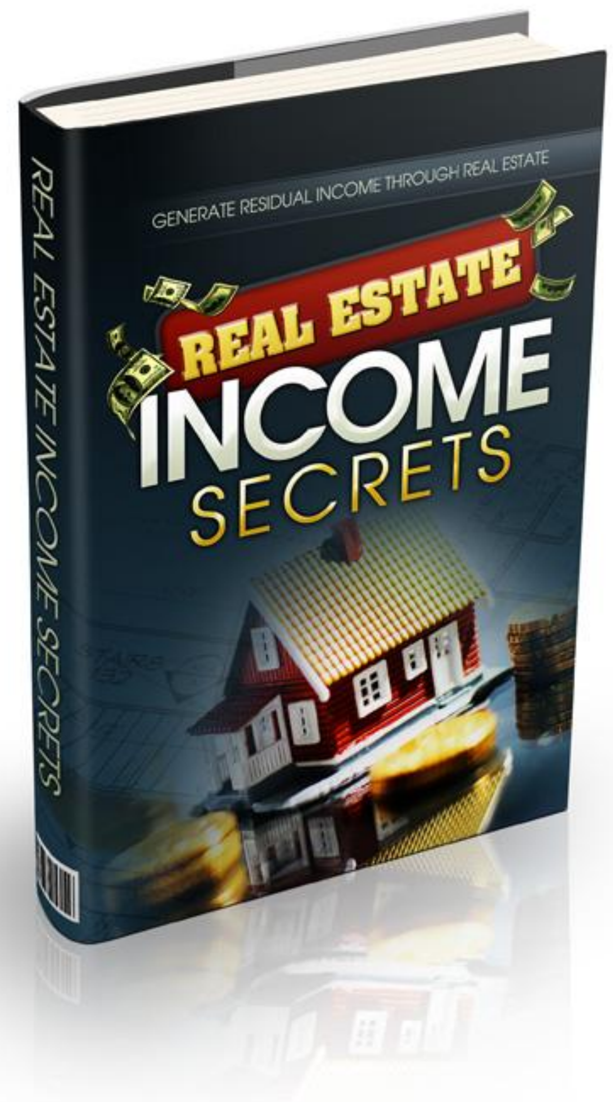
Residual Income Through Real Estate



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Introduction

Before we get started, there are a few things you should know. First of all, the term “Net Worth”. What exactly is that? Net worth is simply the sum of assets minus the liabilities. This, however, simply does not state the whole story. Each year, Forbes magazine shows the distribution of net worth for the United States.

The Forbes graph shows that 86% of the people make $250,000 or less each year. Yet, this constitutes only 26% of the net worth pie. Only 10% of the population makes more than $350,000 per year, yet that 10% is controlling 68% of the net worth of this country!!

These statistics are not meant to upset you. I would however like you to keep them in the back of your head as you read through this guide. So you understand how most of the money is made in America.

Most people make their income linearly, which means they have a "Linear-income". This simply means that for every hour they work they get an X amount of income.

With a linear-income a person must keep working if they want to keep getting paid.

In the United State the average person works a 40-hour workweek not to mention all the other time spent away from the home due to having to work. Let's say that the average is 50 hours per week.

If you consider that the average person gets 2 weeks of vacation, you will see that 2500 hours per year are spent on the job. Take those hours over the typical 45-year work span, and you will have worked 112,500 hours!!

If you could go back and average all the income over that 45-year period, you might find statistics like this:

- Average Annual Salary of $30,000 is equivalent to $12/hour before taxes and a mere $7.80 after taxes (assuming a 35% rate of taxation)
- Average Annual Salary of $40,000 is equivalent to $16/hour before taxes
- Average Annual Salary of $50,000 is equivalent to $20/hour before taxes

When you look at the examples above, there is a pattern that might catch you eye.

For each $10,000 more made per year, you can add $4/hour to your hourly rate of pay. I can almost guarantee you that if you follow this type of system to make your money, you will have a very difficult time becoming wealthy.

Everyone has heard of diversification, especially when talking about finances. If you choose stocks, you are told to diversify. Why? Because it is too risky to put all your eggs in one basket – this is simple logic.

And yet, if you look at most people today they almost always have "all their eggs in one basket". What I'm talking about of course is most people have only one way of getting income: their job.

Most people have ONE paycheck that goes into a bank and then comes out of the bank for a variety of fixed expenses. The only diversification in this picture is the number of ways the money flows OUT of the bank! If your cash flow fails due to sickness or inability to perform the given tasks, you will lose all of your assets.

So, what's better than linear income? Why it's residual income of course!

Residual Income is income that keeps coming in month after month, year after year, from work you do just once. An example of this is income received from stocks or government bonds.

It keeps coming and you don't have to work for the government. Another example is a royalty paid over the rights of an invention or a song. You keep receiving income for that song and you don't have to keep singing every time to collect. The best way to build your financial freedom is by securing residual income from many sources.

Now, to clarify, not all residual income is passive income. In fact, most residual income has some "residuality." Don't try looking that word up in the dictionary – it is my own creation. The residuality of an income source refers to the extent that you have to put effort into establishing a cash flow. Some forms of residual income are labor intensive in the beginning, some in the middle and some at the end. I do not believe in completely passive residual income – you should always have control and take charge of all of your income sources.

Regardless of the residuality of the income you choose, the benefits of residual income are excellent:

- Control your own income

- Creating security
- Being able to set your own priorities
- Great tax advantages

Remember that I said it was important to diversify. First, you need to develop three sources of residual income. This will provide you with a variety of ways to feed your asset base. What exactly is an asset? For the purposes of this book, an asset is something that has positive cash flow and goes up in value over time.

Then make sure your residual income equals three times your original linear income. Yes, three times. This will provide you with a cushion.

The last part of the of the rule concerns taking transitional steps towards creating residual income. You are not going to be able to replace your linear income with residual income all at one time, so taking transitional steps will be necessary.

I suggest looking at your lowest necessary bill. Let's say it is your phone bill at an average of $50/month or $600 per year.

In order to earn residual income of $600/year, you might consider purchasing a $12,000 municipal bond earning 5%. How will you purchase this bond? By taking 10% of your gross income off the top and placing it into a "mini-asset category" until you can get the $12,000.

Once done, you will not have the payment per month and that money can then be put into your asset category as well. Stocks and bonds, as you can see, are very capital intensive, but over time, will be able to pay all your fixed expenses.

Getting Rid Of Expenses And Debt

If you are like most people, your cash flow is simply flowing through your hands every month. Because most of it is spent on your monthly living expenses, this means that if you have only a linear-income you must keep working every single month to pay your monthly bills.

Take a look at the following rules, to get a better idea of what things should be like:

- Cash pays for the goodies, or "Happiness is a positive cash flow!"
- Cash inflow must be greater than cash outflow.
- Residual cash flow is better than linear cash flow.
- While we say time = money, assets are what produce money. The greater the assets, the greater the cash flow. Feed your assets so your assets can feed you!
- Wealth is a function of cash flow over time.
- Cash must be generated from more than one source of wealth. Income must feed wealth-producing assets, which in turn produce more cash flow.
- Taxes are cash flow's nemesis. Use the tax code to increase cash flow. Don't allow taxes to use your cash flow.
- You can't create more time, but you can buy it back.
- Financial independence does not equal financial freedom. Owning your own business does not necessarily make you free!
- Positive cash flow must not depend on your efforts alone.
- Associate with successful, cash-flow producing people. Ask them to take you under their wing. Learn what they do and step into their shoes.

Money does not make you happy, however, money is ONE of the stumbling blocks of achieving happiness, along with knowledge, faith, time and health.

This list is a list of truths that, once learned, will help you on your way to financial freedom.

The essence of successful cash flow management is regulating the money flowing in and out of your wallet. Sounds simple doesn't it? It really is, but very few people take the time to keep track of what actually comes in and goes out each month.

Do you know how you spend your money?

I don't just mean the big purchases, but every single penny? In order to succeed, you must! In fact, you need to be vicious. Let's look at this another way. Let's say that you receive a paycheck every week for $1000. You open the envelope each week and there you find the $1000 check. But one week, when you open the envelope, you find only $900.

What would you do? I suspect that you would be on the phone and finding out where the missing money went. I want you to become as attentive to your outflow as you are to your inflow!

The first thing you will need to do is take the time to list out your fixed and flexible expenses. Fixed expenses are items such as rent, mortgage, car payment and other regular installment payments that basically stay the same each month and for which you are committed for a period of time. Flexible expenses are the expenses that change from month to month such as food, clothing, and utilities. You have a bit more control over some of these items.

In order to create residual income, you are going to have to create an asset base, and to do so, you will have to consider reallocating your expenses. You will need to pay yourself first and NEVER dip into your asset money. Never, ever spend the principle. Don't say you don't have enough money. If you do, shame on you! Do something about it. Make more or spend less. This needs to be a zero sum game to some extent.

This means that you are going to have to take a look at how you are spending your money. Yes, every penny. As a people, Americans over consume. I am not suggesting that you should take draconian measures and live like a pauper for the rest of your life, but it may be necessary to make some adjustments.

Once you begin to create your mini asset base, what kind of return on your assets should you expect? I say at least 10% to overcome the major stumbling blocks of purchasing power: taxes and inflation.

Don't let fear control your money! There are many ways to produce residual income and each one has a different amount of risk. Look for those vehicles that suit your risk level. Use your time and knowledge wisely so that you can work smarter, not harder. Consider buying no load funds or low-fee investments. Be sure to get money market rates on your checking balances and cash management accounts. Simple changes will make large differences in your cash flow situation.

Keep in mind that delaying will cost you. Take a look at the following IRA comparison chart. Tom began putting in the maximum amount into an IRA at 18 years of age. When he retires, he will have over $150,000 more than his counterpart, Linda, who began at the age of 26, just 8 years later!!

Money doesn't grow on trees, but you can make your money stretch further if you realize that saving money on expenses is like getting free money. I don't know about you, but I NEVER turn down free money!!

Age	Tom	Linda
18	$2,200	$0
19	$4,620	$0
20	$7,282	$0
21	$10,210	$0
22	$13,431	$0
23	$16,974	$0
24	$20,872	$0
25	$25,159	$0
26	$27,675	$2,200
27	$30,442	$4,620
28	$33,487	$7,282
29	$36,835	$10,210
30	$40,519	$13,431
31	$44,571	$16,974
32	$49,028	$20,872
33	$53,930	$25,159
34	$59,323	$29,875
35	$65,256	$35,062
36	$71,781	$40,769
37	$78,960	$47,045
38	$86,856	$53,950
39	$95,541	$61,545
40	$105,095	$69,899
41	$115,605	$79,089
42	$127,165	$89,198
43	$139,882	$100,318
44	$153,870	$112,550
45	$169,257	$126,005
46	$186,183	$140,805
47	$204,801	$157,086
48	$225,281	$174,995
49	$247,809	$194,694
50	$272,590	$216,364
51	$299,849	$240,200
52	$329,834	$266,420
53	$362,817	$295,262
54	$399,099	$326,988
55	$439,009	$361,887
56	$482,910	$400,276
57	$531,201	$442,503
58	$584,321	$488,953
59	$642,753	$540,049
60	$707,028	$596,254
61	$777,731	$658,079
62	$855,504	$726,087
63	$941,054	$800,896
64	$1,035,160	$883,185
65	**$1,138,676**	**$973,704**

$164,972

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Buying Mortgages

Buying Discounted Mortgages

Buying discounted notes can generate residual income just like methods used by financial markets on Wall Street, only on a smaller scale. Have you ever heard of Mortgage Securities?

They follow the strategy I am about to show you but on a billion dollar a year scale. If it can work for them, surely it can work for you!

Certain pieces of information become public knowledge when a home is sold. These items include:

1. Price
2. Taxes
3. Liens
4. Buyer's Name
5. Seller's Name
6. Amount of Mortgage
7. Names of Lenders

All of this information can be found at your County Courthouse or the Clerk's Office.

Suppose that a house seller is asking $100,000 as the purchase price. A couple (we'll call them Mr. & Mrs. Goodcredit) comes by to look at the house. Both of the Goodcredits earn respectable incomes, and have excellent credit and work histories. But Goodcredits are shy of the last $5,000 for the down payment.

With mortgage rates at 7.5%, they ask the seller if she would be willing to take an interest only mortgage for eight years. An interest only mortgage is on where only the interest is paid during the term of the loan and the full balance is paid at the maturity date. In this case, it means the Goodcredits would pay $500 per year for the next eight years, then in the 8th year, pay off the full $5,000. Both the primary mortgage and this second mortgage will be recorded at the local courthouse or county clerk's office. In other words, the financing becomes a matter of public record.

Knowing this, how do you make residual income? Here's what you do. Go down to wherever real estate mortgages are recorded and look for properties that have 2 mortgages – the primary and the secondary. The primary will usual be a financial institution and the secondary is often an individual. This research is mind numbing, but remember, residuality is not free!! Incomes do take work! So, you need to find about twenty of these situations, and write down who the second mortgage holders are. Next, call them. And here's what you'll say:

> Hello, Ms. Smith, my name is Jim Farnham. I'm a real estate investor, and I understand that you hold a mortgage for $5,000 on the property located at 123 Anywhere St., here in Anytown. Is that true?
>
> She'll reply, "Well, I don't know! Who are you anyway, and how do you know about any of that?"
>
> Well, Ms. Smith, as I say, I'm a real estate investor, and I'm just wondering if you'd be willing to sell that mortgage. You see, I pay cash for these kinds of mortgages, and I wanted to offer to buy that mortgage from you for cash? Would that be of interest to you?
>
> Well, maybe, that depends on what you're offering.
>
> Well, I would be willing to buy the mortgage for at a discount. So I could offer you $3,000. *(Your offer should be between 60% and 75% of the loan in order to make a profit.)* How does that sound?
>
> *(Your success here relies on the possibility of one, or even both, of two conditions: 1) a lump sum of cash is currently more attractive to Ms. Smith; 2) payments over time have become more of a hassle for Ms. Smith, even if they'd in fact turn out to be more profitable.)*
>
> Why yes, I think I may be interested.
>
> You know Mrs. Smith, what I'd like to do is meet with you at <u>your</u> attorney's office to show you my proposal.
>
> *(In this way, Mrs. Smith can feel rock solid that this is not a scam. Going to her own attorney will make her feel secure that you are who you say you are.)*

Following is an illustration demonstrating a potential 30% return on this investment

Face Value	$ 5,000
Purchase Price	$ 3,000
Term Balance	5 years
Original Interest Rate	10%
Monthly Cash Flow	$ 41.67
Annual Return	500/3000 = 16.7%

Total interest you received	$2,500
Discount	$2,000
Total Profit	$4,500

Average Annual Return (4,500/3,000) / 5 years = 30% Thank you very much!

Let's look at another example. Let's say you find a property valued at $80,000. The seller is retiring, owns the place free and clear (no mortgages) and wants to buy a condo in Florida for $30,000. You suggest that he invest the balance of his equity into seasoned mortgages worth $50,000 and paying 10% interest, with monthly payments of about $500 per month to supplement his Social Security. This income will NOT affect his Social Security. He agrees.

Now, locate a mortgage with a $50,000+ face value, at 10% interest with monthly payments of at least $500. Offer the mortgage holder $35,000 cash, to be paid at closing. The note is to be placed into escrow along with signed a copy of the agreement (preferably notarized).

At closing, your bank (if YOU are buying the property) or your buyer's bank (if you are selling to a third party - see "Double Escrows") puts up the money for a first mortgage of 90% of the price, or $72,000. From this amount:

- You pay $35,000 for the note. The note seller goes home, happy.
- You pay the seller of the property $30,000 cash and give him the $50,000 in mortgage(s). He goes home, happy.
- There is $7,000 left "on the table". This belongs to you, along with $8,000 in equity in the property (the difference between the $72,000 mortgage and the $80,000 value).

If you bought and sold simultaneously at a double escrow, you would walk away with $15,000 cash - in other words, the $7,000 left on the table and the $8,000 equity you sold to your buyer (his down payment).

Foreclosures

Although there is less liquidity with real estate, some folks prefer what they can see, touch and feel. As in most areas of life decisions are made with facts. They are confirmed with emotion. One way to have tangible property earning residual income is through foreclosures.

Foreclosure is simply what happens when you don't pay your bills on your mortgage. The lenders want their money and they take actions to get it, often by selling the house.

My number one recommendation in this area is to THINK, RESEARCH AND BE KNOWLEDGEABLE before you act! Go to seminars. Read books. Visit web sites. Attend auctions. Talk to professionals. Join investment clubs. Become as knowledgeable as possible before you decide to act!

Most of the homework you need to do is at your local level. What are the tenant-landlord laws? What rules apply for late payment and eviction? Are there rent controls? Look up on the Internet to get a hold of local landlord and real estate specialty interest groups. Foreclosure law is formulated at the state level. Since each state has unique laws and time lines, you must read up and ask! Some states have mortgages. Some have deeds of trust.

The foreclosure process goes through 3 distinct phases:

1. Pre-foreclosure
2. Foreclosure at auction
3. Post-foreclosure (the property goes back on the books with the lender. The lender wants cash not property.)

In order to make money this way, you need to know about the foreclosures BEFORE they become public knowledge. FIRST COME, FIRST SERVE! BE THE FIRST TO LEARN AND ACT!

Non-payment for 2 or 3 months gets the foreclosure ball rolling. Letters start arriving from the bank. Then handed over to an attorney (4 to 6 week period), who will send further letters to the owners suggesting a cure date. Cure date is the latest date problems can be cleared up by before the foreclosure sale.

The earlier in the process you can intervene, the greater your leverage. Leverage means taking a small amount and using it to do big things. You're saving the owner’s face and credit and getting a good deal in the process. More legwork here, but greater leverage! Keep in mind that you did not create the situation, but you can provide a win/win solution. MY PREFERENCE is to enter into the process before that cure date or after auction (REOs).

There are differing laws and procedures between states, and even between counties in the same state. In general, states differentiate according to the security instrument(s) used to establish financing and legal status. There are two categories of security instruments: 1) mortgage, and 2) deed of trust. Methods of foreclosure where mortgages are the security instruments include judicial, non-judicial, or power of sale, and entry and possession. The method of foreclosure where a deed of trust is the security instrument is almost exclusively power of sale (in Utah, trust deeds are combined with a judicial process).

Mortgage Terms:

Two instruments:

- The mortgage is the security instrument. This creates a lien on the property and serves as the debt security.

- A note or bond is also signed by the original owner to evidence a promise to pay the debt.

The borrower is called the mortgagor.

The lender is called the mortgagee.

Deed of Trust Terms:

The borrower is called the trustor.

The lender is called the beneficiary.

Here there is an intermediary called the trustee. The trustee holds property title for the beneficiary. This serves as security for the repayment of the debt.

Judicial Foreclosure:

Judicial foreclosures are conducted under sanction of a court. These are often more time-consuming because the court must approve the final bid to guard against large deficiency judgments. **Lis pendens** (Latin for notice of pending action) is normally filed with the local county clerk. This serves as public notice that the mortgagee has brought an action of foreclosure on the mortgagor. No further liens may be brought or included after lis pendens is filed. If you research a property for investment purposes, make sure that all parties, owner, renters, lease holders, creditors, and so on, have been properly served notice of the foreclosure. The current tenant's lease may survive the foreclosure process if not served properly and on time.

A court-appointed referee advertises the sale in the local newspapers. This is normally under the section called, legal notices. At auction, the referee will announce the terms of sale, then start the bidding process at an upset price or opening bid amount, that has also been set by the court. The upset price includes the mortgage balance, interest and back taxes, court costs, legal fees, and liens and judgments on the property before the foreclosure process began (lis pendens). Successful bidder at auction gets a Certificate of Sale. Some properties will have a Statutory Right of Redemption period that goes beyond the foreclosure auction, and has the possibility to kill the deal. If not, then the successful bidder gets the deed, sometimes called the sheriff's deed.

Non judicial Foreclosure or Power of Sale:

In a non judicial foreclosure, also known as a power of sale, the court not involved in oversight. In most cases, trust deed foreclosure is non-judicial or power of sale. In a number of states, mortgages can also contain a power of sale clause. The "power-of-sale clause" allows the trustee, if payments are not made on the loan, to sell the property at the courthouse steps, and so bypass a lengthy court process (sometimes referred to as the "trustee's sale"). Thus, the name, non judicial foreclosure.

The Trustee records a "notice of default" and sends a copy to the trustor. The sale here is final. There is no redemption and no deficiency judgments in trust deed states. Make sure your attorney includes in your purchase contract the right to various inspections after the sale, with sufficient time to perform such inspections.

A good reference for seeing your state's security document/foreclosure method combination is the book, Your Fortune in Foreclosure: Today's Best, Low-Risk, High-Profit Real Estate Investment, by Fredy Bush, Carl Hunter and Bruce Erb, pages 199 to 204.

Deed in Lieu of Foreclosure:

In a deed in lieu of foreclosure, the lender has taken possession and deed, i.e., put the house into the bank's inventory. This is not good for the bank since they now have a liability with no offsetting receivable. Get to know the bankers dealing with this property. Take them to lunch. As always, do a lien search, but also get a Warranty Deed to protect against future claims on the property.

Sources of Information at Your Local Level:

So, where do you find the information first? There are many methods and I will list the most likely ones here:

1. Research and scour the local newspaper: Look for "For Sale By Owner" (FSBOs) or "Must sell, will consider all offers".

2. Relocation companies

3. Local publications that list foreclosures.

4. Title insurance companies.

5. Divorces, deaths, business failures, probate court.

6. Inquire upon properties that appear to be abandoned.

7. Contact your local courthouse and ask if there is a mailing list for real property sales.

8. Courthouse or County Clerk: Lis Pendens (judicial) or Notice of Default (nonjudicial). You can monitor these filings yourself, pay someone (college business student), or buy from list service. My feeling here is the same as buying investments based on what you hear in the newspaper. It's too late, or at least the profit potential has diminished. However, if you do not have a legal background, then "buying" this service may be more convenient and efficient. Again, convenience comes at a price.

9. Lots of Internet services. For starters, check out www.therealestatelibrary.com.

10. If looking to purchase your own home, check with HUD and VA. Go to HUD's web page at www.hud.gov for information and links to other government and quasi-government sellers of repossessed homes. For homes in your area go further to www.hud.gov/homesale.html.

11. Join a local investment club.

12. Bankers and Lenders: They are the first to know. Schmooze!!!!!! Get to know the loan officers and other people at each bank that are responsible for loans and REOs. Open an account at each of these banks. Give these folks your card so they can pass on to distressed property owners.

13. Realtors: these are the folks owners come to if they know foreclosure is coming soon. Call realtors in the area you want to invest. Check out boards of realtors, real estate investor clubs and Real Estate Investor Association.

14. Get licensed in real estate yourself, then build a foreclosure niche practice.

15. Attorneys: They are the ones contacted by the bank and have first-hand information on the houses. Folks in financial trouble often contact their attorney first. Without bridging client confidentiality or ethical standards, have the attorney give your card out as well.

16. Flyers and classified ads: Pick out the area you want to live/invest in, and every month, leaflet the cars and houses there. Advertise in the local press.

17. Builders and Remodelers: They are in touch with the people in that area. Very often they will have valuable information.

18. Watch the local real estate section of the newspaper.

MAJOR IDEA:

Put together a free seminar or public speech that you'll do for the local remodeling association, board of realtors or local bar association. The topic must be a high-perceived value. I can hear some of you saying, "Yeah, right. What in the world would I talk about?" Think of something you do and do well. Then come up with a Top Ten list. For instance, if you are a good writer, produce a seminar on the "Top Ten Written Advertising Mistakes." Tell the attendees at the end of the program that you'd like to hear about any "situations" or pre-cure date deals. Then keep in touch electronically with these folks to give them follow up information on your topic. Of course, include in every message that you are still looking to acquire foreclosures.

To some extent, this is a numbers game! The more people you contact and the more you research, the more likely you are to come up with the right deal for you. Based on figures from the National Association of Realtors, 1994 to 1998, best months to close are January through April.

System for Picking Foreclosures:

Here's simple format that I use. It's only an outline and applies pretty much to assumable mortgages. Consider it a template for you to develop YOUR OWN SYSTEM to research, analyze and pick properties.

FIRST

- Do your research to find a property early on in the first 3 or 4 months of difficulty.
- Go look at the property and, if possible, ask for an introduction to meet the owner. You MUST talk to the owner!
- You MUST see the interior and exterior, or else walk away. There will be plenty of other deals. Exterior does not necessarily equal interior.
- Determine appraisal and market value. Check county clerk's office for current appraisal. What have other similar houses in the area sold for? Use Yahoo real estate to find out.
- Keep a file or binder detailing notes on each property you look at.

Following is a form I use for a "first-look" and starting to track a pre-foreclosure. Again, this is structured format to guide you and help to formalize a first impression. You should definitely look at a property though, if possible, several times and in several conditions, e.g., at night, in the rain, mid-day, around rush hour, etc.

POSSIBLE SALES

Date and Time Shown_______________________________________

Shown By____

Owner____

Address____

____

Day phone ____

Evening phone____

Trustee (or individual handling sale)_______________________________

Phone____

Reason for selling____

____

____

Availability or Urgency of Sale____________________________________

Vacant, Yes_____________ No_______________

If yes, has owner been located?_______________

Information on above____

Proposed Foreclosure Date____

Cure Date____

Deed or Torrens title? ____

Location____

Transferable or assumable mortgage?___________________________

Estimated Market Value____

Loan Balance Other Loans or Liens_______________________________

Total of Loans____

Estimated Fix-up Costs____

Total Costs (Loans and fix ups)__________________________________

Estimated Net Gain____

CHECKLIST

Parking____

Can it be rented?_______________________________________

Age of structure____

Builder____

Style, stories or levels____________________________________

School District____

Fire & Police____

Public transportation______________________________________

Medical facilities____

Shopping____

Recreational____

Neighborhood____

Subdivision____

View____

Crime statistics for the area________________________________

Registry of sexual offenders living in the area___________________

Attic____

Insulation____

# of bebrooms____

# of Closets____

# of bathrooms____

Size, fixtures, floors, bathtub________________________________

Living room____

Family room____

Laundry/utility room______________________________________

Layout of house____

Floor coverings____

Window treatments_______________________________________

Windows/storm windows____________________________________

Weather stripping____

Doors/storm doors____

Built-in cabinets____

Paint____

Wallpaper____

Fireplace____

Basement____

Furnace & water heater____________________________________

Air conditioning____

Wiring____

Plumbing____

Cable____

Appliances____

Roof____

Façade____

Windows____

Drainage____

Paint____

Siding____

Garage, attached?____

Storage____

Waste removal____

Lot acreage____

Size & shape____

Shrubbery____

Trees____

Lawn____

Sprinklers____

Swimming pool____

Patio____

Driveway____

Traffic____

Zoning____

Flood plain____

Environmental hazards____

Status of current occupants___________________________________

Certificate of Occupancy on file at town hall?_____________________

Updated survey on file?_______________________________________

Do your observations match CO and survey file?__________________

Building code violations?______________________________________

____

Estimated cost to right violations_______________________________

Rental permits on file?_______________________Any illegals?_______

Any incomplete services, e.g., sewer, electric?___________________

Unpaid utility debts____

SECOND

- Start gathering information. Call the trustee or whoever is responsible for the property.
- Fill in the above form, based on your site visit and information you get from the trustee.
- Go to the trustee's office if it's an attractive enough property.

THIRD

- Call or visit the bank to get the loan balance and monthly payments plus any related charges, as well as any legal documents you will have to sign. Also look at the files at the county clerk's office.

- Also inquire as to the position on the property, e.g., liens, mortgages, second mortgages.

FOURTH

- Get a title report to ascertain the title status of the property. Check for judgments and liens. If there's even a shade of doubt on the title, DON'T DO IT!

- Are there any legal actions or other liens pending against the current owner that could cause conveyance problems?

- Have your attorney look over any pertinent documents. By the way, make sure the attorney knows what they're doing as relates to foreclosures and real estate law.

- Ensure that no documents contain fine print that restricts you or your abilities after the sale.

- Take out title insurance to protect yourself, just in case……

FIFTH

- Contact the owner.

- Owner or whoever has title to the property must sign the deed.

- If the owner is gone, you must find him. No sale with out the owner!

SIXTH

- Have the deed drawn up by your attorney, and have the attorney there at the signing.

- Have homeowner sign deed.

- Deed must be notarized.

- Upon ownership, have simultaneous fire, theft, vandalism, malicious mischief, etc. CYA (Cover your assets)!

SEVENTH

- Take all signed documents and cashier's check to the trustee to cure the situation.

- Register the deed with the local government offices.

What You Can Expect on Your Investment:

Capitalization Rate : A quick and dirty quantitative evaluation and projection of return.

Purchase price: $100,000
Total Rental Income = $1,000
Taxes & Insurance = $250
Leftover per month on ongoing basis is then $750, or $9,000 per year.
9,000 / 100,000 = 9% return

Cash-on-Cash Return or Equity Dividend Rate

Divide pre-tax or after-tax cash flow divided by the required equity investment. So:

Equity investment = $10,000
Annual after-tax (28%) cash flow = $6,480 = 65%!!!!! Cha-ching!!!!

Attending the Foreclosure Auction:

If you prefer, you can go to the actual foreclosure auctions. If you choose to go this route, here are a few pointers:

- Attend several so you become familiar with the process.

- You need to do your appraisal work properly, because at auction, the lender will probably come in with the first bid. This is probably at least as much as the foreclosed loan balance plus interest and expenses. If you bid, you want to make sure you bid over that amount, but substantially less than market value. Why? Because you don't want to eat your PROFITS!!!!!!

- Also check for your state's Rights of Redemption, or the original owners right to satisfy the loan before, and even sometimes after foreclosure (Statutory Rights of Redemption). Original borrower may delay your plans, depending on her or his rights.

- Contact local county courthouse or county clerk's office (see list below).

- You can also contact some of the auctioneers themselves. Inquire at county clerk's office as to who the auctioneer would be, or look them up on the Internet.

- Bidding may be verbal or through sealed written offers.

- Usually 10% needed up front, with the remaining 90% due at closing within 30 days.

- Regular deed or Torrens title? One of them is required properly convey the property. If lost by the original owner, replacement of a deed is a relatively short process. Just go down to the local county clerk and pay for a copy. Not so simple with a Torrens title. This title lists what are called "memorials", or the listing of all legal instruments ever associated with the property, e.g., liens, mortgages, etc. Torrens title copies must be ordered by a court and can take months. Thus, the Torrens may give you, the borrower/investor, more time to arrange financing. You find out about the Torrens title by searching the file at the county clerk's office, or via the foreclosure search originated by the lending institution.

- You bid on the mortgage balance, not the market value. Caution: Don't overbid! The difference between the mortgage balance and market value is your current profit margin.

After the Foreclosure Sale, or Buying Bank Owned (Real Estate Owned or "REO") or Government Agency Owned Property

Real estate owned means that ownership goes to the bank or government agency, maybe because the property did not sell at foreclosure, or the bank bid on and won the property back.

I will say that one of the best skills you can acquire here is the art of schmoozing. Get to know who the players are at the banks. Keep a list of whose job it is in the individual banks to handle this task. REOs are sold in a variety of methods: directly with the bank/government agency, listing with real estate brokers, auctioneer companies, and even some on mailing lists and web sites. Also get to know the housing stock in your target area.

Advantages

1. Lower interest rates
2. You may get the lender to offer a discounted price.
3. You have access to the property for inspection.
4. Lender has probably evicted current tenants in advance of the sale.
5. More time to set up favorable financing.
6. Lender can restructure loan with more favorable terms and financing.

Disadvantages

1. Price will probably be closer to market value, as opposed to mortgage balance at auction. This is biggest disadvantage here, but negotiate! So what if you make a $10,000 profit, as opposed to a $20,000 gain. Ten bills is a just as green as twenty! Don't be greedy.
2. Broker or agent can kill the deal.
3. Repairs may be numerous.
4. Lender may not provide financing
5. Lender may not be flexible with terms.

Each bank and government agency will have its own nuances and procedures for obtaining REOs. Learn what the procedures are and use them!

Tax Liens

A tax lien happens when you have not paid your taxes to the local municipality. They will issue a lien against your property that says the property can't be sold or change ownership until the lien has been satisfied. A tax sale differs from a foreclosure in that when the public authority offers the property for sale to satisfy a tax lien, the successful bidder buys the right to own the property if the property owner does not repay him.

There are three types of liens:

1. Judgments or judicial liens, which result from a lawsuit by a creditor. In New Jersey, once these judgments are docketed in the Superior Court, they become liens on real estate.

2. Statutory liens, the most common example of which are IRS or county/state tax liens, and property tax liens.

3. Consensual liens, such as mortgages.

You don't have to be an attorney to understand liens any more than you have to be a mechanic to drive a car. But be forewarned! I suggest you ALWAYS consult with an attorney to dot the i's and cross the t's. You must decide, based on your research, whether to do the deal.

#1: You don't pay your local taxes.

#2: The local government puts a lien on the property for the unpaid taxes that prohibits sale or transfer without payment.

#3: Government auctions tax lien certificates to compensate for the unpaid taxes. You bid. *(NOTE: Always physically check out the property and do lien, judgment and title searches before you buy.)*

#4: Lowest interest bid, or fixed interest to the highest bidder.

#5: What if the property owner doesn't satisfy the lien? In some states, the tax lien certificate owner just applies for and gets the deed. In other states, the property is auctioned. Need 10% cash, with the remainder in 30 days. You bid the unpaid taxes plus interest due you.

Tax Lien Certificate States	
Michigan 50% High, Starting at 15% Indiana 25% High, Starting at 10% Maryland 24% High, Starting at 12% Iowa 24% Connecticut 18% Florida 18% Illinois 18% Massachusetts 18% New Hampshire 18% New Jersey 18% Wyoming 18% Mississippi 17% Arizona 16% Nebraska 14% New York 14% Alabama 12%	Kentucky 12% North Carolina 12% North Dakota 12% Rhode Island 12% South Dakota 12% Vermont 12% West Virginia 12% Missouri 10% Montana 10% Tennessee 10% Colorado 9% above Fed Resv. Rate South Carolina 8% Louisiana 5% and up. Puerto Rico Various District of Columbia Various

This is a true scenario. A tax purchaser purchased a lien on a piece of commercial property for $12,000. The property was owned by unknown owners, which all the proper notices were sent out and there was no redemption. He acquired the property, which was valued to be over $350,000.00. His return was over 29 times his investment.

Arizona pays certificate holders 16% interest. At the end of 20 years, a $2,000 would have grown to more than $30,000 with tax-deferred earnings.

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Rental Income

Another way to produce residual income through real estate is as an investment property. The two biggest values of rental income are the actual cash flow from the rent and the fact that property values increase.

How to Find the Property

To use this method, you buy a property with income. By income, I mean a POSITIVE cash flow. I am sure you realize that asking the owner of the property whether it has a positive cash flow may not yield the whole truth, particularly if the answer is no! So, how do you find out the truth?

You ask them to show you the bank records for the past 5 years and the expenses for the past 5 years. If they don't have them or won't show them to you, simply walk away from the deal. If they do show you the records, you simply add up the income per year to get net income and add up the expenses per year to get the net expenses. Subtract the net operating expenses from the net income to give you the net operating income. Now subtract the debt service fees and that gives you the cash flow.

Just as in foreclosures, you need to be known as "the buyer". Get known by the CPA's, attorneys, real estate brokers, mortgage companies, refinance companies, and anyone else that may be "in the know" about rental properties before these deals get out to the general public. Essentially, you need to have these "plump" deals referred to you.

Example:

Let's take a look at a real life example. I have a friend who found out about a Co-op in the same neighborhood with the United Nations. The Co-op was 300 sq ft and going for $100,000. That is not a misprint! Trust me, this is prime real estate!

She financed $79,200 and since she had at least 20% down, she didn't have to have personal mortgage insurance (PMI). The debt service costs her $6403 per year. During her first year, she made $1107 or 4.5% return. During her second year, however, she didn't incur any closing costs, so she had $5683 or 22.9% return. As the years went along, the rental prices increased somewhat and she went from a 25.3% return in year three to a 30.6% return in year 5. Her five-year pretax average return was 22.2%!!

If you had one of these deals each year for the next ten years, you would make $7500 cash flow per year per deal. That means that after the last deal, you would have a positive cash flow of $75,000. Now, let's assume that you do not wish to be the one who maintains these ten properties. You can hire a general repairman for $30,000 and still make $45,000 with no hassles!

Rental Income: A Current Example

		Monthly	Year 1	Year2	Year 3	Year 4	Year 5
PROJECTED REVENUES							
Gross Rental Income		$1,500	$18,000	$18,900	$19,845	$20,837	$21,879
Misc. Income		$0	$0	$0	$0	$0	$0
Less:							
Annually, 1 month vacancy		$0	-$1,500	-$1,575	-$1,654	-$1,736	-$1,823
Closing costs, points, etc.			-$4,000	$0	$0	$0	$0
Effective Gross Income		$1,500	$12,500	$17,325	$18,191	$19,101	$20,056
Less Operating Expenses							
Maintenance		$365	$4,380	$4,599	$4,829	$5,070	$5,324
Real Estate Taxes		$0	$0	$0	$0	$0	$0
Property Insurance		$30	$360	$378	$397	$417	$438
Electricity		$0	$0	$0	$0	$0	$0
Water/Sewer		$0	$0	$0	$0	$0	$0
Fuel		$0	$0	$0	$0	$0	$0
Repairs / Maintenance		$0	$0	$0	$0	$0	$0
Coop Sublease Fee		$21	$250	$262	$276	$289	$304
Advertising		$0	$0	$0	$0	$0	$0
Legal & Accounting Fees		$0	$0	$0	$0	$0	$0
Grounds Maintenance		$0	$0	$0	$0	$0	$0
Trash Disposal		$0	$0	$0	$0	$0	$0
Replacement Reserves		$0	$0	$0	$0	$0	$0
Miscellaneous		$0	$0	$0	$0	$0	$0
TOTAL OPERATING EXPEN.		$416	$4,990	$5,239	$5,501	$5,777	$6,065
NET OPERATING INCOME		1,084	7,510	12,086	12,690	13,324	13,991
Less: Debt Service	Balance						
1st Mortgage	79,200	-534	-6,403	-6,403	-6,403	-6,403	-6,403
HAPPINESS (CASH FLOW)		**551**	**1,107**	**5,683**	**6,287**	**6,921**	**7,587**
Pre-tax ROI (Cash on cash) of $24,800			**4.5%**	**22.9%**	**25.3%**	**27.9%**	**30.6%**
5-Year Pre-tax Average ROI							**22.2%**

Insurance

You, as a landlord, should double-check your insurance policy's fine print to ensure you're covered for common tenancy mishaps. Many landlords have taken out a building policy, often called a 'landlord' product, and assume they're covered, only to find out later the cover is severely limited. Standard building insurance offers some protection for landlords, but often contains clauses excluding malicious damage by a tenant, accidental damage, legal liability and cover for the loss of income. But as the owner of an investment property, these are the very reasons why you would make a claim.

The level of cover and premiums charged for landlord insurance differ from broker to broker.

Before signing up for 'landlord insurance', check that it covers the following risk factors:

- Malicious damage by a tenant - This includes everything from holes punched in walls and kicked-in doors to intentional damage to carpets and floors.

- Accidental damage - This covers unintentional damage to a property. Accidental damage also covers the actions of small children, but excludes gradual wear and tear.

- Legal liability - Includes expenses incurred for any lawsuit that arises as a result of a tenant suffering bodily injury or property damage or loss.

- Loss of rental income - In instances where malicious damage has been caused to a property, a loss of rental income may result while the property is repaired or cleaned. Loss of rental income also can result from absconding tenants, defaulting payments, death of a sole tenant, failure to give vacant possession or a court awarding a tenant a release from lease obligations due to hardship

Additionally, if you live on the property, you should obtain mortgage disability insurance as well.

Tax Implications

One of the benefits of investing in real estate is tax savings. Property can be a great way to shelter income from the taxman. However, the value of the tax breaks can vary depending on how much you earn and what you do for a living. The best breaks go to middle-income folks who manage their own properties. But even so-called passive investors and high-income taxpayers can reap some rewards.

For instance, the cost of maintaining and marketing a rental property can be deducted from the income the property generates, without regard to the owner's tax status. These expenses include mortgage interest payments, insurance, utilities, maintenance, repairs, advertising costs and management fees, as well as the non-cash cost of depreciation.

Depreciation is supposed to reflect the diminishing value of a tangible asset over time. If you buy furniture for a rental house, for example, it's likely to wear out over the course of several years. The value of that furniture is depreciated--written off as a deductible expense on your tax return--over a five-year period.

In the case of rental real estate, the value of the home or apartment complex is assumed to go from the price you paid to zero over the course of 27½ years. (There are no depreciation expenses for the land under the building, because land isn't expected to wear out.) In reality, of course, homes and apartment complexes don't necessarily fall in value. In fact, they often become more valuable. So depreciation expenses frequently reflect phantom costs that can be used to shelter otherwise taxable income.

Here's an example: Let’s say you buy a four-unit apartment building for $500,000, putting $100,000 down and financing the rest. Your $400,000 mortgage at 7% interest costs about $2,662 per month. Management fees, repairs, insurance and marketing expenses cost an additional $500 per month. The monthly rental income is $1,000 per unit, or $4,000 total. That works out to positive cash flow--income after expenses--of $838 per month, or $10,056 per year. That would normally be taxable income, costing about $3,000 in federal taxes, assuming a 30% marginal tax rate.

But, you are also able to depreciate the building. You divide the cost of the structure--let's assume $425,000 after subtracting the cost of the land from the $500,000 purchase price--over 27½ years. That provides a $15,454 annual depreciation expense, which qualifies as a deduction on your tax return and completely eliminates the tax obligation on the $10,056 in rental income.

What happens to the $5,398 in excess depreciation expenses? Here's where your income and occupation come into play. Most people are restricted from claiming "passive" losses--rental real estate generally is considered a passive investment activity unless you're an industry professional--that exceed their passive-investing income in any given year. Thus, while these losses could offset income from other rental properties, they normally can't be used to offset your wages or income from interest or other investments.

There are two exceptions:

1. If you are a real estate professional who spends more than 750 hours a year buying, selling or renting properties, you can write off an unlimited amount of passive losses.

2. If you are not a real estate professional but are actively involved in renting the apartments--determining the rent and approving the tenants, for example--and your modified adjusted gross income is less than $100,000 annually, you can use as much as $25,000 in passive losses to offset ordinary, non-rental income each year.

From the example, if you qualify for either of those exceptions, you could use the entire $15,454 in depreciation on your rental property to shelter income--whatever its source--thereby saving $4,636 in federal income taxes.

What if you’re not a real estate professional, aren’t actively involved in the investment or make more than $100,000 a year? Your ability to claim losses in excess of your "passive" income--that's all the income this apartment generates, plus any income you may receive from other rentals--is restricted.

If you earn less than $150,000 in modified adjusted gross income, you will be able to claim a partial deduction for the losses in excess of your passive income. However, if you earn more, you can save these passive losses to use in another tax year when you have more passive income. You still get the deductions, but you might not get them right away.

These deductions can prove highly valuable down the road. The reason: Many people who buy rental real estate keep it for decades--long after the mortgages are paid off and the out-of-pocket cost of owning the property is slim. In the meantime, rents presumably rise along with inflation. So in those later years, you are likely to have lots of income and fewer tangible expenses.

Rental Income and Your Own Business

One widely used method for building personal wealth, is to let your business compensate you for your financial risk as well as your services by retaining any real estate used in your business in your own name. Then, you lease the property to your company. This gives you income that can be increased in later years as the business prospers. At the same time, it gives your company a deduction. More importantly, down the road, when the property has appreciated significantly, that appreciation will not be double-taxed as it would if your corporation owned it. The IRS expressly forbids this method, however, if you are using a home office. If you want to lease part of your own home to yourself, don't try to deduct the rent on your tax return.

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Online Real-Estate

You can buy books online. You can buy groceries online. You can even buy a car or a house online. In fact, three percent of online consumers buy real estate over the Internet. That's not three percent who search for real estate online, or find a Realtor online, or find community information online hat's the amount of people who actually buy real estate online.

Experts in the industry expect the three percent to rise dramatically over the next five years. As for online financing, in 2000, 5% of mortgage transactions were electronic and it is projected to be 95% by the end of 2005.

Today you can view a home online via streaming video, search for property in specific areas, find a realtor who understands your needs, and even have access to a mortgage calculator and agent to answer your financing questions.

Finding Your Home Online

Up until a couple of years ago the only way to see a selection of homes was either to see a Realtor or thumb through the classifieds of your local paper. Now, however, many of the realty companies have websites that allow you to take virtual tours of homes (or at a minimum, view pictures and brief descriptions) of their listings online. As helpful as these sites are, you may want to investigate some of the other real estate web listings available, such as:

- http://www.realtor.com
- http://www.homestore.com
- http://www.realestate.com
- http://homeadvisor.msn.com
- http://www.housebid.com
- http://www.homeseekers.com
- http://realestate.yahoo.com

You can also find foreclosure homes online and use the same kind of information discussed in the previous chapters.

Once you've found some potential homes to investigate, you'll need to locate these homes in the real world. Again, the Internet can come in quite handy. By creating customized driving directions with a few quick keystrokes, you'll be on your way to your new home!

Pre-Qualifying/Interest Rates/Financing/Loan Shopping

Before you get too far along in the quest for a new home, it's advisable to look into pre-qualifying for a loan. When you pre-qualify for a loan, the bank tells you the upper limit they'll lend you to purchase a new home. If you earn $25,000 a year, your lender probably won't agree to loan the $1.9 million needed to purchase the local mansion. Knowing what they are willing to lend can help you focus in on the right neighborhoods for your budget. Many banks and numerous other sites provide online calculators that will provide guidance as to how much house you can afford, what your monthly payments can be, and numerous other valuable calculations.

Shopping for the best deal on a loan is not the most enjoyable aspect of shopping for a home, but it can make quiet a difference in what you can or cannot afford. The difference of a 1/4 point on your interest rate can make the difference between qualifying for a house or not qualifying for it. That 1/4 point can push your income ratios to beyond what is acceptable for the lender and therefore disqualify you for that loan amount.

While online, you can learn all you need to know about current interest rates, and you can determine who has the most favorable combination of good reputation and good financing packages. It's not worth saving a 1/8 or 1/4 point to go with a lender with an iffy reputation who may not be here tomorrow.

Regarding financing packages, remember to ask the lender about the fees they intend to charge you. Usually you'll have to pay for an appraisal, credit report, flood certification, points and a plethora of potential other fees. You may be offered a great rate, but if that rate is accompanied by several thousand dollars worth of fees, it may be not be your best deal.

If a lender tells you that you can't have as much money toward the house as you'd hoped based on your credit history, you can even pull your credit history online to make sure that everything on the report is proper.

Deciding Which Home to Purchase

You've narrowed the choices down to a reasonable few, so now it's time to really do some Internet digging. Many localities provide the assessed value and previous sale price of real property online, so you may be able to find out exactly how much the house you are interested in cost the current owner. If that information is unavailable, you may be able to learn what other homeowners in the neighborhood paid for their properties. For example, If you live or plan to move to Maryland (one of the most Internet savvy states in the U.S.!), you can check out their real property database at: http://www.dat.state.md.us/sdatweb/charter.html. This comparable pricing information used to be available through Realtors or by going to the county land records and sifting through an incredibly difficult paper trail. Now, with just a few clicks of the mouse, you will be armed with some serious negotiating power.

Your real estate tax rate may affect whether you wish to live in one locality versus another. For example, your county of choice will likely require that you pay real estate taxes on the property, but if the city within the county also requires taxes, that can get quite costly. It's certainly worth the online trip to your county and city homepages to see if they provide tax rate information. Further, there may be first time homebuyer credits or senior citizen or lower income exemptions or credits.

Part of moving is trying to determine what the relative cost of living is going to be in the new place. That has always been extremely difficult to do…until now! For example, suppose you want to know the amount of money you will need to earn to maintain the same lifestyle in Manhattan as you currently have in Columbia, South Carolina, go to: http://www.homefair.com/calc/salcalc.html

Filling out change of address cards is one way of changing your address, but the Internet makes that chore much easier. At the US Postal Service website (http://www.usps.gov), you can prepare your change of address online and then print it out and provide it to your mail carrier. For the litany of other address changes that will need to occur, many can be done online by going to the provider's website. A new website, http://www.startsmart.com can do all of this administrative address changing for you and they do it for free!

It's one thing to move across the street to a larger house, but what if you are moving to an area that's new to you? How do you know if the kids on your street will go to the good school 5 minutes away or the other school that's 30 minutes away? Check the Internet. You may be able to find out graduation and college attendance rates, average SAT scores, and sports information about local schools. Knowing this can help you decide if you want your children to go to a specific school or whether you should be looking for a different school/neighborhood. Speaking of neighborhoods, it's great to know a little something about a potential neighborhood before moving in.

You may even be able to arrange to transfer the utilities and/or services for your new home right over the Internet. A quick check of one of the many search engines will reveal whether the company you need to be in touch with has a website (many of them do). If your new home is like most, there will be a few home repairs or improvements that you need or wish to undertake as soon as you move in. Within a few key clicks, you can learn all about doing the repairs/improvements yourself, or if you prefer, you can find the right repairperson for the job online!

Finding the Right Settlement Agent

Selecting the right law firm or settlement agent is important because they can make the process virtually stress free or turn it into a nerve-racking experience that you'd sooner forget. Look for an attorney who has the technical savvy to assist you through the home buying process the way you want it to go. There are a small, but growing number of settlement attorneys that are online and that can do much of the paper pushing via e-mail or through their websites. E-mailing documents back and forth and submitting questions or requests for information online or via e-mail are just a few of the activities that can facilitate a smooth transition.

The real estate attorney's role in the process is fairly well hidden, that is until settlement day (or if a problem develops). However, the role of the attorney is a significant one, as they must thoroughly understand the law and local procedures for handling real property transactions. Further, they must actively follow the changes in real estate law to ensure compliance with these changes. Additionally, they should be able to guide you through the maze of documents prepared by the bank for your signature. They should resolve the potential problems (to the extent possible) that may affect your ability to settle on the property in a timely manner (title issues, liens, etc…) and they should be there to facilitate a stress-free transition between the buyer and the seller.

You can learn more about the settlement process and the fees associated with settlement at: http://www.stressfreesettlements.com

The Internet is a wonderful tool that can save you lots of time and effort and potentially a great deal of money by finding the right home and the best lender online. Ten years ago we had no such resource to access this type of information, so purchasing a home had the potential of being a much more stressful experience. Now, buying a home has become essentially a point-and-click purchase!

Selling Your Home

To get the most exposure for your Internet home listing, you still need to use a real-estate broker. That's because the sites that are most popular with homebuyers generally don't deal with individual homeowners. Instead, they have agreements to reproduce listings that are furnished to them by various real-estate agencies and multiple listing services (MLS), which are databases created by broker groups.

Of course, hiring a broker generally means paying a 6% commission. So if you go that route, make sure you get your money's worth. Check out the agency's Web site. Will your house be highlighted on the home page or featured in a virtual tour? Will it be listed on other sites like Realtor.com, which was visited by a whopping 4.5 million people in July 2002, according to Media Metrix. Make sure you'll get listings and pictures, too.

However, if you decide to go it alone, that can be done! Once you become your own agent, you'll be arranging advertising, fielding phone calls, providing tours and vetting the bidders. All this extra work should save you at least some of the 6% fee that brokers usually charge to sell a home. According to a 2002 NAR study, about 13% of all homes are sold each year without a realtor. These bold buyers and sellers save an average of $9,000 per transaction in commission costs. With knowledge, common sense and patience, you can sell your own home.

If you want to give it a go, the Web can obviously be an invaluable tool. Of those that focus on for-sale-by-owner (FSBO) market, Owners.com has the most extensive listings of properties. The site offers three different listing packages. There's no charge for one-month listing of your property with one photo, although your property will have the lowest priority in the search results. For that reason, you'll probably want to pay $289 for the three-month snazzier Premier package, which lets you write your own marketing slogan and usually includes a virtual tour of four panoramic shots. You'll also get some traditional marketing materials, like a yard sign. Even if you don't list with the site, Owners.com has a lot of educational resources and tips for effective marketing. So don't miss it.

Other sites for do-it-yourselfers include 4salebyowner.com and By Owner Sales. Many FSBO sites are noticeably less slick than their counterparts that have realtor dollars behind them, but you never know. You may just get lucky.

Company	Cost	What You Get	Duration of Listing
Owners.com	free trial	1 Listing	1 month
	$99	5 photos, yard sign	3 months
	$289	virtual tour, yard sign, open-house kit	3 months
4salebyowner.com	$19.95	dedicated page,1 photo	1 year
Buy It Yourself, Sell It Yourself	$59	dedicated page, 5 photos	1 year
By Owner Sales	$29.95	3,000 word description, 6 photos	1 month
	$69.95	3,000 word description, 6 photos	1 year

Regardless of whether or not you hire an agent, you should still use the Internet for help setting your sale price. Start at HomeGain.com, a site dedicated to home sellers that offers a handy home valuation tool. After you type in your address, it provides an instant valuation based on county tax information and assessor data. Most real estate sites, like Yahoo! Real Estate also offer a search tool for identifying recent sales in your area.

Of course, these tools can only help you approximate the perfect price. If you want a more thorough appraisal from a pro, go to the Web site of the Appraisal Institute. There you can look up the names of appraisers in your area. Once you've hired one, expect to pay about $250 to $500 for the job.

Investing in Online Real Estate Firms

Doing preliminary real-estate research is much easier and more efficient on the Internet than it used to be. The companies that provide these services online have added a great deal of value for Internet users, and they are now starting to provide positive value for their shareholders. This value proposition for investors should only accelerate over time. Homestore.com is just one of the companies that is thriving even in today's depressed economic environment.

How to Introduce an Online Auction Service in Real Estate

When introducing a new service in your market, such as an Online Real Estate Auction, it is an opportunity for your company and its agents to get attention from the press. Any Company that offers an innovative Internet service will find the local press interested. Press releases are the most effective and least expensive form of advertising and is one way to alert the media. It is well worth the cost of a professional to write success stories about your auctions.

You can also provide an *Auction Workshops for Sellers*. Explain how the auction works to sell their property faster, gets the true market value for their property and gives them more control over the selling time. Provide Workshops for buyers on *Bidding Strategies*, or "How to buy your a home on YOUR COMPANY NAME Online Auction."

Listings entered into the MLS and placed in Realtor.com should note that the "Property is Auctioned on www.yourcompanynamehomeauctions.com . If your MLS does not have a form for auctions, let them know the need for it. Many MLS companies are aware of the need to provide for the auctioned listings.

An auction sign placed on the property with your company sign is one of the most effective ways of generating interest in you auction. The auction sign is an important source for buyers and sellers. It will bring inquiries from curious neighbors who are potential sellers, and their friends that are potential buyers.

The saying that "a picture speaks louder than words" is especially true in an online auction. All the surveys show that buyers surfing the Internet for property think the picture is the most important part of a listing. The listing information should provide a brief description of the property, and up to five photographs. You may consider using a tour service, like IPIX at www.ipix.com for 360-degree pictures. Photographs that display your property at its best are crucial for attracting buyers to inspect the property. A rendering of the house or, a picture of a similar home is better than no picture.

An interesting phenomenon is that auctions attract buyers who would not ordinarily show any interest in the property with a for sale sign. It is sometimes curiosity and the lure of a bargain that attracts many of these buyers. In a slow market, the auction makes a market because it can attract buyers.

Email a copy of your auction listing to the members of your Association of Realtors. Invite them to a special open house where you will have information on registering their buyer and getting them approved to bid.

Start Your Own Online Real Estate Company

Since April of 1999, EscapeHomes has used information technology to match second home buyers and sellers with real estate professionals and affiliated segments of the second home industry. EscapeHomes has enjoyed a conversion rate of site visitors-to-agent leads that has soared 100 percent from 2000 to 2001. Real estate agent registrations increased 35 percent in 2002.

Thompson began his start-up with $100,000 from his personal savings and the company hasn't looked back since. Including vacation, resort or retirement homes, the second home market enjoyed a 10 percent jump in sales in 2000, after rising 9.3 percent from 1997 to 1999, according to the National Association of Realtors latest figures. That's largely because of the nation's 82 million so-called "baby boomers." 43 percent of boomers plan to move when they retire and 39 percent plan to move out of state.

As the first online operation with full-fledged services devoted to the second-home market, EscapeHomes is a natural vehicle for second home buyers. The Web site features listings of vacation and resort homes, retirement homes in active adult and continuing care communities, timeshares and fractionals, both for sale and for rent in 275 cities nationwide and 20 countries worldwide.

Visitors can search for properties by city, by town type -- beach, ski, golf, island, lake or world town -- or by category -- timeshare, resort or adult communities. The Web site also showcases destinations by describing the unique flavor of each of the more than 300 communities, the climate, local attractions, amenities and events for each.

People once traveled to cities where they thought they might buy a second home. As they walked down the street they'd walk into a real estate office. Our generation is no longer driving to San Diego or Phoenix or Miami. They are going to do it online, but they are going to do it with those same, once obscure, small real estate companies and agents who know the community.

Thompson who owns vacation homes in Palm Springs, CA, is taking EscapeHomes to the next level with co-branding, affiliate programs and distribution partnerships as he opens the doors to the first round of investors. EscapeHomes also plans to broaden the market niche into further recreational and vacation living, including vacation rentals and more retirement communities as the Web site continues to exhibit how a small niche isn't necessarily a small market.

Other Online Real Estate Niches

Take a look at the next chapter to get some great ideas for using your Real Estate knowledge to your advantage via the Internet. Some ideas include:

- Create a Real Estate Investment Coaching Program
- Create a Real Estate Seminar and market it via the Web
- Create a newsletter for Real Estate Agents
- Find affiliate products to sell to Real Estate agents, homebuyers, and/or home sellers
- Create a Real Estate marketing book or ebook

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Conclusion

Real-Estate is a great way to build wealth, residual income and increase your positive cash flow. And is a great way to get away from the linear-income lack of freedom.

Remember, what makes residual income so great is the fact that you only have to work once to set it up and then keep receiving it for a long period of time – sure beats working a 50 hour week right?

When you have residual income, you will have the freedom you need to do what you love – it could be work, volunteering or perhaps simply enjoying time with your family and hobbies.

That is something called financial freedom, and for those who achieve it it's a beautiful thing!

So here's to fanatical freedom, residual income and real-estate investing!