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Real Estate Investing Made Simple

An Introduction to Real Estate

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Real Estate Investing Made Simple:

An Introduction to Real Estate

Buckaru Publishing

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BUCKARU
INVESTMENTS
LARRY YAKIWCZUK
B.M.Sc., B.Sc., B.Sc.(HONORS), M.Sc., M.Eng., M.B.A.
larry@buckaru.com
www.buckaru.com
Tel: 855-BUCKARU
Fax: 855-282-5278


invest@buckaru.com
www.buckaru.com
"our liquid Investments will pay you monthly, and give you returns of at least 1% per month, with NO long term commitments"
I am the founder of Buckaru Investments and have 6 University degrees, 35 years real - estate investing experience, 20 years experience trading derivatives, and have been financially free for 15 years. My proprietary investing strategies allow our investors to achieve significant returns, on a consistent basis, regardless of the current market conditions.
Our Mission is to educate the small investor and help them achieve their financial goals!!

CHAPTER 1 - Introduction

In this book, we'll show you all the elements needed for real estate. First, you need to separate the truths from the myths so you have a clear understanding of the subject before you start to jump onto the boat. Of course, it's unlikely that you can succeed in this business all by yourself. That's why we'll also explain to you who you should partner up with.

In the advanced topics, we'll show you more complicated concepts in real estate investment as you're ready to take your investment to the next level. For instance, we will show you the many different ways to make money in real estate.

Once your property is ready to rent, we will show you how to find good tenants. But remember, during your tenant selection, you are obliged to follow any fair housing regulations in your area, which are set to avoid any discrimination. When you finally find someone good to rent your property, you will need to know different aspects and pitfalls in the renting process.

And the most interesting topic of all, we'll show you how you can invest in real estate without your own money!

As you can see, real estate investment is more than just buy-and-hold; there are a lot more strategies available. But of course, more options also come with more potential for pitfalls. So, after finishing the book, you'll have the knowledge to devise an investment pathway that suits your own needs and preferences.

CHAPTER 2 – 10 Myths about Real Estate

When you start investing in real estate as a beginner, you will hear different options and advice from many people around you. But how do you know which ones are trustworthy, and which ones are misleading?

One of the things you should always ask someone giving you advice is what their experience is; have they actually done investment before or are they just reciting propaganda and being an arm chair quarterback? The old saying that comes to mind is "Those who cannot do; teach." To decide for yourself if we know what we are talking about, please read the "About the Author" pages later in this book. Then decide for yourself if we know what we are talking about.

In order to make informed decisions with real estate investment, you need to differentiate truths from myths. Here are some of the myths that you need to take heed, and the real Truth behind them.

Myth #1: Real Estate is a short cut to becoming rich

Despite the major global financial crises, when you look at the housing market throughout recent history, the price trend has been either skyrocketing or has been able to quickly and tremendously recover from a market correction. In fact, you may even have friends in your circle who have already made a fortune in real estate. So, it's tempting for you to think that you can make big money quickly with real estate investment. This makes you feel you need to jump into the real estate game quickly, or else you'll miss out.

Indeed, some real estate investors do make lots of money quickly, but essentially what they're doing is house-flipping, or what we call real estate speculation, not real estate investing. Those people are basically lucky risk takers who play very risky speculation games based on short-term market conditions and trends, and get lucky with their gaming. They aren't truly educated or have any specialized real estate knowledge and make irrational decisions without economics fundamentals in mind.

But of course, you can also make money in real estate without taking any risky actions. There are many low risk methods, but they require your patience and a long-term horizon; you need to start building your wealth with one property at a time, and grow slowly and steadily over time. Real estate is NOT a get rich quick scheme; it is a get rich slow system. That's the principle behind this book.

Myth #2: Investing in real estate is very risky

While some people are eager to get their hands on real estate, you have others at the opposite end of spectrum who stay away from real estate. They want to avoid it at all cost because they think it's too risky. What they fail to realize is that their fear and avoidance actually come from their observation of investors who have the wrong mentality, the wrong strategies, and have lost money by speculating with real estate based on the wrong market trend. So, if you only focus on property appreciation and hope to make quick buck by doing a flip, then you're making real estate investment risky.

Now let's compare real estate with other types of investment and put risk in perspective.

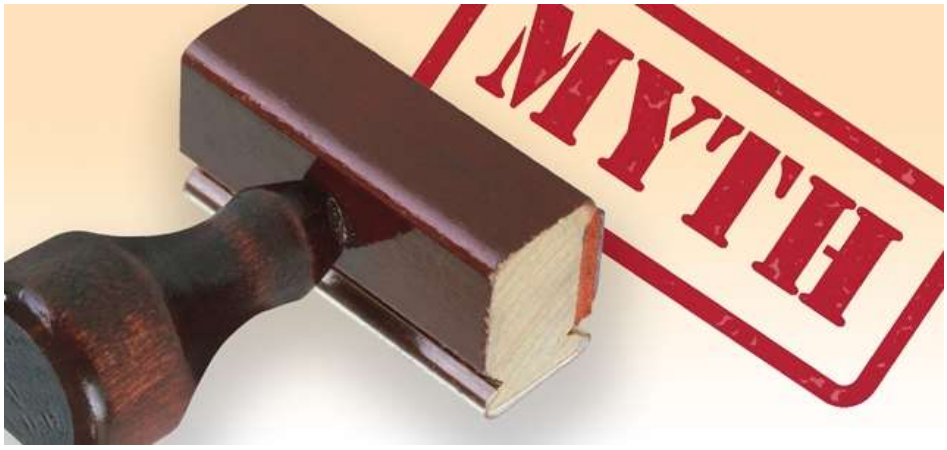
In my opinion Investing with term deposits and other guaranteed investments is the risky move. Your average term deposit will only bring a minimal return of less than a couple of percent a year. When inflation is currently going at 3%-4% a year you are actually losing ground by using these products as an investment.

When you put your savings in mutual funds, not only will their values go down along with the stock market, they also have mandatory management fees. Does this potential downside make mutual funds any safer than real estate? By law mutual funds have to stay fully invested in the products mentioned in their prospectus, even if the market is falling. They cannot go to a cash position in order to prevent losses. So in reality the mutual fund is designed to absorb losses of the stock market. Also, remember most mutual fund fees are actually hidden,

and include things like, front loads, back loads, management expense ratios, account fees and so on. It has been estimated that your total fees on mutual funds can be as much as 6-9% a year. That means that your mutual fund has to make 6-9% just for you to break even! Remember that most financial advisors are nothing more than high priced commission sales people, who ONLY make money when they convince you to buy or sell something!

When you put your money in stock market and watch it tank by 5%-20% in one single trading day, this kind of volatility is far riskier than real estate. If you look at the overall markets over the last number of years, they generally are at about the same level that they were at. There have been highs and lows, but overall no movement. Your profit or loss is determined whether you exit on a high or a low.

Personally we would much rather have slow consistent increases such as you get with long term real estate investments. This is the type of investment we personally specialize in.



Myth #3: You have to be wealthy to invest in real estate

This is one of the biggest misconceptions that beginner investors have! When you think about purchasing a property, one of the first few considerations that come to mind should be the down payment because you know that without some money from you as a guarantee, nobody will have faith to lend you the huge remaining part needed for the purchase. And if you already realize that you cannot come up with a down payment, you may feel as if you'll never have hopes in touching the real estate sector.

In reality, what you really need is access of money. While one way of access it, is from your own pocket, who says you can't have access of money from other people's pockets? That's right; you can start investing with other people's money! And here is another bonus for you: many people think it's impossible to have deals with no-money-down. But it is possible! Of course you can't do these kinds of deals with the traditional banks. That's why you seek other options like private financing.

There are many ways to do no-money-down deals. For example, you can use other people's (i.e. investors') money as down payment, and then get a mortgage from a bank. The bank doesn't really care whose money the down payment belongs too, as long as you have one. As long as you have cash in hand you have fulfilled their deposit requirement.

Another way is to use your own line of credit for down payment. You may argue that line of credit is not truly no-money-down because you'll have to repay it eventually. But technically, that's still not your money; that's the bank's money lending it to you for a down payment. Also, you may not even have to repay the line of credit out of your own pocket; later, you may have other investors jumping into your boat, or have rent from your tenants to cover it.

Even if you're completely broke or, worse, in debt, you can still invest in real estate. As long as you can demonstrate to others your sound knowledge and strategies in the area, and show them why it's worthwhile and beneficial to invest with you, you will always be able to find capital from them for the down payment you need.

If you lack the time, energy, knowledge, or motivation to invest in real estate, or you are just too hesitant to invest in it yourself, you can still do it. This is what we specialize in. We partner with people who have some money to invest in real estate but do not want to do it themselves. They can invest with us as an investor and have their investment secured by the real estate we purchase. They do none of the work, receive above average returns, and have their investment secured by real estate.

Myth #4: The Bank is your only option for financing

This is another big misconception that novice investors have. Traditionally, you think you need to go to a bank for a mortgage or loan because other options, like mortgage brokers, cost more money and are not as reliable. But the truth is, you don't necessarily need the bank. When you deal with a bank, you're working with just one lender, and this narrows down your choices of financing. Alternatively, if you do your research well and choose a good mortgage broker, not only do you have the option of top 5 banks, you'll also have access to many different lenders from all across Canada. What's more, you don't even need to pay for your mortgage broker's services. With any new residential mortgage businesses the brokers can generate, the banks (or the lending companies they partner with) will pay for the broker's commissions.

Essentially, you don't need to deal with your bank at all; once you get a good mortgage broker who can find you the best deal, you'll then have the financing you need at a good price. Later on we will discuss how a mortgage broker can be a very valuable asset to your investment team.

Private financing is another alternative. Rather than using a bank or lending institution for the bulk of the money needed for a real estate purchase, you use money from either an individual or group of individuals. Their loan to you is recorded as a mortgage against the property. In essence these individuals are

becoming the bank for you. This is a very good investment for them as they get fixed rates of return over long periods of time and their investment is fully secured by the property. It is not well known but this can also be done with RRSP money.

We routinely use private money and RRSP funds to generate mortgages on our properties. If you are an investor with ready funds and do not want to do any of the work related to real estate investing but still want the consistent returns, please contact us directly as we ALWAYS have investment opportunities available.

Myth #5: You have to use a Realtor when you buy real estate

No, you don't! You might think, as an inexperienced investor, you must use realtors in doing deals because they know more about real estate than you do. This myth is perpetuated mostly by realtors themselves. However, in most cases, realtors have limited training for what they do and they may not be best qualified to do every type of deal. Also, with potential conflicts of interest, they aren't always the best person to represent you in every deal. Not to mention there are some bad, unethical agents in the bunch who only care about transactions and commissions, so you must do your research to find a good one for you. To some extent, realtors could be helpful to you, especially at the beginning of your investment journey, but you don't absolutely need them to do a deal. In a later chapter in the book, we'll talk about how to choose a good realtor and make them part of your success team.

Alternatively, you can choose to work directly with the sellers because there are definitely advantages to having such direct relationship. For instance, direct dealing with sellers gives you more control during negotiation, so that the process, price and contract terms can be determined the way you want it. But with a realtor, you'll have to pass your offer through one or more intermediary before it can reach the seller. This may lead to miscommunication & distortion of your intended ideas and requests, thereby you losing control of the negotiations.

Myth #6: If you use a Realtor, You cannot talk to the seller directly

Another myth perpetuated mostly be realtors is that you can't contact the seller directly (they will say it's not legal or not permissible). Your realtor or the listing agent is not going to be too keen on linking you up with the seller, as they fear that they would lose a potential sale and, hence, their commissions as you bypass them. So you have to let them know ahead of time that their assistance is still valuable to you.

You actually have the legal right to present yourself to the seller, either in person, or in a letter attached to the offer saying who you are & what you want. You can request your realtor or the listing agent to establish a direct contact between you and the seller. It's important for you to try to reach the seller in some way so that you can gain some control in the negotiating process. If you can deal with the seller directly, you can then ask the realtor to write up the contact for your deal.

A good agent will always allow you to talk directly to the seller, and also negotiate directly with them. If you are good at presenting the deal to the seller, that means there is less work for the agent to do!

Myth #7: You need to be a slimeball to profit in the real estate business

Not necessarily! Indeed, there are all sorts of dishonest or unethical businessmen and landlords out there who would prey on other citizens, seniors, or poor families to make profits. Those are the greedy people who like to rip people off by offering the least while trying to get the most out of it. But you don't need to become such in order to make money. If you put yourself into their shoes, you should strive to provide your tenants what they legitimately pay for, such as clean and affordable housing – the same level of housing you would want to live in yourself. You as a landlord with integrity can still make money by building or maintaining open and trustworthy relationships with your clients.

The simple concept we use when dealing with people in the real estate industry, is to treat people the way we would like to be treated. Look for the win-win scenarios and offer to help people who have a problem. There is one line of thinking that states, the more people you can help, the richer you will become. I am a firm believer in that strategy.

Myth #8: Everyone is out to take advantage of me

As we have just stated there are slimeballs out there that will try to take advantage of you. However I am a big believer in the idea that you will find what you are looking for. If you believe that everyone out there is trying to take advantage of you, then you will naturally be drawn to those types of people and you will see them everywhere. If you believe that people are generally good natured and willing to help you, then you will naturally be drawn to those types of people.

This myth is actually a corollary to the previous myth, and the same concepts apply. When dealing with people in the real estate industry, treat people the way you would like to be treated. Look for the win-win scenarios and offer to help people who have a problem. Remember the more people you can help, the richer you will become!

Myth #9: Dealing with Tenants is a nightmare

In reality, how you deal with tenants is a choice and will only be a nightmare if you let it become that. Everyone has heard those horror stories of being woken up in the middle of the night to a screaming tenant saying their toilet is broken and overflowing. If that happens to you, all that means is that you are an inexperienced property manager and do not have the proper systems in place to deal with unpredictable emergencies. Property management is an important aspect of real estate investment and we devote a full chapter to this later on in the book. In fact, there are full courses on just property management.

The simple solution for the plugged toilets is that you have a simple clause in your leases and rental agreement that states that the tenant is solely responsible for plugged toilets and sinks, and it is their responsibility to deal with them. It is also a good idea to have a prearranged deal set up with a plumber and provide the tenant with that plumber's number as part of their welcome package you give them at the start of their tenancy.

Remember that your tenants are arguably the most important component in your real estate investing. They pay your mortgage, they pay your expenses, and they give you your profits. So if you treat your tenants fairly and with respect, they will eventually make you very wealthy.

Myth #10: You will NEVER find a good deal in real estate

Why do you make this assumption? No matter what the market condition is, good deals always exist. Good deals just come up more frequently in a buyer's market than in a seller's market. You'll be surprised to find out that some sellers will sell their properties at significant discounts anywhere from 10% to even 50% below the current market price. Those properties are in deep discount because of some unusual or unforeseen circumstances, such as a change in people's lives. Often, sellers may be going through divorce or sudden layoff that forces them to relocate and sell their places quickly. In some cases, the properties are so poorly managed or even neglected to a point that they require expensive and labour intensive repairs.

Remember when making an offer, cash is king, and if someone is desperate for cash, they may be willing to significantly discount their assets just to get some fast cash, especially if they are under some form of time pressure such as foreclosure.

Myth #11: There are NO deals on the MLS

Yes, we know that we told you there were 10 myths, but in reality, there are many more as well, so here is another one about finding deals. Many people think that because the MLS is open to everyone that they could never find a good deal there. Nothing can be further from the truth. There are many reasons why you can find deals on the MLS.

Stale listings are a good source of deals. These are listings that have been on the MLS for a long period of time, and have been seen by everyone, and no one has completed the deal. After a while the vendors will be getting very desperate just too even get a showing of their property. The agent is no longer interested in promoting the property because they perceive it as a waste of their time, so there is probably a deal to be had here.

If the property has a problem of some sort and it is listed on MLS most potential purchasers really do not want to deal with problems so the property will routinely get passed over.

We actually found one of our best deals as a stale MLS listing that had some problems. It was some land that was going through a foreclosure and judicial sale. It was listed on the MLS forever, and no one wanted to deal with the red tape needed. The property was listed for $450,000 and we eventually purchased it for $405,000. That is a full 10% under list. You may think big deal! It is only 10%. But after we purchased it, we had it appraised for a total of $600,000. That means we bought this property for over a 30% discount, while it was listed on MLS!

Bonuses

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CHAPTER 3 – Members of Your Success Team

By now, you should have realized that, oftentimes, you need advice/help from other professionals, like realtor, inspector, and lawyer, etc. in your investment journey. As with any other businesses, you can't do everything by yourself. You need to create a team to help you succeed in the real estate business. The more professionals who can help you, the more you can delegate work that you're not good at to people who specialize in that area. Meanwhile, you can focus on finding and negotiating deals for more opportunities. For example, you can never know as much as a real estate attorney in terms of knowledge, training and experience. While you can (and should) learn about property laws and regulations so you're not out of the loop, you should definitely get help from such a legal specialist to avoid any pitfalls that you aren't even aware of. Many investors or self-employed businessmen have a "lone wolf" mentality, in which they want to do everything so they can gain full control of and profit from everything. They either think other people are less competent and don't trust them, or they're too cheap to pay for services and think they can do themselves. But in reality, the one-man-show is not a smart way to run a real estate business because you're not maximizing the use of time and talent.

If you want to get help from competent, qualified people, you need to be willing to pay them for their service. I'm not saying you should choose the most expensive professional, as high price doesn't always correlate to premium quality service. But at least you should be prepared to pay fair price for the service you want. You don't want to go too low either because low price doesn't always give

you the biggest bang of the buck you're hoping for. There is an old saying that "you'll get what you pay for." In this case, it's true.

The "must-have" people in your team

Some people are indispensable in your team formation because their strengths in specific areas of real estate industry can help you get started and grow your business. Here is a list of some of the basic people needed for your team.

Real estate agent or Realtor

Legal team members

Property/Home inspector

Money person/Mortgage Broker

Other professionals

Real estate agent or Realtor

Previously, you learned that it's possible to do everything, from hunting for property to closing the deal, without a realtor. But you've also seen that an agent is helpful in areas like paperwork preparation and during closing. So I would recommend you to use a realtor at least for your first deal, so that he/she can help you go through the process. And if you decide to use one, make sure you get a reliable one.

How can you identify a good agent? At the minimum, he/she should be a qualified realtor who can advise you and show you the way from real-life experience, like finding and showing you relevant business numbers and analyzing whether a particular property is a good deal or not. His/her length in real estate business is actually irrelevant – your agent could be in business for 11 months or 11 years – what really makes a difference is the knowledge and negotiation skills that he/she has. Go talk to the agent, look for any proven record of success, and find out for yourself. But keep in mind, ultimately, it's still up to you to make the decision.

Preferably, you would want to work with someone who is also a real estate investor with experience in buying properties for themselves. Their experience would be most helpful to your real estate investment business because they can truly understand your needs. You may wonder why you would want to team up with people who may take all the deals for themselves. Yes, logically, you have a point, but the truth is, not all deals are good for them. As experienced investors,

they may be interested in different types of properties or different scale of investment than you. That's why some deal may be fit you as a starter. Or they are interested in the same property as you, but they may lack the capital at the moment and can't get any more funding anywhere, so they would be willing to pass it on to you.

Where can you find this kind of realtor? As mentioned before, one way to find good agents is through recommendations from investors who are already successful. Once you get some names, go interview them. You can also approach some property managers, explain your needs and hopefully they'll refer you the right person. Either way, referral is your best bet and that's why networking with others in the field is so important.

When you get good realtors, you should expect them to be able to offer you an objective assessment on the house price so that you're not paying too much for it. They should also have all the necessary resources to find good properties for you, such as listings on MLS (Multiple Listing Service), and "pocket listings" (i.e. properties that aren't yet listed on MLS or won't be listed on MLS at vendors' requests).

However, you need to keep a few things in mind. First, just because the realtors don't take all those deals for themselves and pass them on to you, it doesn't necessarily mean that they're all suitable for you. For example, a property may need too much fixing that will blow you out of your budget. That's why you need to be careful and use your due diligence in screening. Second, if they're too busy on their own and only want to be responsible for finding and closing deals for you, they may not negotiate on your behalf, so it's important that you establish a

direct relationship with the seller yourself. If you can't meet the seller in person, you should send a letter of introduction that explains who you are and why you're interested in purchasing the property. Third, as some realtors get paid by the seller, they're legally obliged to represent seller's interests. Only due to the contract's conditions they will also represent you. But you know the agent isn't on your side. So keep your cards close to yourself; don't disclose inner information, emotions and thoughts to any agents, even your own agent. For instance, you don't say how much you're willing to pay in the deal, and you don't want to show your love and enthusiasm for a particular property. Sellers shouldn't tell the agents their minimum sale prices, just like the buyers shouldn't tell the agents the maximum purchase prices. If they know your last cards, they'll eat you alive like sharks. During negotiation, you should always ask for everything (e.g. benefits, home appliances), even if you don't expect anything in return – of course don't tell that to your agent. Again, keep everything to yourself.

One more thing, when you go to an open house and the listing agent suggests to you a possible sale price that is much lower than the listing price, don't be surprised. It's not illegal for the agent to say that. But he/she is certainly unethical because he/she isn't representing the seller's interest properly.

Legal team members

While you have realtors help you with deals and numbers, you need lawyers or notary public to handle all legal matters. As a novice investor, you should let them review all the offers you make. Doing all the necessary paperwork at closing is only a part of their abilities to help you. With their legal knowledge, not only will they make sure everything on documents is legal, they will also make sure you haven't put any clauses and conditions that can put your financing and legal responsibility in jeopardy. Plus, they'll do thorough research on the history of the property so that you know the property has no outstanding liens or hidden information; in another words, the property is in good standing, so you can feel confident in your purchase. And if you need help with financing, they can represent you and your bank/lender in creating a mortgage for the property. Of course, if a deal requires you to take out a second mortgage and it might be too risky for you, they will talk with you about that as well. That's why you need to hire a lawyer who specializes in real estate with real-life experience, not just anyone in general practice or in another field of law.

Finding a good lawyer is the same as finding a good realtor – by asking for recommendations. Legal help can be expensive, but you should resist the urge in hiring the cheapest attorney or notary in town. When you employ the wrong lawyer, you might save money at the beginning, but it will cost you a lot more

than what you've saved at the end. And if you happen to find a lawyer who is also a real estate investor him/herself, that would be ideal because he/she can understand your real estate investment needs.

Property/Home inspector

The inspector is another team member you can't live without. Even a new investor knows not to buy any property – even a brand new one – without a professional inspection because failure to inspect could have huge financial consequences down the road.

Where can you find a reliable home inspector? The search can be challenging, as different areas have their own rules and regulations. Anyone can enrol in courses from educational institutions to learn how to become a property inspector, but they may not have enough practical experience to do the job well. Hands-on experience is very important to an inspector because the inspection itself is quite a superficial job that requires keen eyes to details and knowledge to foresee problems. In reality, the inspector isn't going to tear the walls and bathtub apart or crawl into tiny space in the basement. He/she needs to dig out hidden problems in properties – from minor issues to potential big stuff just by looking. That's when experience comes in handy.

Just like getting any other professional help, it's best to ask for referrals from other investors or realtors who have used various inspectors before. Through word of mouth and face-to-face interviews, you would be able to know who you can trust and who you should avoid. Again, resist the urge to use an inspector who charges the cheapest; you'll get what you pay for at the end.

Money person/Mortgage Broker

Unless you're super rich where you can pay off the entire property price in full with cash, you would require lots of money to build your real estate businesses. Without it, you won't go very far. That's why the selecting of the right financing person to work with is crucial to your success. You can't do it hastily at the last minute, or simply pull a name out of the phone book, and expect that financier can help you seamlessly.

When it comes to financing, most people thought of borrowing from traditional banks right away. While you can do that, I would prefer a mortgage broker instead because a broker can give you more financial options and flexibility (access to 50+ different lenders across the country, including private money). Especially when you can't qualify for a traditional mortgage from the banks, brokers would be your best help.

However, there are a few things about brokers you must be aware of. All mortgage brokers have access to many lenders, but that doesn't mean they can give you an advantageous rate, so you have to shop around. Some have questionable, or deceitful, business practices. Let's say if the information provided to and from the broker is wrong or illegitimate, and you fail to check that, then a year later when the lender comes back to you, you'll eventually be

responsible for all the incurred costs, not the broker. Hence, your due diligence is important at all times.

One advantage a mortgage broker has over the banks is the access of private money. So ask your broker to see if he/she has access to something called the "hard-money." Hard-money is private funding that usually comes from wealthy people with lots of cash that can be lent out for loans and mortgages, or money that brokers can borrow at low interest rate, and turn around to lend you at higher interest rate so they can profit from the spread.

Essentially, hard-money lenders act like their own banks. But unlike the traditional banks, they're willing to overlook many factors or weigh them to a lesser extent, like a personal credit check. In return, you pay a premium to the lender for taking on extra risks of your loans; that is, the interest rate is considerably higher than that of the bank (e.g. 12%-18%, plus a small percentage upfront as a finder's fee). And for riskier people or projects that are more in need of money, mortgage brokers also have access to a different source of hard-money called the subprime lenders, who will charge higher interest rate than more conventional lenders. The word 'subprime' may have a bad reputation of unethicality due to the banking industry crisis in 2008, but subprime lenders can actually be a good source of financing if you ever need them.

How do you find a good broker? Referrals, just like every other help you need! Always look for an experienced broker because only a good one is able to look at your particular deal and immediately select the top few lenders – out of a sea of lenders – that will fit your deal so you can potentially have the best available rate.

From referral, also look for a broker who is an investor him/herself, so he/she can understand your business and can offer you appropriate assistance.

To be fair, even if you're working with an honest, ethical broker, you should never expect him/her to guarantee you in finding the perfect sources of financing or the lending rate you're hoping to get. Realistically, nothing can ever be ideal or happens in your way all the time. But in general, mortgage brokers are better than banks as they have more financing options and flexibility.

Other professionals

The above types of people are the team members you absolutely need to have, at the very minimum. However, as your business grows bigger and more diverse into different types of properties, you'll realize you need more variety of professionals, such as different types of lawyers for each different types of properties, accountant or bookkeeper for increasingly complicated financial records, and property managers and handymen to delegate your share of property fixing.

As you go into a new area of the town, or even an entirely new city, for investment opportunities, one of the first things we search for are reliable property managers and handymen. They're crucial factor in your investment strategy because you don't want to land in an area where you have no way of controlling or managing in the future. If you can't find those services, we would suggest you not to buy in that location, no matter how good the deals are.

And of course, you would want to have mentors, advisors and people you can bounce off idea with on your side at all times because their knowledge and experience are all excellent resources for your business. Plain and simple, you need trustworthy and reliable people on your team to assist you.

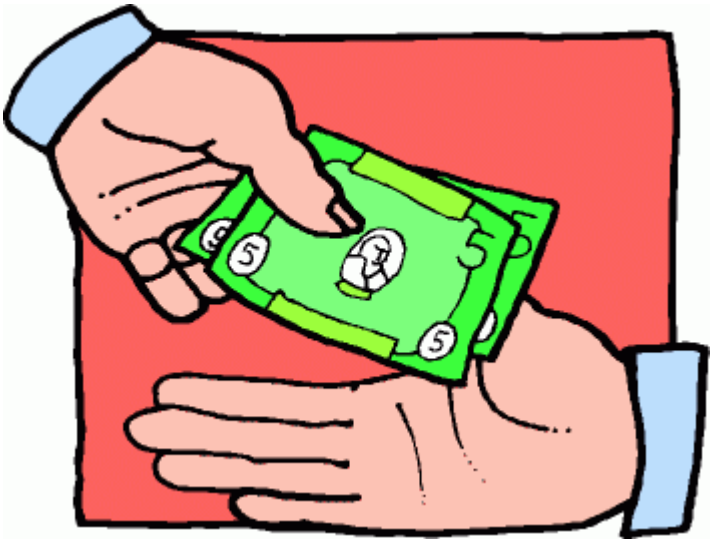
CHAPTER 4 – How to Make Money with Real Estate

We've created a path for you to get on this real estate boat by busting common myths and showing you the step-by-step guide in real estate investment. But to become a good real estate investor, you should expect to do hands-on work, not just knowing the theory. You need to have property management skills and people skills because you'll be actively managing your properties and tenants. Even if your business grows and you delegate some of your tasks to another property manager, you still need to keep an eye on it regularly in case you have any problems like a missing rent payment or a rowdy tenant. The problems you'll face may be discouraging and frustrating, but that's part of running your own business.

Now thinking deeper, you may wonder why real estate is an important, if not number one, long-term investment choice for you in the first place. As you may have already seen in this book, real estate can offer you financial security and lucrative profitability, even in an economic slump. In fact, it's one of the safest investment instruments when it's purchased and managed properly.

Don't believe me? Just look at some of the world's richest people – Ka-Shing Li and Donald Trump are prime examples – they started to make money and continue to hold their wealth throughout their lives! Real estate is a relatively low risk way to generate cash flows, which creates a reliable safety net for you and your family. It would especially become beneficial after your retirement, when you need a steady passive income the most, in order to supplement your pension.

But keep in mind that we're talking about "long-term" investment, not house-flipping after holding it for a year or two. Real estate investment should not be viewed as a get-rich-quick scheme, but a get-rich slow process. To get the maximum benefit, you need to treat it like a business with a long term horizon in mind.



Specifically, there are at least 7 reasons why real estate investment can earn you profits. In real estate investment terms, we call those reasons profit centers.

Profit center #1: Immediate equity

Unless you're in a very hot market, you can make money as soon as you buy a property, and I'm not even joking you. Let's say you purchase a property at 10% below listed market value. That means you've created 10% immediate equity. In number terms, if a house is listed for $300,000 on the market, and today you successfully buy it for $270,000. You've just created $30,000 of immediate equity on your net worth statement.

Of course you may have doubt about this and ask, "Why would anyone ever want to sell his/her property at a discount with 40% or more?" Oftentimes, homeowners are willing to sell their houses at a price below market value because of urgency or unfavourable situations, such as divorce, job loss or transfer, inability to make mortgage payments and fear of foreclosure, and deteriorating property condition. You should note that a run-down property is still worth a purchase if you can get it at a very deep discount. The idea is to buy one at a price that is way, way below market value, which allows you to put in some serious renovation to turn it around, and then still sell it below fair market value to earn some immediate equity.

If you have the ability to close a deal quickly, you can generally get a substantial discount on the purchase price. Remember most people that NEED to sell have to sell fast!

We recently bought a small condominium in a residential high rise building. The unit was on the main floor with its own separate entrance and address of 12837-66 street, NW, Edmonton.

We actually found it in an online ad, and it was advertised for $60,000. It was a recent foreclosure that was taken back by the previous owner because the owner did not keep up with his mortgage payments. It was also in desperate need of cleaning as a denturist was using it as his office. Plus, there was a $2000 special assessment from the condominium corporation that was due. At the end, we

made an all cash offer of $55,000 with a two week closing time, and the seller was responsible for paying the special assessment. That meant we purchased the property for about 10% under listed price. Not bad for a small deal like this; however, it is actually, significantly better. The cities tax records indicated that the property was currently assessed at over $80,000 and the market value is closer to $100,000. That means we actually purchased the property at about 30-45% discount from the true value.

Profit center #2: Property appreciation

This is the most common way a property can profit you. In the short term, housing prices do have fluctuations, so it's normal to see a rise and fall in pricing. But in the long run, house values will appreciate. For example, five years ago, you bought a house for $300,000, and today you successfully sell it for $350,000. That means, over the course of 5 years, your house value has appreciated by $50,000, and that's the profit you've made from the house just by owning it. Most home owners are actually real estate investors, they just do not know it! For most people, they buy a house and then just live in it for the next 20 or 30 years, and all that time it is just sitting there appreciating. It is not uncommon for someone to have bought their home for $50,000 20 years ago, and now have that property worth over $500,000. That is a 10 times increase in value over 20 years, or a 13% per year compounded rate of return for doing nothing but living in the property!

However, as good as it sounds, in order to get profit from appreciation, it requires you to purchase the property at the right time. Hence, if you buy a property only with the hope for appreciation to earn your profit and disregard timing in purchase, your strategy is called speculating, not investing. That's not what this book is advocating. This is why many people were caught when the bubble burst in 2007. They were gambling on pure appreciation over a short time and were devastated when the prices actually dropped, and they could no longer afford to hold on to the property, because they had purchased it while it had a negative cash flow.

Profit center #3: Steady cash flow

Having cash flow is paramount in the investment world because you can reinvest to generate even more cash flow. In real estate, this means you should never buy any property that can't generate positive cash flow (i.e. profit after all the expenses). For example, if you charge $1500 for monthly rent, and at the end of each month, after you deduct all the expenses, including tax and mortgage, you're left with $100 of monthly profit, that'll be the positive cash flow that I'm talking about.

As difficult as the housing market is – like in large metropolitan cities – you should never invest in properties that are cash flow negative. Even if the house isn't generating any positive cash flow, you need to charge enough rent to break even at the very least; your tenant will pay off your mortgage and all the expenses, and you can rely on the property's natural appreciation. Regardless of where you live, you can always get investment properties that are cash flow positive. But if you really can't find one in prime locations or your desired neighbourhood, then look into suburbs or find an area that will work for you. The bottom line is: positive cash flow is king.

Back in 2007, people who purchased property properly and had positive cash flow were NOT really hurt when the bubble burst, because they could just keep holding on to their properties till the market recovered. However, people who had negative cash flowing properties (meaning they had to pay every month) could not afford to hold to their properties for very long. That is why there were so many foreclosures at that time.

Profit center #4: Mortgage principal reduction

Once you have a mortgage from the bank, you'll need to make monthly mortgage payments. At the beginning of the mortgage, a significant amount of your payment will pay for the interest, and remaining small percentage of 2% to 4% will go to reduce the principal amount. This principal reduction is called silent cash because you do not really see it or even notice it. That debt reduction amount becomes your profit even though you don't physically see it, and you need to include it in your taxable income.

So, in the example of a $300,000 property with 10% down payment, you'll have a mortgage of $270,000. The mortgage is reduced in the first year by, say, 5%, which is $13,500. A $13,500 decrease in debt is now a $13,500 increase in equity, and that's your profit.

Profit center #5: Financial leverage

As a new investor without a lot of cash, you often use a loan from a lender to buy a property. Imagine you can control 100% of a property with just 10% down payment, this leverage is an enormous advantage of real estate investment; you get to control a huge asset with very little of your own cash.

Let's say you put $20,000 in stock market and get 5% return on investment, you earn $1,000. But if you invest the same $20,000 in a $300,000 property that will appreciate 5%, you'll profit 5% of $300,000, which is $15,000. With $20,000 down payment, you earn $15,000, that's 75% return on investment. Now $1,000 versus $15,000, what would you choose? Now let's say rather than using your own $20,000 to invest, you get an investor to come in with the cash, and you end up paying them $5,000 for the money. The investor is making 25% return ($5,000/$20,000) on their money (which is great for them)! However, your return is now much better, in fact it is infinitely better! That is because you now have NONE of your own money into the project and have made the remaining $10,000 profit. $10,000 return with $0 invested gives you an infinite return! This is why financial investors are a key to your financial success.

Profit center #6: Allowable depreciation

We just said appreciation is a good thing for you as an investor, so if I say depreciation is also a positive thing, it would seem counter-intuitive to you. But indeed it is!

Most governments allow homeowners to depreciate their properties even though their values appreciate in reality. As houses get older, say 25-plus years, many problems will start to surface, like leaky roof, faulty furnace, and weaken house structure. So with natural deterioration in mind, the government allows yearly property depreciation at 4%, so that you can reduce your annual taxable income by that depreciating part of the property value. Let's say your house has a market value of $350,000, in which the land is worth $50,000 and the physical building is worth $300,000, which is the replacement value of the building. The government will then allow you to take the replacement value of $300,000 and reduce it annually by 4% (i.e. $12,000 in this year) until the value goes down to zero. Now, during tax season, you can apply that $12,000 to lower your taxable income that the property generates for the year, and then use those tax savings for other purposes, like reinvesting into another property. Some people call this saving the "phantom money" or "deferred saving" because eventually you have to pay the accumulated amount back to the government when you sell the property. But the nice thing about using depreciation on your taxes as an expense is that it usually offsets the profits from mortgage paydown!

As you just saw, you can use depreciation to your advantage. But I strongly recommended you to seek an accountant's advice and see if it's worthwhile for you to do so for tax purposes.

Profit center #7: Reinvestment possibility

Other than renting out your property to earn steady cash flows, you can also refinance it and reinvest the money. Let's say you're living in a house that is worth $350,000 and it's all paid off with no debt. While it's great that the house is all paid off, it's also not doing anything for you as a homeowner; your house has become dead equity.

You decide to take out a line of credit against your house for $50,000 at 3%. You then lend the money to an investor at 11%. So the investor is paying you $5,500 in interest every year, and you're paying the bank $1,500 for annual interest. Essentially, you're making $4,000 of profit in a year without doing anything other than leveraging your home. Is that amazing? Now what is your rate of return? Is it $4,000/$50,000 = 26.7%, right?

Many of the investors we deal with do exactly this. They take equity out of their existing properties and use that money to invest with us into other cash flowing properties that give a safe consistent return on their money. If you would like to find out more about these kinds of deals, please contact us directly to find out if we have any current investment opportunities open for you.

CHAPTER 5 – FINDING THE IDEAL TENANTS

So you are now a landlord with a property ready for someone to move in. That's a good start. But really who are your customers? Where are they? And how can you find them?

TYPES OF TENANTS

There are two types of tenants: tenants by choice and tenants by necessity. Once you understand who they are, where they come from and what they need, you will be able to use appropriate marketing strategies to find the types of people you want.

1) Tenants by Choice

Some people are career professionals who move around for job requirement on a regular basis. With frequent relocations, they would rather rent than own. It is more convenient for them to just pack up and go with renting, even though they could have bought properties and become landlords themselves when they leave their houses for job relocation. The downside is, as frequent movers, those tenants may not be trusted by some landlords, and we know some landlords who will not rent to those without a certain level of credit score (e.g. 630).

Some empty nesters and seniors also rent by choice. Back in the days when they first started their families, they worked hard, purchased their own homes and raised their children. But now, as their children grow up and leave homes for the first time to live on their own or to attend a college or university, their houses become too big for just two people to live in, and some couples cannot cope with that seemingly empty-house feeling. Also, as they age, they might no longer have the physical ability to handle housework for themselves, such as shovelling snow in winter, mowing lawn in summer, or cleaning the entire house. That's when they decide to sell their homes and rent from someone else instead. They make great, reliable tenants because many of them are financially stable or on fixed incomes. They also come from a traditional generation of diligent, discipline, and responsible people.

2) Tenants by Necessity

On the other hand, you have people who rent because they have no choice but to rent. An example would be economic renters. Those are the people who work for minimum wage jobs and have low to moderate incomes. They can't afford to own because, quite often, not only do they live paycheque to paycheque, they also don't earn and save enough to qualify for a bank mortgage.

Then you have small households. Those are the people who are doing okay financially and trying to save up to own their own homes. They are disciplined with their finance and they pay their bills and rents on time. Their prudence with money and desire to own a home makes them very good candidates for your lease option, so you can help them out and, at the same time, gain some profits from the deal. Even if they are not interested in lease option, they are still good tenants for your buy-to-hold or buy-to-sell property.

Another group of tenants by necessity are the college students. If you happen to have properties near a college or university areas, they will be the majority of your tenants. Most students are decent tenants, but with many of those kids never living away from home before, they may not know how to properly take care of their own houses, let alone yours. Therefore, parental guarantees should be mandatory for student housing. This is where you get the parents to co-sign the leases along with their children. That makes them financially responsible in case there are any problems with the children. Also, since this is their first independence, a lot of moms and dads will go to check out the places for their kids (while some won't) to ensure the places are safe. That's why you need to do

a little more on safety features for student housing than you would do for your regular tenants. For instance, hardwire all smoke detectors because the kids aren't going to change the batteries themselves. And make sure they don't touch the furnaces, hot water tanks and air conditioners because those are expensive, crucial items that you don't want anybody to mess around with. It's true that they may often call you for service, even with tiny problems, but when it comes down to profits, student housing is very lucrative.

With students, you should set your own rules and regulations and let them know what you expect from them. A common example would be trash disposal. If the landlord has to take their garbage out, the kids will be charged $50 because in most municipalities, if trash is left outside, the landlord will get fined $50 for a bylaw infraction. You also have to understand how kids live (e.g. partying), so you can set the rules (e.g. no partying after 9:00pm). The Rules and Regulations along with other things such as the garbage pickup schedule should all be posted on the front door. Once rules are set, they have to abide them. When kids don't follow the rules, they have to go. No exception.

As landlord, you rarely lose a dime in student housing. Where you might lose money is on their security deposit. In some cases, you may give them the deposit back when you should not have to. But since they pay that much rent all year round with their yearly leases, you aren't going to hassle their parents about it. Long-term speaking, if you bother their parents, they might go out and tell others that you as landlord don't return deposits, and that might give you a bad reputation and stop the new group from coming to you.

Depending on location, depending on the supply and demand of student housing, sometimes you can rent it out months before the beginning of the renting cycle – that's how far in advance people are renting. You'll never be short of tenants, which makes student housing a very profitable business.

PROSPECTING FOR TENANTS

Now you know who your customers are. But where and how do you find them? In order to prospect for new tenants, you can use:

I. Lawn signs

II. Internet (e.g. Kijiji, Craiglist, Facebook)

III. Newspapers

IV. Community bulletin boards

V. Real estate listing

VI. Rehab and shelter homes

VII. Schools

VIII. Churches

IX. Section 8 / subsidized housing department

X. Social services offices

XI. Local YMCA / YWCA

XII. Your own waiting list

When people see your advertisement and call you, you will have to ask them some questions over the phone. The purpose of those questions is to pre-screen people without wasting any time and to build a rapport (with the first four

questions below). During the initial rapport, if you can sense that they sound mean, rude and nasty over the phone, you most likely want to refuse that kind of people right from the start. In your conversations, you should bring up the following questions, with explanations in italic:

I. Name?

Check it against the eviction list, if you have one.

II. Phone number?

III. Type of unit they're looking for?

IV. Present address?

V. How long have they been there?

This is key question #1. If the person says he has been living there for 6 months, then 8 weeks before that, you know that person is hopping from place to place. When they don't meet your criteria, you can tell them you'll get back to them tomorrow, or try to discourage them from inquiring about your place and to stop wasting your time.

VI. Why are they moving?

This is key questions #2. Some people may get offended by that, but don't be afraid to ask. Oftentimes, people would say their current landlord is a jerk who does not fix anything. Some may say they have called code enforcement against their landlords. So you know they might be in pain, and enforcement has been called. But beware, they're probably a deadbeat. They may have legitimate

complaints, but you do not know the landlord's side of the story yet. You would then refer back to the previous question of how long they have been living there. If they have been living there for 3 weeks, you may question why they would move in to that place to begin with.

VII. How many people will be living in the unit?

If you have a 2-bedroom apartment, but the person on the phone says he has father, mother, brother, sister, uncle and aunt who want to live with them, you may want to say upfront that you will only rent it to a household of 2-4 people.

VIII. Place of employment?

They do need a job to rent your apartment. Otherwise, how else can they pay?

IX. References?

Those can be banking reference, paystub, reference from previous landlord, etc. When you ask the prospect tenants to fill out the reference sheet, notice any missing information or blanks on the form, like no phone number, banking information. When information is missing, question them why and don't let it slide. If they have no reference but with an explanation like starting university education, living on their own for the first time, or being divorced and have to move out quickly, that may be acceptable. But if someone is 38 years old, single parent with 2 kids, but has no reference from the previous place that she lived, she will become red-flagged and is likely someone you want to avoid. Once you get the references, make sure you call them. Sometimes, people would be stupid enough to give a reference from the landlord who just evicted them. If the reference is just the person's friend and not the person who owns the property,

that may not say too much about how he/she lives in the place or how punctual he/she pay rents, and may only say good things about the person. If you ever feel suspicious, follow up further.

X. Do they have the security deposit and first month's rent readily available?

Of course you do require that most of the time. In some cases, if they do not have it, you can set up a payment plan for the deposit. But you only do that in a familiar or confident situation where one of your existing tenants, who is in good standing, is asking for their family member who wants to rent another unit of yours.

XI. Do they have pets?

Cats may be okay. And as a dog lover myself, I personally have no problem with prospects with dogs. But generally, many people do not want to rent to people with dogs for various reasons. Barking noise is one reason, while insurance is another reason. If you allow pets and the guy's dog attacks someone, you may be opening up yourself with a lot of liability. But if the person has disability and need to include a helping dog, you cannot and should not refuse them just based on that. In most areas it is actually illegal to deny rental to someone based solely on the fact that they have a service animal.

Remember, with questioning and pre-screening, you're acting as a safe guard to protect yourself and your property from future headaches and troubles. That's why you should do your due diligence at this stage by finding out as much about them as possible and selecting people carefully.

Bonuses

5 Homes to Financial Freedom: a value of $49.99

A webinar recording explaining how you can achieve the equivalent cash flow of 80 rentals from owning just 5 homes.
Visit www.RealEstateInvestingMadeSimple.ca/Book

Making Real Money with Joint Ventures: a value of $49.99

A webinar recording discussing the specifics about Joint Ventures and how they can be a short cut to vast residual profits with very little initial work.
Visit www.RealEstateInvestingMadeSimple.ca/Book

Rent 2 Own with NO Money and No Risk: a value of $49.99

A webinar recording with over 60 minutes on rent to own secrets and ways to increase your profits in Real Estate Investing.
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A Millionaire's Mindset: a value of $49.99

A webinar recording giving you an insight into the mindset of a Millionaire where you will learn a bit about business, real estate, and the stock market.
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CHAPTER 6 – IMPORTANT ASPECTS IN RENTING

As a manager or landlord, you cannot sit behind the desk and just let life happen because the property will end up managing you more than you're managing the property. Whether you're managing it yourself, or you hire someone else to do so, you have to keep an eye on your property at all times. It is a lot easier to find something as it starts to go wrong than to try and fix things and to put out fires that are already blazing.

You do not have to be afraid of fair housing policies; you just have to be aware of them. As a landlord, your primary responsibility is to the maintenance and use of your property, so you need to select your tenant carefully to start with. The thing you cannot do is to treat them differently based on them being members of the protected class. Outside of that, you have every right to demand whatever lawful criteria you set up and apply across your board in order to conduct business and do what is right for your property and your income. For example, when a drunken person comes in, asking to see a unit, if the staff feels uncomfortable, threatened, or feels their safety is in jeopardy, he/she does not even have to show the unit, regardless of whether we have their information. All he/she has to do is to refuse and document on the application form saying "smell liquor on their breaths and feel unsafe/uncomfortable." Note it down, but don't show it on your face; you can advise the prospect to come back in another day, saying that the manager is not there at the moment.

THE RENTING PROCESS

Once a prospective tenant has passed the telephone pre-screening and comes to your office in person, you will then require them to present a copy of their driver licenses or photo IDs (remember if you require this for one person, you require it for all people). You do that for two reasons. First, in order to have a showing of the unit, you obtain a copy and leave it on the desk of the staff who goes to the showing. Even though the prospect may raise identity theft concern, this measure is for the safety of the staff involved, so that if he/she doesn't return, you will know whom he/she goes with. When the prospect applies for the apartment with you and fills out the application form, those copies are required anyway. If they worry about identity theft, you can assure them that you will tear up the copy right in front of them, or return the copy to them after the showing. If the prospect still refuses, then there will be no showing. Second, you need the copy to ensure the identity of the prospect is who he says he is and avoid stolen identity issue. In a case we know, a man called the property manager and asked why the rental company ran a credit check on him. The staff in the office then told the manager that a man came in, filled out the application forms and planned to rent a unit. But he wasn't allowed to move in yet because he had not presented a photo ID. That was why the office conducted a credit check based on the information given instead. It turned out the man who wanted to rent the unit was a different man who happened to know the original caller's personal information, social security number, and his good credit status.

Always remember to have them fill out applications. Don't just make decisions based on what you see, what you hear, or feel sorry for them and try to help. In one example, we had a young couple who seemed nice and just had a baby. When asked why they left the last landlord/apartment (important to ask!!), they simply said they didn't get along with landlord, and the manager failed to do her due diligence to check their background at the time. Once they were in the new place, all of a sudden, drunken people went there often. Some visitors were even under-age. Police started to come all the time. With noisy parties, cigarette butts and alcohol bottles on the grass, and cigarettes thrown over the balcony, they created a nuisance and annoyance to the neighbours, and built a bad reputation for the surrounding community and the rental company. The company was also at risk of losing good tenants living around that problem unit. Eventually, the neighbours around that unit started to document incidents in writing and the rental office built up a case for an objectionable tenancy. Later, the case went to court and they got evicted based on multiple violations of the lease. As you can see, the old saying of "looks can be deceiving" is true.

Gathering information with an application is not good enough; you actually need to verify the information on it. You should always ask for a signature for permission to do so, as some rental offices would not do phone verification, so you'll need the prospect's signature (and permission) to request a verification in writing. Be careful when you get feedback that looks like this:

- Did they pay on time? Yes.
- How much did they pay? $750.

- Did they complete their lease? Yes.
- Would you rent to them again? [Blank]

Blank?! This might be a red flag! The last landlord really wanted them to go, but he didn't want to lie when asked, so they didn't want to put any concrete answer on the form. He leaves it blank and might be prompting you to call them if you really want to know. That's why it's important to build a good rapport with other landlords in your area, so they will share honest feedbacks with you and help each other out.

Always check the previous landlord references, and not just the most recent landlord. In fact the prior landlord's will provide you with much better and non-biased information. Remember when you check their current landlord you need to take their comments with a grain of salt. For example consider this situation. The landlord currently has a horrible tenant that they have been trying to get rid of for a long time. Then out of the blue you call them asking for a reference on this problem tenant. The landlord will most likely tell you that they are the best tenant they have ever had, and that they have never been late with the rent, and in fact they wish they were not leaving! By telling you this they are in fact doing everything they can to get rid of their current problem tenant without having to evict them. The opposite may also be true. If they are a real good tenant, their current landlord may not give them a glowing recommendation with the hopes that you will turn them down and they will stay in their current rental.

The most reliable references will come from the previous landlords, since they do not have any vested interest in what happens now. They will probably give you the truth about the tenant.

In finalizing the lease agreement, there are two deposits that you should consider. First one is the cleaning deposit. When tenants leave, it is a lot easier to charge one single fee for cleaning everything than to go over a list of things you need to do (e.g. cleaning, painting, maintaining) for restoration, to justify the time and cost on each item on the list, and to argue with the tenants. It is also more time efficient to have your in-house crew just go in and finish the cleaning to your standard for the next tenant than to have your tenants do/re-do the job themselves (to try to avoid paying for the cleaning deposit) but not up to your standard.

So once you show your prospects the apartment and they love it, you would want to start closing them with at least 6 attempts. A simple question like “what do you think” is considered one attempt. There could be many variations like “will this work for you” or “will your furniture fit in here.” As soon as they say yes, you will tell them that you will need non-refundable $120 deposit (as an example), in which $20 goes to credit report fee for background check and $100 is the deposit to hold the unit off the market so that nobody can take it while you are processing them. Upon approval, that $100 will convert to apartment cleaning deposit, which includes paint, maintenance, and carpet cleaning and shampooing. A $100 may actually be a very good deal for covering all that work for the entire unit because it could be more expensive in reality. Again, you work out the calculation and assign an amount for this non-refundable deposit.

Security deposit is another one you should definitely include in the agreement. The amount for the security deposit really depends on your areas, so you should check with the local landlord association or your network (another reason to have good rapports with other landlords). We use it to cover for damages to the unit, outstanding fees (e.g. late payments), penalties, unpaid utility charges. It is usually equal to one-month's rent, and should be paid within 10 days after they are told that their application has been approved. You can set up your policy saying that the security deposit cannot be used as rent payment for the last month of their tenancy. This will help prevent them from not paying rent before they move out and from leaving you no money to pay for whatever damage they may have caused. Alternatively, for that same reason, you would want to collect last month's rent in advance if possible. This is very dependent on your location as many locals have made it illegal to collect the last month's rent in addition to the security deposit. Check your local rules and regulations.

Some locations may even have additional pet deposit because the security deposit equivalent to one-month's rent may not be enough for carpet replacement and its labour if the size of the suite is large. For example, a pet deposit of $750 may sound steep, but the high price would also make the tenants more accountable to their pets. Keep in mind that this additional pet deposit is different from that of service/companion pets. In this scenario, you proactively allow tenants to keep their pets in your property with an extra cost, but in the case of service/companion pets, you are not allowed to charge them extra for keeping their pets, as explained previously.

But before the tenants move in at the beginning or a security deposit is returned at the end, you have to do inspections. For pre-inspection before they move in, you should go and inspect the unit together with the tenants if you can. That way both parties can agree on the initial condition of the unit. If you can't do that, there should be an inspection form that requires an inspection within 3-5 days after they move in, so that anything that they don't want to be held responsible for (e.g. scratch or dent on the wall or counter) can be stated. This form will be compared when they move out to determine what damages are new, so they know what they will be charged for against their security deposit. After the inspection you need to have them sign the inspection form to confirm that everything is correct and that they agree the unit must be in the same condition as stated on the form when they leave the unit. Another great idea is to actually take pictures of the unit during the inspection or to film the entire unit as part of the inspection. That way there is no real argument when you compare it to the move out inspection. Also document the move out inspection in the same way and indicate to the leaving tenant what additional charges they may be responsible for by showing them the exact items that need replacement or repair. Again document everything about the inspections, because you never know when you may need that documentation in the future. In one case we had a tenant file a small claims lawsuit against us a full year after they left the unit. Because we had everything documented and photos of the before and after unit we easily won the lawsuit and actually got a judgement against the tenant, because the actual repairs were more than the deposit they had on the unit.

When tenants decide to leave, you need from them a written notice of their intent to vacate the premises as stated in your lease. It could be a 30, 45, or 60

day notice. In New York State, a lease of 12 months or longer must have the notice in writing. A month-to-month tenancy can go by landlord-tenant law, which can be a 30 day notice. Unless you have something in writing that is contrary to the landlord-tenant law that you both agree with and sign, the landlord-tenant law will prevail, which may not be desirable. Therefore, it is best to have everything in writing, even if it's just a 3 months lease. A 60 day notice to vacate would be preferred on a one-year lease. In many jurisdictions such as Alberta there are 2 main types of residential tenancies. They are Fixed term and month-to-month. A fixed term tenancy is just as the name states, it is for a fixed term and generally no notice is needed at the end of the term to end the tenancy. The month-to-month tenancy generally requires at least one month's written notice to end the tenancy. It all depends on how the original lease is written and the landlord tenant rules in your own location. Be careful with Fixed term tenancies as many of them are written so that they actually convert into a month-to-month tenancy at the end of the fixed term, and not just an immediate termination. It all depends how the initial rental agreement was set up and how it was worded. We have a great rental agreement as part of our document package available on the website.

For their final inspection, you would use the pre-inspection form that was completed with the tenants when they first went in, so there is no argument over what damage is new or old. Otherwise, have the final inspection together with tenant and have them signed off afterwards. Here is one trick: during the final inspection, if the tenants have pets, you use a black light wand, about 1 foot long, with a very long extension cord, and shine it about 4 inches above the carpet. Any area that glows bright yellow indicate a urine stain, even though it might have

been cleaned off previously. You can do this inspection when the tenants are present. On the inspection report, which has the layout diagram of the apartment, we indicate/circle where we find urine stain, motor oil, or wax strips. That goes to the permanent record of the unit in case the carpet does not need replacement, so that you can determine the initial condition of the unit for the next tenants, or use it as an argument in the court later when you have a dispute with the tenants. And if you like, when you find damage, you can cut out a square of it and store it, so that you can use it as physical evidence later in the court if needed.

When you do any inspection and replacement, you should keep all the documents in a work order file. That way you can keep track of when the work is done; you know how old an item is (e.g. furnace, hot water tank, carpet), and when it is due for another service or replacement. Let's say your tenants damage your carpet after it has been replaced after only 4 years when it has a useable life of 8 years, you can then go to the court and claim its remaining value against the tenants deposit.

At the end of tenancy, depending on areas, tenants may be able to get their deposit back within 2 weeks after they leave. A lot of places would say 30 days, which is reasonable. Some jurisdictions would even say 45 days. Therefore, you should check with your local authority. Inspection usually happens within 24 to 48 hours after tenants leave, then a list of applicable charges will be compiled and sent off to the accounting department, so a cheque could usually be issued within 2 weeks. In the case where a tenant is evicted due to non-payment, and you receive a judgment against their account, the charges will be taken out from their

security deposit first before they can get the cheque. The bottom line is, always return your tenants' deposits or account of funds charged in a reasonable time to avoid penalties in court.

When you return their deposits, you must account for normal wear and tear in your property; you cannot always claim damages and deduct from their deposit. As landlord, you must expect certain things to age and break over time. For example, carpet will wear out normally after 8 to 10 years of use, and water taps will need fixing after a few years of daily, frequent use. It is your responsibility to replace them, and you can't charge those to your tenants as damages. Even in court, the judge may not award you with the compensation you claim because your version of wear and tear may be different from his version. If you do charge them for damages, you must describe the damages in detail; make sure you list them and be specific (e.g. which room, which area, what material, what labour cost). If you are vague, the judge may find you wrongfully withholding the deposit. It may cost you more than the deposit itself. Also included in our document package is a Rental deposit return form.

Throughout the entire tenancy, maintenance is a big part of your property management, and it should never be overlooked. To maintain the premises diligently, you need to take care of any problem before it gets out of hand, or starts to affect the building structure and other tenants. If you can't do the work, hire someone who can. In reality, there are some things you just can't do on your own; it is either beyond your expertise or controlled by certain certifications, so you should hire licensed professionals to service it. Examples would be hot water heater, electrical wiring, and pesticide control.

There is one thing that you should pay particular attention to, is pest control. In some areas, when your property has a bug problem and you simply send your maintenance guy to spray pesticide in the unit, even if the pesticide itself can be found in a normal do-it-yourself stores like Home Depot, you'll be liable for any problem or complaint from your tenants. If they sue you later for the damage to their child's health, you will be liable for the allegation. That's why you should hire professionals to handle the bug problem. It is much cheaper to hire expertise than being held legally liable for any adverse consequences and taken to court. But regardless of how you deal with it, you must stay on top of pest control. The worst thing you want is to have rumours that your property has lots of cockroaches, as most people want a nice, clean, safe, crisp place to live in.

Whenever you or your crew do maintenance work, you need to be careful with unannounced entry. In the lease, you should have a statement that says "you have the right to maintain the property as landlord" so that when there is an emergency situation, like water tap breakdown in upstairs and water flooding to downstairs, you have the right to enter immediately both units for inspection and repairs. But for general maintenance or inspection, a reasonable advance notice, as agreed in the lease, should be given to your tenants. If you are just changing air or water filters, you can give them a 24, 48, or 72 hour notice. Some locations such as Alberta actually legislate that you need to give your tenants at least 24 hours written notice to enter the unit, unless it is an emergency. Our Forms package has a sample of a 24 hour notice for entry.

Another way to avoid unannounced entry is to request a written permission from them to enter or to sign a work order. You need to have them state that they

want to have you come in and get work done. In case your tenants sue you later for missing something valuable like a diamond ring, you are covering yourself by showing the court the written permission that you're not breaking into their unit. Sometimes, they may express that they need to be present when you go in, as they may have to control their pets or secure personal belongings beforehand. You should try to accommodate their request for being good tenants, but don't be afraid to insist that you need to have the service done during your normal work hours. If they can't comply with your specified time, they would have to assign someone to be there. They don't have power over you just because they are paying rents; it's your right to maintain your property as landlord.

The procedure for proper entry is important for you in upholding your good, responsible landlord reputation before you ever appear in the court. If unannounced entry keeps happening and you are losing all the time because your procedures keep putting you in jeopardy, you will be doubted and questioned by the judge even when you're in the right later on. So if you do not have a good procedure and you cannot back yourself up in the court, it is better not to go to the court. It is more important to keep up with a good reputation first. That is why it works to your benefit to have good procedure in place.

Other than maintaining the physical properties, you also need to manage the people living inside. Crowd control is an area where, if you manage well, you can eliminate many headaches in the future. First, you can place a limit on the number of occupants for your unit. For example, you would only allow 2 people per bedroom due to the burden that is put on the water sewage system or whatever reason that is applicable to your case. Make sure you have the policy

set up in advance and in writing in the lease. If the tenants argue later that the rule violates the fairness principle or their religion or family culture, you can say that is a company policy and you have the right to enforce it. The rule should be abided by the moment they agree to rent the unit and sign the lease documents. Second, you should include terms in the lease preventing nuisance to neighbours. In the case of an objectionable tenancy with the couple who always brought in drunken people to noisy parties with cigarette butts all over the place, you can evict them easily based on their violation of lease terms since you have those clauses in the lease.

However, there is a limit to crowd control. You do not interfere with tenants' lives; you can only take appropriate actions to eliminate problems when they arise. If your tenant is dating and bringing in someone who causes problems to the peaceful enjoyment, health, and safety of other tenants in the property, you will have every right to request a correction or they are in jeopardy of losing their tenancy. But it is illegal for you to simply tell them not to bring certain type of people over, or else you will have to raise the rent or evict them. This also applies to visitors who are brought in by tenants and stay for extended period of time. When the apartment is already at maximum occupancy, it may be okay to allow visitors to stay for a week or so, but you have the right to kick them out if they seem like to have stayed for 3 to 6 months. Therefore, while you do not want to interfere with your tenants' lives as much as possible, it is within your power to correct any situation that is deemed unreasonable.

Then, throughout the tenancy, you will need to take care of rent collection, which is very important. After all, money and profit is the main reason why you are in

this rental business. But how do you know how much to charge and when it should be collected in the first place? That is where you should do your own research to find out. It makes sense to set a comparable rate based on similar types of properties in the area, but at the end of the day, it is up to you to set your rent higher or lower than average if you ever want to pick any niche in the rental market. You would then need to set rent due dates and expectations on the lease agreement. As an example, on the lease, you can say the rent is due on the 1st day of every month, and on the 2nd day, the rent passes the due date, which will incur a late fee of $25. There is no grace period, and the tenant can't argue that it should be considered late only after 10 days into the month. It is not what they consider as late; it is what it was agreed upon and stated on the lease. However, if the tenant is on social welfare program and their cheques do not come in until the 5th day of the month, you can modify the due date to the 5th of every month and initial the change on the lease to reflect their financial circumstance and timeliness of their income. If they pay on the 6th day, it is considered late. One day late is late regardless of reason, and no extension is given. This will ensure a timely collection of rent. If the tenant is on a social assistance program you may be able to make arrangements that the rent be sent to you directly by the program. I personally love these types of tenants as the government (through the social assistance program) pays their rents directly to me. The Tenants also tend to be the most well behaved and respectful, because they know if you complain to the program, they may actually have their benefits reduced or terminated.

The first rent payment should be paid 60 days before they move in so that the cheque can be cleared first. Ideally we generally need the first month's rent as

soon as the Tenant is informed that they have been approved and accepted as a tenant. If that is not possible due to a quick move-in, the payment should be made in bank cheque, certified fund, or money order.

Besides the regular rent, you could also have something called the holdover tenancy rent. A holdover tenant is a renter who remains in a property after the expiration of the lease. If the landlord continues to accept rent payments, the holdover tenant can continue to legally occupy the property, and state laws and court rulings can determine the length of the holdover tenant's new rental term. But if the landlord does not accept further rent payments once the original lease is finished, the tenant will have to move out promptly. Otherwise, he/she will be considered trespassing, and an eviction will be necessary.

Occasionally, you will encounter non-payments. This problem can happen to any regular tenants – even with the good ones. How you deal with it depends on the situations your tenants are in. If your tenants have a special circumstance (e.g. accident, hospitalization) that is causing them problems for a month or two, you can work with them and make the modification in writing. If you find out that your tenants are now living paycheque to paycheque, you can work up a payment plan with them. They will pay a little more than the rent every month (e.g. $100) to build up a fund reserve so that it can be applied to the rent in case they have financial shortcomings at some point in the future. If it looks like there is no solution to their problems in the long run, you can also do them a favour by suggesting them to consider moving to another place that will fit their situations, and by working with them on their move-out date. For example, if someone with kids suddenly gets divorced and the family income drops by half, they may not be

able to rent your place anymore. You can suggest to them that they move from a 2-bedroom suite to a 1-bedroom suite, or give them time to look for a new place, and arrange a move-out date. Or you can suggest a buy-out to their lease, such as having them pay for 2 months' rent and forfeit the security deposit in order to get out of a lease with 6 months left. How you work out with your tenants depends on their circumstances; every situation is unique. The last thing to keep in mind is that, whatever changes you make, always document it in writing.

Even though you need to be firm as a landlord, you should care about your tenants and you want them to live in your property because they pay for your mortgage and bills. And the more you care about them, the more they appreciate you, the longer they want to stay. That is a good relationship. When they have an issue, which we all have throughout our own lives, you would rather work with them and figure out an arrangement with them until things get better, instead of forcing them to fulfill the remaining lease or simply telling them to leave. You can consider whatever suggestions they have in order for them to live up to the terms in the lease because if they cannot live up to it, it will be no good to you either.

However, new tenants who cannot pay should be evicted as soon as possible. If the cheque from your new tenants bounces back and payments are always late or a month behind, are you willing to deal with that headache every month? I don't think so. Chances are, it is not going to go well in the long term if they have problems with the tenancy right from the start.

Always remember that, even in the worst case scenario that you have to evict someone, it is nothing personal – it is business! Don't get personally involved. Since you have the responsibility to take care of your property and your own

business, you have the right to expect payment and fulfillment of lease terms as agreed. You may like the tenant for being a nice person, and you cannot judge him/her for making bad choices for themselves. You can help him/her with what you can within reason, but you cannot extend the circumstance simply because he/she is a nice person. So you have to weigh it out.

We have found some practical advice and ideas that are useful in property management. For example, you should always strive to start with good tenants. That way you will save yourself so many headaches in the future. You should discuss your criteria on the phone in advance, so both you and prospect tenants know what the expectations and problems are. This will become useful to both of you in eliminating each other without the need of actual meetings. More importantly, always put all expectations in writing in the leases and addendums; inform tenants what landlord will expect from them and what they will expect from landlord. As long as both parties agree and comply with the lease, there should not be any problem. Finally, use common sense and good judgment to avoid costly problems in the future.

TIPS TO AVOID PROBLEMS IN THE FUTURE

The best way to avoid problems in the future is to avoid placing a problem tenant into your rental unit. There are a few simple things you can do prior to renting out your unit, that enable you to preselect good tenants.

A great tip I learned is about cleanliness. When you show you unit to someone, at the end of the showing, ALWAYS escort the person back to their vehicle. This is a friendly gesture, and builds goodwill, but there is another very important reason to do this. The reason is that you get to see the vehicle and the inside of it. You need to decide if you want this type of vehicle parked in front of your unit. If it is a rusty old junk heap leaking oil and antifreeze, you may think twice about having it on your property. Secondly, looking inside the vehicle is a good indication of how clean they will keep your unit. If the inside of their vehicle is nice and clean, they will probably keep your unit nice and clean. If their back seat is filled with garbage and the car has not been cleaned out in a long time, or ever. They are probably going to keep your unit in the same condition.

One of the best tips I have learnt, is that you NEVER, and I repeat NEVER, inform a prospective tenant that they have been approved over the phone. You should ALWAYS inform them in person, and at their current residence. Generally I arrive unannounced at their front door. When they answer you mention that you were in their area and you just wanted to drop by and give them the news about the rental unit they applied for. Generally they will ask you in (that is a good sign). Be warry if they do not ask you in, as they may be trying to hide something from you, like a disgusting pig sty. In any case from the door way or through the windows

you will be able to see the inside of their current living unit, which is the whole point of going to their residence. By seeing inside and seeing how they currently live, you will get a very good idea of how they will be living in your unit. If it is nice and clean, and well maintained they will probably make for very nice tenants. If it is absolutely filthy with garbage everywhere, then they will probably keep your unit in the same condition. You can then make a split decision on whether you want them as a tenant or not. You then have 2 standard responses for them. "I am pleased to inform you that your application for a rental has been accepted," or "I regret to inform you that your application for a rental has NOT been accepted."

After you have accepted someone as a new tenant, the next step is to obtain the security deposit and first month's rent. I generally ask them for a check for the security deposit and certified funds for the first month's rent. You remind them that the check must clear before they will be allowed to move in. There are specific reasons for this. The first month's rent needs to be in certified funds (cash, bank draft, money order, or certified check), that way you know you are paid for the first month's rent. The reason we ask for a check for the deposit, is that we want to know that they have a working bank account and get their banking information from the check. You will compare this banking information to what they indicated on their application form to see if it is different. You will also take a copy of the check in case you need their banking information in the future (to garnish the account if you ever get a legal judgement against them). Be warry of prospective tenants that want to pay you everything in cash, as that is a red flag for tenants that do not have a working bank account and are living paycheck to paycheck on a cash basis. We have found that these people are always trouble

in the future because they do not have any financial reserves if there is ever a problem in their lives. If they insist on paying with check ONLY with a very quick move in, that may also be a warning sign. They may be hoping that they can move in before the check bounces. If they know how the legal system works, it can be a very lengthy system to evict them once they have actually moved in. It is a lot easier to keep someone out, than to kick someone out once they are in.

CHAPTER 7 – How to Purchase Property with NONE of Your Own Money

You'll definitely doubt me when you see the title of this chapter. You might ask, "Is it really possible to purchase properties without investing any of your own money, or are you just boasting?" The truth is, yes, it is possible, but you need to get funding from somewhere; it could come from a bank or a private lender.

Everyone has heard the phrase "no money down deal"; that does not mean there is no money put down on the deal. It simply means that the money does NOT come from you. You incorporate other sources of capital rather than your own wallet.

After the experience of your first property as an investor and landlord, you feel you're ready to expand your business by buying more properties. Now the problem is that you have no more money for any down payments after your first property. What can you do? The most straight-forward way of thinking is that you should wait to save up for down payment for your next investment. You can save up for your next property by using funds from, employment or cash flows from your first property. But in reality, as a smart investor, you don't have to and you don't want to go that way because you'll be missing great opportunities in the meantime.

Let's say your first property is worth $300,000 in which $60,000 (20% of house value) was your down payment. A year later, you see this amazing deal that you

don't want to miss out but you don't have another $60,000 down payment for this second property.

You now have a couple of different options to get the down payment.

One possibility to get the required capital is to do an equity take out from your first property by taking out a second mortgage on it. Remember your down payment of $60,000 for your first property? That's the equity that you can take out for your next purchase. Here is what you do to set up a second mortgage: you approach another investor who is looking for 7% to 10% return on his/her investment and is willing to lend you the $60,000. You'll borrow that amount against the first property as a mortgage, and apply it to your second purchase. Your first and best choice here is to find an investor yourself who is interested in dealing with you to get a safe secure return on their money and have that investment secured by a mortgage on a piece of real estate. We routinely offer these types of mortgages to our investors. If you currently have some capital to invest, then please contact us directly to find out about current opportunities we may have available. The second option is to contact your mortgage broker as they routinely deal in second mortgages from bans and private investors.

This arrangement is amazing because you now own 100% of the second property without your own money. You can definitely use your first property as a leverage to get a second mortgage for your next property. And so on, and so on…….

The second option is to find a partner who can lend you $60,000 to buy the property, and eventually split the profit in half.

Splitting your profit 50/50 with a partner is quite common, so after you do 2 deals, you'll essentially get one property for free. Even if you only get to keep 20% of profits within the partnership, when you do 5 deals with 20% return of investment (ROI) each, you'll be getting 100% of profit on your fifth deal. However, it's common for new investors to have the old 'lone wolf' mentality where they want to handle everything all by themselves. It's definitely doable, but you're making your life harder and your business growth a lot slower. One way to quickly create wealth is to maximize the leverage of other people's expertise, experience and money. It's true that all wealthy investors started out slowly and modestly, sometimes on their own to begin with. But eventually they learned how to grow and expand their businesses with partnerships to grow their resources. You can be sure that no successful investor would ever only rely on his/her own capital for their businesses.

It looks like you can gain a lot from partnership, which makes people wonder why they would ever want to partner up with you and lend you the down payment in the first place. What's the benefit for them? There may be several reasons. For instance, your partner may be interested in real estate investment but has no such knowledge in the field, or he/she may be a busy professional who has no time to go through the whole process in property purchase. Either way, your partner would benefit from your knowledge and experience in real estate, so there are mutual benefits for both of you.

Where can you find a partner? Your family and friends would be a good start. But personally, I generally do not like dealing with family as investors, they tend to be too demanding and they will always second guess your decisions.

Keep your eyes and ears open and talk to the people you know or meet on a regular basis, or professionals who service you use like doctors, nurses, mechanics, etc. Regardless of who you talk to, you'll always appear more trustworthy and convincing when you become an expert in real estate yourself; the more knowledge, experience, and dedication you have in the field, the more likely you can attract investors to join your boat.

Although you may prefer to work with a single investor to make things easy, you can always have more than one partner. The benefit of multiple partnerships is that if you need to raise a large amount, say $100,000, for down payment, it will definitely be more manageable for people to get involve when you split it up among five people rather than just two.

One point you can always mention to your potential partners is that, in Canada, they can invest in real estate through their personal RRSP (Registered Retirement Savings Plan) self-directed fund account. They can take those funds in the account out of the general markets and self-direct them into real estate. It's worth bringing this to their attention because most people don't know that. Our next chapter it dedicated to this subject.

Another point you should explain to your investors is how ROI is calculated and what ROI is expected from partnership. Quantifying information with numbers is always a better way than just words to impress people. That's why it is very

important for you to understand various investment concepts, terminology, and calculations so that you can demonstrate to your potential investors what they can gain when they partner up with you. The more you can educate them, the more willing they are going to join you in your real estate business.

Based on personal experience, not all of those people you approach will turn out to be your partners, so don't be disappointed if they reject your invite for partnership. Instead, you should feel good about helping people with your teaching, and hope that one day they'll change their minds and invest with you, or offer you help when you are in need, or refer you to other people in their networks. That's why networking is so important. Networking may seem intimidating, especially with strangers, but it's actually not difficult to connect people via teaching. You don't hand out business card to everyone in the room either. When you go to any kind of events, your goal is to meet and make a good, meaningful connection with just one person instead of meeting superficially with 10 people. Through that one person, you'll start to know all the people in his/her network, which will create a large network of money.

At the end, regardless of how many fellow investors you're working with, it's extremely important to maintain good relationships with them. One way to treat them well is to give them an above average ROI, so they're happy to stay in partnership with you. When it comes to time to sell your investments, make sure you give them their fair shares of profits. If you build a reputation of being a good business partner, soon the words will get out, and opportunities will flood into your door.

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CHAPTER 8 – Using Your RRSP's to Invest with

A lot of people invest in paper assets (e.g. mutual funds, stocks, and bonds) with their personal RRSP accounts, but they seldom know that real estate is also an investment vehicle available for their RRSP money. Although the process of using RRSP for real estate is more complicated, it's worth exploring this option to open more doors for your investments.

In order to invest in real estate using your RRSP account, you first need to put your RRSP money in a self-directed fund that allows you to decide where you can invest with your money. To do that, you need to sell off and move your RRSP fund from your current financial product to a money market fund within your financial institution. The money market fund is like a cash account, but within the RRSP portfolio. From the money market fund, you'll then move your RRSP funds to a trust company that will allow you to redirect your funds to your own preferred investment vehicle, whatever that may be.

Once your money is in self-directed account, you can then become a private lender, which lets you lend to investors looking for cash. For example, if an

investor approaches you with an offer of a second mortgage to invest in his property and you're interested in it, you and the investor will negotiate the ROI and final payment for you at the end of the agreement term, and you'll then put your RRSP fund into the second mortgage. This would now become a great investment for you as a lender because your money will be earning a rate that you're happy with and is secured against a real physical property.

If you happen to be on the investor side looking for cash, this would become a great option to raise capital, as you can do it without going through the bank for conventional refinancing. You put a second mortgage on your house, and someone put his RRSP on it – a match with mutual benefit. However, whether you should partner up with another person for a second mortgage, or refinance your house with a new larger first mortgage to replace the original mortgage, you'll have to evaluate the pros and cons of each option.

CHAPTER 9 – Private Mortgages

We have previously talked about private mortgages and how they are a great way to raise money to purchase real estate with. But many people do not know that private mortgages are also good Investments. If you are somebody that has readily available cash sitting in the bank doing absolutely nothing with and getting your half a percent a year return you might want to consider investing your money into private mortgages. A private mortgage is in an investment that is secured by a mortgage on the title of the property you are investing in. It allows you to get a nice safe consistent return over an extended period of time. Investing your money into private mortgages basically allows you to play the function of a bank. And we all know Banks make lots of money with the investments they do. So why not be the bank?

Typical private mortgages range in term between 1 to 5 years and in some cases even longer. Interest rates on private mortgages span the full spectrum anywhere from 4% to 12% per year and sometimes even higher. The major determining factors are the length of term for the mortgage and whether or not the mortgage is a first mortgage, second mortgage, or even third mortgage. The typical interest rate on First Mortgages is around 3% to 5%, for second mortgages anywhere from 4% to 8% comma and for third mortgages anywhere from 6% to 12%,. These are some of the typical rates that we offer our investors who choose to invest private money with us on various real estate projects. If you have readily available cash

and are interested in getting safe secure consistent returns like this please contact us and we can let you know the available opportunities that we currently have.

Many people do not realize that there is also another way to invest with mortgages and make a greater return than just the interest rate on the mortgage. This method or technique involves purchasing mortgages at a discount. Many people do not realize that mortgages can be bought and sold just like any other asset. Once a mortgage is placed on a property it is then an asset that can be manipulated. Just like a piece of property that is bought and sold on the open market, mortgages are dealt with the same way. As such you can find occurrences where you can purchase a mortgage at a discount. You may not think this is possible but just think about our previous discussion about discounted properties and you will quickly realize that you can actually achieve significant discounts when purchasing a mortgage. Many real estate transactions involve the seller holding a second mortgage on the property that they have sold, this makes it easier for them to sell the property. However they do not realize some of their return for a few years after the property is sold when the mortgage term expires and the mortgage is paid out. If that person is in desperate need of cash for whatever reason they might consider selling that mortgage at a discount in order to generate a quick sale. A mortgage with a listed interest rate of 6% can give you anywhere from 6% return, if you purchase it at face value, up to 12% or even higher return depending on how much of a discount you purchase the mortgage for.

Here I will show you an example that we did on a property located at 6501 47th Street in Wetaskiwin, Alberta. This second mortgage was due October, 2016 and had a value of $135,000 with an interest rate of 6% but gave us a return of 24% when we purchased it.

The mortgage was established by the previous vendor of the property who took back a vendor take-back mortgage on the property for a number of years in order to expedite the sale of the property. In December of 2015 I contacted the holder of the mortgage who I knew was in desperate need of some ready available cash. The mortgage was for $135,000 at 6% which meant that it had monthly payments of $675 per month. In December of 2015 I offered the mortgage holder the amount of $100,000 to purchase his mortgage. After some negotiation we settled

on a purchase amount of $120,000 for his $135,000 mortgage. So now all I had to do was wait till the mortgage comes due in October of 2016 and I would make $15,000 on my $120,000 investment. That results in a return of 12.5%. But in reality my returns are actually more. While I'm waiting for the mortgage to mature in October I am receiving monthly payments of $675 a month for the next 10 months. That results in an additional $6,750. So now over the next 10 months I am receiving a total of $21,750 ($15,000 from the mortgage purchase and $6,750 from the monthly payments). So now my total return of $21,750 on an investment of $120,000 results in an effective interest rate of 18%. However, that is not for an entire year. That is only over a 9 month period from January 2016 to October 2016. If you annualize that return out over an entire year, that results in an annual interest rate of approximately 24% per year. Not bad from a mortgage that only shows a 6% return.

CHAPTER 10 - About the Author

Larry Yakiwczuk is the founder and owner of the Buckaru Group of Companies. He has 6 University Degrees, 35 years of real-estate investing experience, 20 years' experience trading derivatives, and has been financially free for the past 15 years. His proprietary investing strategies allow his investors to achieve significant returns on a consistent basis, regardless of the current market conditions. His mission is to educate the small investor and help them achieve their own financial goals!

Larry started his real estate investing career in the early 1980's while he was still in his twenties and attending University. He has extensive experience in all

aspects of real estate investing including various forms of residential rental real estate as well as various forms of commercial real estate, including warehousing and Industrial complexes. Recently he's been concentrating more on investment placement and management for his real estate investors. He concentrates on projects that will give his investors significant and consistent returns regardless of the current market conditions.

His experience in the single-family residential area began as most people's experience begins, that's with small houses and condos. He started out by buying individual housing units. He also started with some small Condominiums as well. He concentrated on all aspects of managing those properties including finding new tenants, property management, and eventually reselling the properties when the market was higher than it was when he bought them. At one point he started to specialize in small rental Condominiums. He found a great deal on the MLS that was listed by a realtor that specialized in this area. After he bought the first unit from this realtor, they struck a bond together and then whenever that Realtor had a unit that fulfilled Larry's criteria, the agent would call Larry directly rather than listing the unit for sale to the public. The realtor knew that after he gave Larry the pertinent information he would have a yes or no answer on that same phone call. This resulted in Larry obtaining 10 Condominiums within the same high rise condo complex, and resulted in Larry owning approximately 15% of the entire complex. He then sat as president on the condo board and was able to effectively control the whole complex.

Larry also was able to obtain bank foreclosures directly from the bank because of the good banking relationships that he had established. An example of this is a 15

unit condominium complex that he obtained from the bank as a result of a foreclosure. He was actually able to get the foreclosing bank to fund his purchase of the property. He managed that property for a number of years and then finally resold the units individually for a substantial profit. Larry also has experience with purchase, management, and sale of small apartment buildings as well. He started off with small 8 and 15 unit apartment buildings that were actually not in his local area but were located in small residential communities around the Edmonton area. This gave him extensive training in dealing with long-distance management of commercial Residential Properties.

Larry has extensive experience in the area of true commercial properties such as warehousing and Industrial complexes. With these types of properties Larry was able to gain experience in commercial Leasing and negotiation techniques. He has experience in this type of commercial properties both as an investor and as an end user. He currently owns a number of Commercial Warehouse buildings that are being used for his auction company business as well as other businesses.

In one case he purchased a warehouse property for use in his auction business; however he quickly realized that the property would generate more cash flow by

being rented out to a local trucking company. A couple of years later he then sold that property to a competing trucking company for a significant profit.

Now Larry is now more concerned about investment management and purchasing properties and managing them for his investors. He specializes in two forms of investor participation in his projects. The type of investor participation in his real estate projects is determined by the needs of the investor.

If an investor is concerned mostly with cash flow from his Investments then a Mortgage Investment is the investment of choice. This type of investment gives Larry's investors consistent cash flow over extended periods of time regardless of what is happening in the markets and is not dependent on a property being sold any time in the future. This type of investment is particularly suited to investors that need to live of the cash flow from their investments, such as retirement funds. Whether it is retirement funds are straight cash, Larry always has mortgages available to place investor funds into.

The second form of investment Larry participates in with his investors is in the form of equity or a joint venture partnership. In this type of investment the investor is actually part owner of the property. In this case there is generally no cash flow to the investor during the time of the investment however the investor does participate in the equity appreciation of the property and sees significant returns when the property is eventually sold. This type of investment is more suited to the younger investor, or the investor that simply wants to park his capital for a period of time and is not dependant on the cash flow from the investment. The returns on this type of investment are generally higher than the mortgage investments, but take longer to realize.

Because of his vast experience in the real estate and investment Industries Larry is always willing to talk to anybody about investing in real estate. If you have available cash and are ready to make an investment please contact him directly.

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INVESTMENTS
LARRY YAKIWCZUK
B.M.Sc., B.Sc., B.Sc.(HONORS), M.Sc., M.Eng., M.B.A.
larry@buckaru.com
www.buckaru.com
Tel: 855-BUCKARU
Fax: 855-282-5278


invest@buckaru.com
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Our Mission is to educate the small investor and help them achieve their financial goals!!