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CHAPTER 1

Real estate is the closest thing to the proverbial pot of gold.

—ADA LOUISE HUXTABLE

Real Estate Is Not Real Estate: It's Creative Finance

The week I wrote this section, I bought and sold four properties. I closed on two in a single day and had three under contract for the following week. I'm a full-time real estate investor.

My job and your job is to find a deal and put it under contract. Learn all the ways to make money: buying real estate, creative finance, flipping properties, lease-optioning real estate, mortgage brokering, and money brokering. Then choose which way you like the best and run with it. Real estate is unique in that you can get into it without using any of your own money.

Have you ever tried to get in the stock market and make money? It can work; however, you have to buy a stock at the price it sells for on the day you buy. Let's say the price of a company's stock is $100 a share. If you want to buy it, you have to pay $100 and pray it goes up. If it goes to $120 in a year, you've made $20 for every $100 you spent on that stock. That's a 20 percent return on your investment, which is a good return.

You must be able to take into account that, historically, the stock market has between about a 9 and 13 percent annualized return—an average of 11 percent over the past 40 or 50 years. So if you're making 11 percent or more, you're doing great in the stock market. Unfortunately, for many, their stocks have gone down 10, 20, even 30 percent in the past few years.

However, to buy that $100 stock, you have to give the bank or brokerage firm (or whoever makes the transaction for you) a commission, plus you have to determine where that $100 comes from. If you have excellent credit, the brokerage may lend you half of the $100 and you still have to put up $50 of your own cash. That's what some people do when they invest in the stock market. Considering commissions and borrowing expenses, how much are you really making on the appreciation of that stock?

I recommend you consider investing in real estate for a better, long-term investment because of the features that make it unique, some of which follow.

What Makes Real Estate Unique

If you're serious about your money and serious about investing, you'll consider all the advantages of real estate investing that don't exist in other forms of investing.

Contract Real Estate for Less Than Its Value

Houses worth $100,000 can actually be found for $75,000 or $80,000. Some real estate worth $1 million can be found for $700,000; other properties worth $450,000 can be found for $350,000. You can contract to buy a property and control it immediately, even though you haven't given the seller money for it yet. Then, between 30 and 100 days later, you go to the closing and give the seller the agreed-upon price. You borrow money to pay for the property, then close on it, and, voilà, you own it.

Make an Infinite Return on Investment

If you find a house worth $1 million for $500,000 and your credit isn't great, there are some lenders who would lend you $500,000 for a property worth $1 million. In fact, they'd hope you'd miss a payment so they could take over the $1 million property for $500,000.

These lenders are called *hard moneylenders* (see Chapter 5, "Avenues Leading to Motivated Sellers," for more details). They don't pay attention to your credit; they care about the asset, the property itself, when they make their lending decisions. If it's 60 to 75 percent loan to value (see accompanying explanation), they might lend the funds regardless of your credit. Some of the big banks and mortgage companies make loans to people who have been in bankruptcy, who have made late payments, who have bad credit, and so on. They may still lend you 60 to 80 percent of the sale price on these properties. That's why you can find a property worth $100,000 and get it for $75,000, then borrow that $75,000 without putting your own money into the property. You rent the property for $1,000 a month, and your payment on the $75,000 you borrowed is $700 a month. After all of the expenses—taxes, insurance, vacancies, repairs, and overhead—you make some cash each month. Let's say you make $100 profit a month from the rent after paying all of the expenses. You've still invested zero in the property. Your return is infinite: $*X* for $0 invested.

Do you realize that this *wouldn't* work if you were buying stocks or gold or any other investment? With real estate, you potentially have an infinite

Loan to Value

Loan to value **is a term used by real estate investors and lenders to indicate the ratio of debt or borrowed money compared to the value of a property.**

If the house is worth $200,000 and the loan or mortgage is $200,000, then there is a 100 percent loan to value. Many conventional or regular lenders will lend 80 to 100 percent loan to value to home buyers who are going to live in the home. These are called *owner-occupied loans* since the loan is to someone who is going to live in the home. An *investor loan* is a loan to someone who is not going to live in the property. These loans are typically 65 to 85 percent loan to value. However, there are some 90 to 100 percent loan-to-value loans for investors.

All loans depend on three things: *collateral,* the value and type of asset or property; *credit,* the credit history of the borrower; and *income,* or the borrower's ability to repay the loan.

return on your investment. If you make only $1 because of unforeseen circumstances, your turnaround investment is still infinite because none of your own money is invested.

Real Estate Appreciates

Stocks certainly don't appreciate every year, especially if they're affected by an accounting scandal such as those experienced by Enron or MCI WorldCom in 2001–2002. Stocks can go from $80 a share down to $1 a share or less while, in most areas, real estate appreciates from 4 to 6 percent a year. It goes up even more in certain hot markets. Investing in real estate can bring you the greatest gains in your life if you can hang in there and stick it out. Think about what real estate in

THINK ABOUT IT

You make most of your money in real estate when you find, contract, and/or buy the property. When you find and contract a house worth $380,000 today for $310,000 from a motivated seller, then you have a locked-in profit of $70,000 (i.e., $380,000 – $310,000 = $70,000). You can sell it or keep it and hope it appreciates in value even more. Some skeptics say you can't find houses for 15 to 30 percent below what they are worth today. They are right—*they* can't because they are skeptical. Those who go out and search do find great deals. Hundreds of my students are finding them all of the time in all types of markets. It just takes time, persistent effort, and know-how. That's why you're reading this book.

your own community was selling for 15 years ago compared with now . . . and imagine what it will sell for 15 years from now. Of course, sometimes real estate goes down, or depreciates, but over time it generally appreciates in value if you buy it at *15 to 30* percent below what it's worth today. This should protect you from a down market in most cases. Besides, if you don't want to be tied down in a market, you can wholesale and lease-option real estate and avoid most of the risk of owning while still making a profit.

Any time is a good time to get into real estate because it's always been effective, producing results that can lead to great wealth.

Real Estate Investing Comes with Tax Advantages

If you buy a stock, make a profit, and sell that stock, you'll likely pay a capital gains tax on that profit. People say, "I don't want to do this real estate deal because if I sell the property, I'm going to make a lot of money and pay a lot in taxes, so I'm not going to do real estate." I have a different point of view.

One of my goals is to write the IRS a check for $5 million. I love to pay taxes because if I pay $5 million, that means I made $12 million and get to keep $7 million. If I send the IRS $100,000, that means I made $300,000 and kept $200,000. Real estate carries some distinct tax advantages (which are discussed in Chapter 3, "Wholesaling and Flipping"). In many cases, you can sell real estate without paying any taxes. You can buy and sell in a self-directed individual retirement account (IRA) or do a 1031 tax-free exchange if conditions permit.

Operate as a Business

You've just started a business investing in real estate. You're driving your car to look for properties, talking on the phone, and maybe taking trips related to your business. All of that adds up to expenses that can be taken as tax write-offs on your income tax return.

I recommend that you check with a knowledgeable accountant about write-offs in your situation. Owning and operating a business comes with specific tax advantages. For example, now that you're actively trying to make a profit in real estate, you can buy a computer and a copy machine for your business (plus phones, business-related gasoline for your car, etc.) and write off some or all of these expenses.

Do you like having gifts from the government? Suppose you make a good start in real estate and study all of these materials and then say, "I see how to make money in real estate; I understand all the credit finance techniques. But it's not for me. I don't want to make all that money." Congratulations, you're still going to make an incredible return on the time you invest learning about real estate investing, because if you buy your own home for even 15 percent below what it's worth—say you get

Robert's Tip

For the last 10 years, I've owned my own homes and moved every two years. Do I think it's exciting to pack everything I own, hold a garage sale, then go to garage sales in a new city to buy more stuff that I'll sell at a garage sale two years from now? No, but I move almost every two years because it's tax-free money.

a $500,000 home for $450,000—five years from now, you might be able to sell it for $700,000 and make $250,000 profit. How much tax would you likely pay on the sale of that house if it's your own home and you're married? Zero. That's because if you're married, you get a $500,000 exemption if you've owned the home for two years. In addition, you can get that exemption every two years. So every two years, you can buy your own home, sell it, make a lot of money, and likely pay no taxes.

Rental Property or Investment Property

Say you've had a small apartment building or 10 houses worth $300,000 each for 15 years that you bought for $3 million. About 15 years later, the worth doubled and you can make $3 million if you sell. You'd have to pay capital gains tax—about 20 percent depending on your tax bracket—on your $3 million in profit. That adds up to

The Best Real Estate Tax Deal for You

You can make up to $250,000 in tax-free profit on the sale of your own home if you are single, and you can make $500,000 if you are married and file jointly. However, you must live in the house for at least two of the past five years as your principal residence. Every two years or so, you can do the best tax-free real estate deal going.

Suppose you bought your house three years ago for $300,000 and now you sell it for $500,000. Your profit would be $200,000 because you bought it at the right price and it appreciated. That $200,000 is tax-free money to you. You can now find another good deal, live in that house for two years, and make more tax-free money when you sell it!

$600,000 in taxes, and you may have to recapture and pay taxes on some or all of the depreciation you took.

It's worthwhile getting information so you don't have to pay that, including finding out about doing a 1031 tax-free exchange. This tax exemption is available for investment property owners when you sell a property and buy a similar one for more than the amount of the first one. (The sale must take place within a certain time period.) Be sure to work with a qualified tax advisor who knows all the rules and regulations in your state. Chances are, you'll pay zero in taxes again.

Steps to Tax-Free Earnings

Your Own Home

- **Bought in 1997 for $300,000**
- **Retail value of $370,000**
- **Sold in 2003 for $570,000**
- **You make $570,000 – $300,000 = $270,000 tax-free profit (if you qualify)**

Investment Property Using 1031 Exchange

- **First investment $40,000 in 1990**
- **Tax-free exchange—sold for $80,000 in 1994**
- **Found house worth $100,000, bought it for $80,000 in 1994**
- **Sold house for $100,000 in 1996**
- **Did a 1031 tax-free exchange for a house worth $150,000, bought for $100,000**
- **Sold house for $250,000 cash in 1999**
- **Used cash as a down payment on an apartment building worth $1 million, doing a 1031 tax-free exchange; owner has not paid any taxes on these properties**

Example of 1031 Exchanges

One of my students bought a tiny house for $40,000 about 10 years ago, sold it for $80,000, and exchanged it into a $100,000 house. She found this $100,000 house for $80,000, then exchanged it for a $150,000 house that she purchased for $100,000. Now she's investing in apartment buildings that cost more than $1 million. She had paid zero in taxes because she kept exchanging, exchanging, and exchanging. With documentation in hand, she went to the bank or mortgage company and asked, "This apartment building is worth $1 million; would you lend us $700,000?" She borrows the funds and, again, pays zero in taxes, because, in general, borrowed funds are not taxed.

How I Got Started by Accident

Ten years ago, I had no desire to have a career in real estate. I was employed with a top financial consulting firm at the time. Then one day I met an older guy in Nashville, Tennessee. He was in his late sixties and he'd started buying little houses without using any of his own money. He would fix them up and rent them out. He had a junky old office, drove a beat-up old pickup truck, and dressed in torn overalls. Both he and his wife were lovely people but I almost walked out that day because I thought he had no money and wouldn't meet the financial requirements for working with our investment firm.

When I asked what he and his wife did for a living, he opened his old accounting book and said, "I've got about 120 houses paid for. I make about $60,000 a month and I take six months' vacation a year." He then asked me, "Robert, tell me, how's your job?"

At that time, I thought my job was pretty good. Yet even though the company handbook said we were supposed to have three weeks of vacation, those who took even one week of vacation were fired. That's when I suddenly realized that if *this* guy can make such good money in real estate investing, maybe I could, too.

This gentleman who got me started didn't understand wholesaling or lease optioning; over the previous 20 years, he had learned about buying and renting and buying fixer-uppers to sell—only a few of the many tools available to investors. Yet I could quickly calculate that owning 120 paid-for houses in my city (or any city, for that matter) meant that he was worth somewhere between $8 million and $15 million. I quickly realized I was speaking with a very wealthy man.

So I took the plunge. I interviewed other investors and thought maybe if I could do 20 percent as well as they did, I would be okay. For one whole year, I looked around, made plans, read a lot, talked to people, and looked at hundreds of houses. I made no money in the first year—I was still thinking about it, planning to do something, and I was stressed out and worried. Then I finally bought a duplex. I put it under contract and, because I didn't have any money or credit at the time, borrowed all the money for it. Ironically, I couldn't find the house I had just purchased! I closed on the house on a Tuesday afternoon and spent Wednesday, Thursday, and Friday driving around. I still couldn't find it. I can't read maps. I have no sense of direction. Finally I called the broker and said, "Could you please show me the property I just bought?"

That was the beginning. I started with a single duplex, then 5 duplexes, then 12 duplexes, and I quit my job about a year after my first purchase. I had $300 a month net coming in on each duplex I bought—$3,600 a month tax-free because, with my own business in real estate and owning rental property, I had many tax deductions, as you will. I was 29 years old and making $3,600 a month tax-free, and I had very little to do. I traveled, worked out, and went out a lot.

Then I decided if that approach works for 12 duplexes, I wanted to own 20 or more. I actually purchased about 200 properties. After three years, I learned how to wholesale, how to lease option, how to fix up and sell. When it's all added up, I've been involved in about 750 real estate transactions over the last decade.

THINK ABOUT IT

Some people spend most of their time thinking about what they *can't* do or what won't work. Some people, perhaps you, think about how they *can* do something. In my early years of investing, most people told me I couldn't buy any property or own my first duplex because I had no credit. Instead of listening to them, I found a cosigner who had great credit to partner with. I found the deals and my cosigner signed the loans with me so I could borrow the money I needed. Word of caution: Make sure you've found a *good deal* before you commit your credit or especially someone else's credit to a real estate deal. What have you accomplished in the past that people told you that you could not? How did it feel when you accomplished it?

12 Ways to Get Property without Using Your Own Money

There are various ways to acquire property even if you have no money.

1. Partner with People

Find people who have what you don't have—a lot of money and a lot of credit and very large cushions. Draw up a business plan that says, for example, together we're going to buy 100 houses over the next five years. You have the energy and the expertise to find good deals and

A Shining Example

Hugh is a 23-year-old, bright, ambitious young man. He read my books, bought my home study course, and attended a workshop that I give a couple of times a year. In the courses, I talk about finding money to invest in properties that doesn't come from banks or mortgage companies. As a matter of fact, Hugh, like many people, was having trouble getting good loans from banks or mortgage companies. Instead of quitting or letting his attitude turn negative, he used the techniques in this book to raise money from private individuals. In less than six weeks, he gained access to more than $1.2 million in cash from private lenders. Way to go, Hugh!

Follow in Hugh's footsteps and attend an upcoming seminar with Robert Shemin to learn about real estate investing. Call 888-302-8018 to get the full details.

manage them, and your partner might be a busy doctor, a lawyer, an accountant, or a retired executive who has a lot of money but is making only 3 to 5 percent return in decent years on his or her investments. These professionals would like to make 11 or 12 percent and reap some tax advantages and appreciation to bring their actual return to 15, 20, or 30 percent. However, don't tell them that because it could scare them. When you start promising people returns of more than 15 percent, they get nervous.

Draw up a plan to buy a house that's worth $200,000, which you can get for $180,000. Your partner goes down to the bank and signs a few papers. The bank loves to lend money to people with good credit who have secure jobs and a financial cushion—unlike a lot of self-employed people like us. So have your partner borrow the funds to purchase the house. Whose name is on the title of the house? Your partner's name or the name of your corporation or trust. Together, you determine what percentage of the house you each own: 50-50, 70-30, or whatever you agree on. Agree that you make all the decisions about renting and managing and making repairs, while your partner's name is on the loan papers.

Your partner would get some tax advantages for being in rental real estate—up to $25,000 a year write-off for the depreciation against regular income. (Do consult with your accountant and your partner's accountant to find out all of the advantages.) As the managing partner, you get all the control.

Five years down the road, if a house needs major repairs, your financially strong, deep-pocketed partner borrows another $10,000 (or takes another $10,000 out of a bank account or retirement or savings) to fix up the house. Then, another 10 years down the road, properties that were worth $20 million are now worth $28 million because property value has gone up and the debt has gone down—from $18 million to $15 million. You sell the houses you bought together and split the profits according to the percentage arrangement you made earlier. All the debt is paid off and your financial partner does well. You're both happy and you're both better off. Your partner has the money, and you have the expertise, time, and energy.

I know of at least 20 investors in the United States who own more than 200 properties, and their names are not on one bank loan or deed. They have zero liability for lawsuits because they have zero liability on the debt. They have recruited strong, informed partners who have clear written agreements and who understand that there might be a bad month or two. Partnering is one of the best ways to buy property, so find a good financial partner.

2. Wholesale Properties

This is when you find a property, put it under contract, wholesale it, flip it, get paid for finding good deals, and don't use any of your own money.

Let's take that a step further. If you definitely want to own property, why not wholesale or flip properties until you have enough cash to buy them? People love to spend their money to start to make money. Here's a radical concept: Let your revenues lead your expenses. If you want to get an office for $3,000, make $8,000 and then spend the $3,000. If you want to buy a $50,000 house, make $75,000 and buy the house for $50,000. If you want to buy a car for $20,000, flip five properties and pay cash for the car. If you want to buy five houses, find ten good deals, flip five, and buy five with the money you made wholesaling to put down payments on them. You can actually wholesale or work your way into owning property. That's one of the best ways to use other people's money. (See Chapter 3.)

3. Lease-Option Properties

Instead of borrowing money, lease the property with an option to buy. (See Chapter 4, "Lease Optioning.") For some reason, everyone wants to borrow money, get a 20- or 30-year loan, and be on the hook for the debt when they could lease-option it. If you borrowed the $100,000 to buy a house and everything changes in three years, or you simply don't like it—you want to move to another state, you win the lottery, you want to retire—then you're in debt for 20 or 30 years and could be forced to sell it when it's not the best time to sell. But if you lease-option it, you can simply give the property back to the owner.

You have the *option* to buy it, not the *obligation,* and you can give it back, just as you do when you lease-option a car. In three years, if you want another car, instead of having to sell the lease-optioned car to pay off your debt, you just give it back. If it's not scratched up and if you haven't driven too many miles, you don't owe any more money. Now you can buy the new model that you didn't even know existed when you lease-optioned. Why obligate yourself to things that have no flexibility?

4. Owner's Terms

The other way people buy cars or houses is by borrowing the money from a bank, a finance company, or a leasing company. And they're tough. They make you fill out all these papers; they check your credit; your "round peg" has to fit exactly right in their "square hole." Sometimes it's difficult because maybe you had some pitfalls in life, or you didn't plan ahead, or you didn't keep financial controls well enough and your credit is not perfect. Maybe you can't borrow the money, or maybe you can borrow it but only at a high interest rate. Through a lease option, the seller becomes your bank. (See Chapter 4, "Ways to Source Funds" for details on how to work with owner's terms.)

5. Sell Some Assets

You can always generate cash by selling $10,000 to $150,000 of your assets (though you're probably looking for more creative ways). (See Chapter 4 for details on how to work with owner's terms.)

6. Should You Borrow from Credit Cards?

If someone says you need $20,000 down on a house to buy it and you don't have $20,000, where do you get it? Borrow—from equity lines, relatives, friends, enemies. If you borrow the down payment, none of your own money is in the property.

There's another source that I'm not recommending but that a lot of investors have used successfully: credit cards. At one time, I had over $180,000 of debt available on my credit cards, and the interest rate on most of them was 7 or 8 percent—those first six-months or one-year introductory rates. However, a rational economic person borrows as much as he or she can at the lowest rate interest for as long as possible. If you can find these deals and make 20 percent on your money or an infinite return on your money, what would you, as a rational decision maker, do?

Why Don't People Borrow Money?

One reason is they don't have a system to use it efficiently and control it. Underline the word *control.* Every Friday, you want to know what's coming in and what's going out, in both your business life and your personal life. Doing that will save you a massive headache, a nightmare, because one of the major reasons most businesses go under is lack of controls. Of course, that would never happen to you or little companies like Enron, MCI, airline companies, correct? Isn't that amazing? Billion-dollar companies all of a sudden say, "Last year we didn't make $8 billion; we lost $3 million. Somebody made a mistake." Doesn't that make you feel better about not being able to balance your bank account? Control your cash flow, and every Friday look at what came in and what went out.

7. Trade Services

Let's say someone needs $5,000 cash down and you don't want to pay that (because you're reading this book about how to buy property without using your own money). You could trade services for that down payment. I'm not kidding. I've had students baby-sit, wash cars, paint, repair computers, do yard work, consult—whatever they could do. They'd trade their services for a down payment. It's another way to be creative with money.

8. Find Something in the Property to Sell

This is one of my favorite ways to buy property without using your own money.

Let's say you found a good deal on a house that has an extra lot. You have a contract to control the house and lot, and you're going to close on it in 90 or 120 days (according to the contracts that you've learned how to negotiate in Chapter 7, "Negotiating Deals and Making Offers"). During that 90-day period, you find a buyer for the lot. The seller wants $10,000 down, you sell the lot for $12,000, and you do a simultaneous closing. The buyer shows up with $12,000 to buy the lot, the lawyer sells the lot, takes the money, and puts it down on the property.

Let me give you another example. A man I know had no cash and no credit, but he found a good deal on 2,000 acres. However, to buy it he needed a $100,000 down payment. Would you put a property under contract when the sellers want $100,000 and you have about $22 in the bank? Knowledge is power, and he knew about timber rights. He sold the timber rights for $175,000, which took about 45 days. That way, he got the $175,000, put $75,000 in his pocket, and used the rest for the down payment on the land. Then he started selling pieces of the land.

Let me tell you the two best businesses in the world: Buy whiskey by the bottle and sell it by the shot; buy land by the acre and sell it by the lot. In Las Vegas, they've figured out the first one very well. They buy a bottle of whiskey for $12 and sell you a shot for $4. There are 30 shots in a bottle. Similarly, you can buy a big chunk of land for $100,000 and carve out lots worth perhaps $20,000 each. Maybe there are 20 lots on that land. You divide up the property, sell the lots, then use those funds to buy more property without using your own money.

I'm from the South, and in Tennessee and Kentucky, a lot of land has valuable woods that people like to use for carving. I've had students take this information, buy five acres, sell the rights to get this rare wood, and then make tens of thousands of dollars and use that as their down payment. I've had people buy land with ginseng or other herbs. Please understand

How Do You Sell Something You Don't Own?

You've analyzed the property, done your research, talked to people, and have a lot of information. This land is valuable; it's worth more because it has something valuable on it like timber rights or ginseng. You know you can subdivide it and sell it. You did your research; you have a signed contract; you control the property. Now write another contract saying, "Contingent upon my being able to pass good title (as you learned in the section on contracts), you will buy the timber rights for $100,000 and we'll close in the next 90 days." You hand it all to the attorney, and the attorney arranges the simultaneous closings. (See more details about contracts in Chapter 8, "Dealing with Contracts.")

that marijuana is illegal; don't buy property with the idea of selling something illegal. Think about the other assets in that land that you can sell.

You control the property or option the property through contracts. "I option to buy your property for $10,000 down and, for the rest, owner's terms." Then you have the option to buy it, and that's when you sell the timber rights, the land, the old car that was left at a deceased person's home, the furniture remaining there, and so on.

9. Flip Multiple Properties

You already understand wholesaling. It is one of the best ways to make money in real estate without using your own money. Even better is flipping multiple properties. Instead of flipping a single house, you can flip five at a time. Say you find an old landlord or landlady who has five houses and will sell you all five, but wants $10,000 down on each. That's $50,000. You put all five under contract for 100 days or 90 days and you flip two of them to someone else for cash using our wholesaling methods.

Let's say two of the houses are worth $300,000 and you've got them under contract for $220,000. You flip each of them for $260,000, making $40,000 profit on each of the houses. You go to a simultaneous closing, the lawyer sells the houses, and you make an $80,000 profit at the closing table. The lawyer uses $50,000 of that $80,000 for your down payment on all five homes.

10. Create a Note and Sell It

This is an advanced technique for buying property without your own money.

Say you find a seller who wants to sell a house. It's worth $300,000 but the seller needs $220,000 cash. You don't have the $220,000 cash; you can't borrow it; you've done all the negotiating you can; the seller's bottom line is $220,000 cash. You can get the cash by creating a note and selling it. (In Chapter 11, "Borrowing When You Have Bad Credit," you'll learn how to broker notes, which is basically what you're doing, but now you're brokering your own note.)

Work with your note buyers to structure the deal. They'll tell you the numbers to put in, the interest rate and the term, to net out the $220,000 cash. Say you write a note for $280,000 at 10 percent interest for 20 years. Depending on the credit rating and market conditions, you might find a note buyer who would purchase that note for $220,000. He or she would be buying it at a discount. The seller gets the cash. However, in this example, that wouldn't be a good deal because you borrowed $280,000 on a $300,000 house; even so, it is a way to control the property without using your own money. Create a note, sell the note. You can sell all of the note or part of the note to get the cash the seller needs. If the numbers are right, you could get into a good deal without using your own money.

11. Make Full-Price Offers

Would you like to be able to make full-price offers on houses in hot real estate markets and not use a penny of your own money? You can get more real estate by making full-price offers, which is the reverse of everything we've been talking about. Use none of your own money to buy these houses. This is a highly advanced technique. Very few people in the United States are doing it or know about it. It won't work every time, but it works some of the time.

This technique works only on houses or property with low mortgage balances. If the house is worth $500,000 and the mortgage is $400,000, it probably will not work. You need access to amortization schedules. They're available on my web site at Shemin.com, where you'll find a finance calculator and mortgage calculator. Work the amortizations to see what your payment will be, what the debt payment will be, and what the other property's payment will be.

Try a zero-interest loan, which is another way of saying *free money.* You could call this the "free money loan." You go to a rental-property owner who has a low- or no-mortgage balance on a house. Let's say it's $300,000 and the property will rent for at least $3,000 a month. You always want more coming in than going out, so do your homework. First, try to negotiate a lower price with the owners. However, they won't negotiate; it's worth $300,000 and they want $300,000.

Most investors would walk away from this deal but you have so many tools that you never have to walk away. Every time they say no, you just ask more questions and come up with another option. You'd say, "I'll pay you $300,000 in full. I'll pay you $1,000 a month for 300 months." What if they say no to that, even though $1,000 a month for 300 months is $300,000? They may say they need more money than that each month. You counter with, "I'll pay you $3,000 a month for 100 months." Some people just want the monthly income to pay off some debt, get out of the debt, move on—they want some cash.

Remind them that on investment property, if they take the whole $300,000 in cash, they have to pay taxes on the gain, unless they know about a 1031 tax-free exchange. If they sell the investment property they've had for 20 years for $300,000 and the base is zero (or the loan is paid off), they're probably going to pay 20 percent tax on it, or $60,000. I suggest always turning everything into a question. Ask, "How would you like to save $60,000 in taxes?"

In today's market, that's not a bad deal for the seller, because the seller who takes that $300,000 is going to pay tax on it. You take away $60,000, leaving only $240,000, which the seller can put in a mutual fund or CD. Because banks are paying 1 to 3 percent interest rates, your seller is not losing that much.

You need to understand real estate finance and present values. The present value of $300,000 today with no interest is pennies on the dollar. You are buying that house for about 30 to 40 cents on the dollar, or

A Way to Defer Taxes

A 1031 tax-free exchange is basically deferred tax, but it can end up being no tax at all. When you die, your estate gets the property at the marked-up value and there's no tax due, so basically you keep exchanging your way into oblivion until you die. On tax-free exchanges, you make money by borrowing to buy more expensive property. You buy it, and later you refinance it, pull your money out, put it in your pocket, and pay no taxes. But if you sell all your property before you die and don't do another 1031 exchange, then you must pay the tax based on the last property.

Anytime you can defer taxes for a year (or two or five), think about how much money you're saving because you can use those funds to make money. Would you rather have $30,000 in your pocket or in the IRS's pocket? This year, next year, or the next? Most investors sell their property, pay taxes, wait a month to buy another one, sell that property, and pay taxes on that one. If they had exchanged it, they would have had much more money in their pocket to put to use.

approximately $120,000 in today's money. The most powerful wonder of the world is the time value of money. Would you rather have $1,000 today or 50 years ago? Consider that $300,000 in 300 months from now is only about $100,000 today. So you are really buying the house for $100,000.

If you get nothing else from this book, learn this concept. Have the paperwork drawn up so you can just fill in the blanks, and go around to 200 potential sellers who have low mortgage balances, and you could probably get some deals. If you do nothing but focus on this one creative finance technique for 10 hours a week during the next six months, you will probably find one deal. What if it is just your own home? If it is only one house for $200,000, five years from now you would probably make well over $100,000 in net worth equity.

Make sure the sellers understand what they're doing. Have the closing attorney do an amortization schedule, because if there's debt on the property, *your* debt may go down faster than *their* debt. In 10 years, if they had a big debt on the property, and if you've paid down all your debt to zero and they still have $50,000 debt and you're ready to sell it or refinance it, they'd have to come to closing with cash. The sellers and you both need to understand that this doesn't work for property with high debt on it. So run the amortization schedules. Have your mortgage banker, your attorney, or yourself get on the Internet and confirm that their debt, if any, is going to go down as your debt is going down.

You're not going to trick people or hide it; if this solution meets their needs, they may go for it. Show them how much money they're saving on taxes. They're probably better off. Because of the opportunity cost of money, they're only going to get 3 or 4 percent return on their money.

People don't generally make 20 percent on their money the way they did that year when tech stocks went through the roof. Again, they don't have $300,000 to invest; they have only $240,000 after taxes, so it isn't as bad for them as it sounds and if it meets their needs, you might want to go for it.

At some point when the property is paid down, it would be sold for a big profit. This is very important: In our business, when do we always prefer

What about Taxes on a Full-Price Offer?

If you make a full-price offer on a house and it's accepted, how much do the sellers have to pay in taxes? If the sellers have lived in the house for the previous two years and it qualifies for the exemption (i.e., you can sell your own home and make up to $250,000 tax-free profit if you're single or $500,000 tax-free profit if you're married), they will probably not pay taxes. If it's an investment property and it's been less than a year, they have to pay their income tax plus the self-employment tax. If they've had it more than a year with the intention of holding it, then they're going to pay capital gains tax, which right now is about 20 percent. If they do a 1031 tax-free exchange, they may not have to pay any tax if they structure the transaction properly.

If they do an installment sale, which is 0 percent financing (at $200,000, you pay them $1,000 for 200 months), they pay tax only as they get the cash, so you've drawn out their tax bill. Instead of paying it this year, you've elongated it to the length of the payment cycle. How much tax they pay also depends on their tax basis in the property. Understand the fundamentals with owner's terms installment sales. Ask what their tax basis is, how much tax they would have to pay, and whether they would like to avoid paying all that this year by spreading it out. Explain how that's basically paying less because of the time value of money.

to make a profit? *Today.* We don't want to delay profits for 5 or 20 years. Everything we do must be profitable today.

It's hard to find property, especially in the higher end, that you purchase for full price and rent out for more. There is a curve. A $100,000 house might rent for $1,200. A $150,000 house might rent for $1,600. A $200,000 house might rent for $2,000. But an $800,000 house isn't going to rent for $8,000, or eight times what the $100,000 rented for. There's a curve. If it's structured right, you make a profit every month.

When the debt is paid down, or as it's being paid down, you can sell it. The way you make a big profit is to sell it. And when you sell a property you never want to do owner's terms—you always want cash. You could refinance it and pay down the $300,000 to $150,000. You could go to the bank and borrow $200,000 or $250,000.

When do you make money in real estate, really? You may make a little bit of money each month when you rent it. You may have tax advantages, depreciations, appreciation, but that's equity. You *really* make money in real estate when you sell it or refinance it. Therefore, sell your property quickly. Flip it. Wholesale everything. Why delay the selling? Why delay making the profit?

It can also be advantageous to hold property and build up net worth for the long term, depending on your plan, your needs, your desires. You should refinance your property all the time, because you want your money to work for you. I usually refinance mine every three years. When your money is sitting in equity it's building up, and if your goal is equity buildup and you don't need that money to live on today, this approach might fit your plan.

Most people sacrifice, struggle, and struggle some more to build up a nice net worth, and when they die, their children are very happy. My neighbor's mother's husband bought real estate for 30 years: bought it, fought with the tenants, struggled, bought property, and bought more property. Every evening they'd fight at the dinner table. She'd be yelling, "Why do you have this property? It's driving you crazy; it's stressing you out; we don't have any free time; we can't travel; you're dealing with the tenants, the property. I hate you, I hate real estate, I hate rental property, I hate your tenants." It was a big problem for 20 or 30 years. Then he died. Now every day his wife says she loves real estate. She sold all the properties and took the profit.

Think about where the profit is, where the money is, and when you are going to take it. Consider two ways to take it: selling or refinancing.

12. Borrow All the Money

Notice that I didn't put borrowing as the first option; I put it as the last one. Who do you borrow the money from? Banks and mortgage companies. If you have good credit, these days you can get 100 percent loan to value—100 percent. You do an 80 percent first mortgage and a 20 percent second mortgage. If you don't have good credit, you can find someone with good credit for a partner, but the deal has to be good enough so the numbers work.

You may want to buy property, but you have bad credit. Even if your credit is bad, if you are buying your own home and possibly even investment property, a mortgage company may still give you a loan—but at a much lower loan to value. Let's say the house is worth $100,000. If your credit is good or perfect, a mortgage company might lend you $90,000, $95,000, or $100,000—in other words, 90, 95, or 100 percent loan to value. Those kinds of loans are available now. If you know the people at your local bank, they, too, may offer you favorable terms.

All federally chartered banks have to lend money in low- to moderate-income neighborhoods because of the Community Reinvestment Act (CRA). See if any of your loans fall under CRA rules, and you may receive better terms—or at least loans—because you're rehabilitating properties in low- to moderate-income neighborhoods. Also, if you are a woman, a minority, or someone who is helping low- to moderate-income people, you may want to call the Small Business Administration and your local chamber of commerce to see if they have any special loans or grants available to help you start your own business.