marketing your house for sale.

I recommend that you list with a Realtor®. This ensures that you cast the widest possible net to find the ideal buyer. The typical Realtor® sells a listing for 12 percent more than what an unrepresented seller (For Sale By Owner) would sell it for. Since a Realtor® is paid about 6 percent commission, they produce more money for you and protect you throughout the sale.

If you do go the route of selling the house yourself, I recommend you be generous with offering a commission to buyer agents. The majority of buyers work with a Realtor®, so it makes good business sense to compensate their agent. If the buyer has to pay the commission instead of you, they'll lower their offer price to you as a result. A good agent will keep their buyer on track and ensure proper communication with you.

You could try selling your house via an auctioneer. What's nice is that you know what day the house will sell, as there is a specific auction date and typically a closing required within 30 days. However, auctions happen too fast for many buyers, who prefer having a due diligence period and other protections that an auction cannot provide.

Make sure you disclose any defects about your property. When in doubt, disclose, disclose, disclose.

CASE STUDIES

East Gordon Street

Foreclosed on May 1st.

Listed for $59,900 as a bank-owned property on May 12th.

Multiple offer scenario. I offered $70,000 cash, with no inspections. I put down $1,000 of my own money as the earnest money deposit.

Offer accepted on May 19th.

I found a cash investor who wanted to buy the house and fix it up for his parents to reside in. The investor was willing to pay $84,000. I asked the investor to wire the money to me on the closing date of June 4th, and the investor agreed to do so.

Purchased property on June 4th for $70,000, using the money wired to me from the investor.

Sold property an hour later for $84,000.

Zillow Zestimate for the house is $155,557.

My total capital outlay was $1,000. This deal required skill in bringing in a cash investor in a short period of time, and it involved convincing the investor to wire the money directly to me prior to the closing.

Larch Lane

Saw it on Zillow in February listed as a foreclosure for $27,000 with no photos.

Made a cash offer for $27,000. I put down $1,000 of my own money as the earnest money deposit.

Found a cash investor who was willing to pay $41,000. I asked the investor to pay $30,000 to me for the deposit, and the investor agreed. I purchased the house on March 12th and then sold it to the investor an hour later.

The investor sold it to a neighbor on July 21st for $61,000.

My total capital outlay was $1,000. This deal required skill in bringing in a cash investor in a short period of time, and it involved convincing the investor to pay a $30,000 deposit directly to me.

South Franklin Street

Short sale fixer upper a business partner and I purchased for $76,000 on October 1st from a person who had bought it for $135,000 less than two years earlier. We borrowed $100,000 from a private lender. We spent $20,000 on renovation costs, $9,000 on closing and carrying costs, and $3,000 on financing charges.

We listed it for sale for $120,000 on February 20th. It sat on the market until September 15th without a buyer. We listed with another Realtor on September 16th for $119,900. Finally, after lowering the price to $109,900, we sold it for $108,000 on May 19th, almost 19 months after we bought the house. We didn't make any money. Our private lender was displeased, choosing not to lend us any money again.

6 THE FHA ANTI-FLIPPING RULE AND WHAT IT MEANS FOR FLIPPERS AND HOMEBUYERS

THE FHA ANTI-FLIPPING RULE AND WHAT IT MEANS FOR FLIPPERS AND HOMEBUYERS

If you are buying, fixing, and flipping single-family houses – particularly starter homes – then you need to know about the Prohibition of Property Flipping Rule created by the Department of Housing and Urban Development (HUD) to prevent egregious predatory flips within the Federal Housing Administration (FHA) mortgage insurance programs. I will first explain the rule, then the exceptions to the rule, and finally the strategy flippers and homebuyers can take.

The FHA anti-flipping rule was instituted on June 2, 2003 and includes the following stipulations when the buyer is obtaining an FHA loan:

Only owners of record can sell properties. This eliminates the potential for wholesalers, who are middlemen who never buy the property yet enter into a purchase contract with the intent of selling the rights to their contract to the eventual buyer.

Any re-sale of a property may not occur 90 or fewer days from the last sale. In other words, the investor must own the house for 91 days before he or she can sell it to an FHA buyer. Additionally, the purchase contract with the FHA buyer has to be dated at least 91 days from the day that the seller purchased it.

If the re-sale date is between 91 and 180 days following the acquisition by the seller, a second appraisal must be made by another appraiser if the resale price is 100 percent or more over the price paid by the seller when the property was purchased. The buyer cannot pay for the second appraisal. For example, if the investor buys the house for $75,000 and then wishes to sell it for $150,000 or more to an FHA buyer, the investor should be prepared to pay for a second appraisal.

If the re-sale date is between 90 days and the end of the 12th month from the date of acquisition by the seller, then FHA reserves the right to request additional documentation. This additional documentation should support the re-sale value if the sale price is 5 percent or more than the lowest sale price of the property in the past 12 months. Typically it is a second appraisal. Once I had to provide receipts of my renovation materials and invoices from contractors.

In the midst of the housing crisis after The Great Recession, FHA temporarily relaxed the anti-flip rule. However, on January 1, 2015, it was fully reinstated.

Here is an example of a flip project I did:

Purchased Willow Lane on July 21st for $128,000.

$15,000 renovation over a stress-free 75 day period.

Home stager brought in on day 80.

Listing agent took photos on day 87.

House listed for $200,000 on October 26th.

Multiple offers received. The best offer was for $201,000 from an FHA buyer, with a $2,550 seller credit toward closing costs. I accepted it. I did have to submit my receipts for renovation materials and contractor work. I also paid for a second appraisal. The loan was approved, and the settlement occurred as planned.

Exceptions for a Buyer Using an FHA Loan to Purchase in Less than 90 Days:

Properties acquired by an employer or relocation company.

Sales of single family homes by U.S. government agencies under their programs.

Sales of HUD-owned houses that were foreclosed.

Non-profits that buy HUD-owned houses.

State and federally charged financial institutions, government sponsored entities, and local and state government agencies.

Properties in a Federal Disaster Area.

Keep in mind that if a flipper buys any of the above properties, they must own the property for at least 91 days before they can sell to an FHA buyer.

Other loans, like Fannie Mae, Freddie Mac, USDA, VA, and conventional loans do not have any anti-flipping provisions.

If you are an FHA buyer who sees a house owned for less than 90 days and you want to ensure you can buy it, one technique is to work with your Realtor® or lawyer to put it under contract right away so the seller cannot sell to someone else. At the 91 day mark, terminate the original contract and then sign a new purchase contract with the seller. Keep in mind that the seller could mutually terminate the original contract with you and then refuse to sign a new one.

If you are a flipper selling a house that is likely to appeal to the pool of FHA buyers, it may be prudent to wait the requisite 91 days before putting the house on the market. I personally prefer this course of action. Some flippers I know do not wish to wait the 91 days because of the carrying costs, which can add up. If you do not wait the 91 days, your pool of buyers will be smaller and perhaps you will have less competition from buyers. I suggest you examine your numbers and the market conditions to determine whether to wait 91 days before putting the house on the market.

CAN I, AND SHOULD I, USE AN FHA LOAN FOR INVESTMENT PURPOSES? 7

CAN I, AND SHOULD I, USE AN FHA LOAN FOR INVESTMENT PURPOSES?

No. Well, maybe. Yes, if done a certain way. A loan insured by the Federal Housing Administration (FHA) is buyer-friendly, and it could be the ideal way for a relatively new investor to start their long-term path to wealth. First, I'll explain some of the benefits of an FHA loan, and then I'll point out how to legitimately use it as an investor. Keep in mind that the FHA does not lend the money; a mortgage lender loans the money and is insured by FHA provided that the guidelines are met.

Benefits

The typical FHA loan, known as an FHA 203(b) loan, involves a 3.5 percent down payment, and the entire down payment can be a gift from a family member.

The minimum credit score for a 3.5 percent down payment is 580. People with a credit score between 500 and 579 could still qualify for an FHA loan if they put down 10 percent.

The loan can be for the purchase of a one- to four-unit residential structure.

Competitive interest rates and generally lower fees than many other types of mortgage loans.

A person who filed Chapter 7 liquidation bankruptcy as little as two years prior could qualify for an FHA loan if they re-established good credit and has demonstrated an ability to manage their financial affairs.

A person who was foreclosed could qualify for an FHA loan as little as three years after the foreclosure.

Seller concessions could be up to 6 percent of the purchase price.

Instead of having at least three lines of credit, the FHA usually requires only two lines of credit for otherwise qualified applicants.

The FHA 203(k) renovation loan allows a borrower to receive a loan for both the purchase and for the renovation of a one- to four-unit structure.

FHA loans are assumable.

An FHA loan can be refinanced into another FHA loan, even if the borrower has moved out of the residence. The FHA streamline refinance is one of the simplest loans to close, as it requires no income verification, no credit score verification, and no appraisal. What matters is that the borrower has made their mortgage payments on time.

The FHA Kiddie Condo loan allows parents to be co-borrowers for their young adult children to buy a home. If you are a new, young investor who needs help qualifying for a loan, this could be a great path to get started.

Using the Loan for Investment Purposes

An FHA borrower must be in the home within 60 days and live in the property full-time for a minimum of one year. I have heard a couple of aspiring investors muse about using an FHA loan to buy a property that they do not ever plan to live in, and to do that would be fraud, plain and simple.

So, how can someone legitimately use an FHA loan for investment? Below are a few options.

1. Purchase a 2-4 unit residential property with the 203(b) loan. Live in one of the units for at least a year. The rent from the other apartments will cover most, if not all, of the mortgage payment. When you do move out after a year or more, the property will produce an even higher cash flow. For a new investor with limited resources, this is a wonderful way to acquire a property with strong cash flow. Imagine paying off the entire loan in about 15 years by taking some of the extra cash flow and putting it toward the mortgage. At the very least, I suggest that extra mortgage payments be made until the Private Mortgage Insurance (PMI) is no longer required, thus creating additional cash flow.

2. Use the 203(k) renovation loan to purchase a 2-4 unit residential property at a discount. If a property needs work, it can likely be bought at a discount to the fair market value. Live in one of the units as mentioned above. The property could be kept in your portfolio for years (which I recommend) or sold after a year.

3. Use the 203(k) renovation loan to purchase a single-family fixer-upper and sell it for profit later. This is what I call a long-term flip. Live in the home for at least a year and then sell it for a profit. I strongly recommend living in the home for at least two years to pay $0.00 in capital gains taxes. Per the Taxpayer Relief Act of 1997, if a person sells their primary residence and they lived in the home for at least two years out of the past five years, then they owe no capital gains taxes on the first $250,000 in capital gains ($500,000 if married). Since you have to live somewhere, why not live in a nice home, create equity, and sell it for profit after a couple of years?

8 UNLUCKY THIRTEEN
13 COSTLY MISTAKES NOVICE REAL ESTATE INVESTORS MAKE

UNLUCKY THIRTEEN
13 COSTLY MISTAKES NOVICE REAL ESTATE INVESTORS MAKE

Learn from the mistakes of others. You can't live long enough to make them all yourself.
- Eleanor Roosevelt

These are all mistakes that I have made, so I'm not pointing fingers. I urge you to learn from my mistakes.

1. Rushing to buy. In 2004, I called myself a full-time real estate investor yet I had never owned any real estate. With my hard-earned money burning a hole in my pocket, I bid sight unseen on a 5-unit property in inner-city Philadelphia because the flier at an auction showed a pro forma capitalization rate of 17 percent. That was a costly mistake and a valuable learning experience. I recklessly bought the property with no due diligence because I felt the urge to buy something. I would have been better off buying a fixer-upper duplex in which I lived in one and rented the other (I did that later on).

2. Not performing due diligence. Many novice investors regret not performing a formal home inspection. I lost a tremendous amount of money on a mixed-use property because prior to the purchase I did not bother to consult the township's Zoning Officer on what it would take to build an extra apartment on the second floor. Later on, after buying the property, I discovered that the cost to obtain proper approval to build the apartment was far more than I could afford. I ended up selling the property for a massive loss.

3. Paying too much for a property. There is a popular saying that you make the money on the buy. In other words, you create the profit potential by purchasing at the right price. It's easy to get carried away in a multiple offer scenario or at an auction. Too many novice investors overpay for the property they buy, and they only discover that fact months later. On my first residential purchase, the appraiser for my mortgage loan pulled me aside and told me that I was paying too much for the property. I continued with the purchase because I wanted to prove to him that I was right (I wasn't) and because I purchased it at an auction with no contingency clauses so I would have lost my 10 percent deposit (I should have hired a Realtor® to help me find investment properties).

4. Asking family and friends for money. I have done this more than once and regretted it every time. Thankfully I stopped years ago. It is easy to become excited about the prospect of buying an investment property with all the promise of the lucrative profit it could generate. Leaning on a relationship with a family member or good friend to receive seemingly easy private money with little to no paperwork involved can be enticing. Plus if we think that they will also profit handsomely, then it is a slippery slope. Think twice about asking loved ones for money, and be fine with obtaining money from other sources.

5. Not factoring in soft costs. Many new investors overlook closing costs, property management fees or agent commissions, and carrying costs. I learned this lesson on my first sale when I had $6,000 in unanticipated closing costs that I discovered the day before the settlement. I was selling the property as an unrepresented seller (For Sale By Owner), and I should have done better math to avoid the shock of the surprise costs.

7. Hiring a bad contractor. I lost $15,000 with a bad contractor on my first major renovation project. I hired him for a $500 demolition job, and he and his crew were great. Then I hired him for a big project, and that's where I made huge mistakes. First, I should have gotten at least one competitive bid from another contractor. Second, he asked for 50 percent of the money up front. I should have negotiated a lower amount. Third, he asked me for an advance on the final payment even though most of the work was not completed. I paid him because I thought he would be like me – a person who finishes a project. I lost my leverage with him because there was little incentive for him to finish the work. Fourth, he stole a $60 light fixture I had in my house that he was supposed to install, and I imagine he installed it in another house. Fifth, one of his crew members stole my razor blades from my bathroom and then they were mysteriously returned when I complained. Sixth, he ignored many of my phone calls. I learned painful and valuable lessons that I hope to impart on you.

8. Taking too long to renovate. Regardless of whether you are renting or flipping a house, speed matters. I am not talking about rushing a renovation to the point where the quality of work suffers, or you pay a pretty penny to have contractors work overtime. I am talking about planning a realistic renovation time frame up front and sticking to it. I have had friends and clients who are aspiring flippers take over a year to renovate a house. In each instance, they typically tried to do all the work themselves and also took time off of the project to work elsewhere. While the long-term capital gains tax is lower for assets held more than a year and a day, there really is no compelling reason to take over a year. Think of all the lost rent payments or the monthly interest on the mortgage loan. Those are soft costs that many new investors fail to calculate.

9. Asking too much for the rent or for the asking price. It happens over and over with newbie investors. Their asking rent is too high for the market, and the unit sits empty for months. Or as a flipper, the asking price is above the market value and the property becomes stale. Home buyers often ask about the days on market. A seller has the most power on day 1 of the listing, and their power diminishes ever so slightly with each passing day. At a certain point, a buyer may smell blood in the water on a house that has been on the market for weeks or months. Many new investors ask for too much money because they are trying to recoup the extra money they spent on the renovation. There is another factor known as the endowment effect. This psychological principle holds that we tend to value things more highly when we already own them, leading us to consistently overvalue our possessions. Listen to your Realtor®; listen to the market; and price it right.

10. Underestimating the renovation costs and not sticking to the budget. There are investors who do not have a budget, and that in and of itself is a big mistake. To blow past the budget is another mistake. Underestimating the cost of the renovation is a common mistake of investors. To mitigate this, it is ideal to hire a home inspector and then obtain one or more contractor estimates prior to purchasing the property. Just how it is essential to drive with headlights at night, an investor needs to see the road ahead.

11. Having the wrong people around them. Almost everyone who takes a risk will have naysayers and free advice givers chomping at the bit to speak their mind. Also, many new investors unnecessarily bring on a partner or partners to fill a void in confidence, expertise, or money. First, if you are married, your spouse should be in alignment with your real estate investment plans. If they are not, it may be due to their concerns about risk or your time away from home. You can mitigate risk, and you can leverage your time by hiring others. If you cannot become aligned with your spouse, then it may be better to change how you invest in real estate (maybe invest in a Real Estate Investment Trust or a syndicate) or perhaps choose a different investment vehicle that fits with both of you. As for naysayers and free advice givers, I suggest you listen nicely and go do what you think is best. While there have been many instances in my life where free advice was valuable, I personally prefer to pay for advice from professionals.

Finally, we come to the topic of business partners. I am not against having one or more partners if they add tremendous value and there is an ongoing synergy. I urge you to examine why you think you may need a partner. Sometimes a coach or a great mentor will cost you a lot less than a partner who receives 50 percent of the profit. Also, a bad partner can cost you more than 100 percent of your investment.

12. Paying too much for money. I have made this mistake before, paying 11 percent or more for money to purchase and renovate properties. Points, fees, interest, late charges, prepayment penalties, and other costs eat away at your profit margin. Some new investors borrow private money and give up a large percentage of the profit – even 50 percent or more – to the lender. I have had a number of novice investors tell me that they would be happy making just a little money, and while that is a nice expectation, I know they would be happier keeping even more money. Shop around for loans and be slow to give away large percentages of your profit.

13. Giving up way too quickly. I lost money on four of my first six deals. I was a full-time real estate investor, and I had no other source of income. I am so glad I did not give up. I saw real estate investing as a journey of personal growth. I knew that successful people make more mistakes than unsuccessful people. I hope your mistakes are not catastrophic. I hope you wear your mistakes like a badge of courage. There is nothing wrong with getting out of real estate investing, yet if you know this is your path to wealth then I urge you to stay the course.

QUALIFIED QUESTIONS THAT YOU SHOULD ASK SELLERS

- WHEN WAS YOUR HOUSE BUILT?
- WHAT CONDITION IS THE HOUSE IN?
- HOW MANY BEDROOMS AND BATHROOMS?
- DO YOU KNOW THE SQUARE FOOTAGE?
- HOW OLD IS THE ROOF?
- HOW MUCH DO YOU THINK IT WOULD COST TO FIX IT?
- HOW IS THE FOUNDATION?
- HAS YOUR HOUSE EVER FLOODED OR BURNED IN A FIRE?
- HAVE YOU EVER FILED AN INSURANCE CLAIM?
- DOES YOUR HOUSE HAVE ANY ASBESTOS PIPE WRAP, SIDING, OR TILES?
- ARE THERE ANY TERMITES?
- WHAT HAVE YOU LIKED ABOUT THE HOUSE?
- WHAT HAVE YOU NOT LIKED?
- HOW DOES YOUR HOUSE COMPARE WITH THE REST OF THE BLOCK?
- ARE THERE ANY COMMERCIAL OR INDUSTRIAL BUILDINGS NEARBY?
- IF YOU HAD ALL THE MONEY IN THE WORLD, WHAT WOULD YOU DO WITH THIS HOUSE?
- DO YOU HAVE A MORTGAGE? WHAT IS THE APPROXIMATE BALANCE? IS THE MORTGAGE CURRENT?
- ARE THERE ANY OTHER LIENS OR JUDGMENTS AFFECTING THE TITLE?
- HAVE YOU TRIED TO SELL THE HOUSE RECENTLY?
- WHY ARE YOU SELLING?
- IS THE HOUSE VACANT OR IS SOMEONE LIVING THERE?
- ARE THERE ANY OTHER OWNERS BESIDES YOU?
- WHAT DO YOU THINK THE HOUSE IS WORTH? WHAT MAKES YOU SAY THAT?

THERE IS A SAYING, “KNOWLEDGE IS POWER.” I WOULD SAY THAT APPLIED KNOWLEDGE IS POWER. GO AHEAD AND DO SOMETHING WITH WHAT YOU KNOW.

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