Citibooks' Tips and Ideas on...

Investment Management

Volume 1

Published by:
www.BestManagementArticles.com
...Business management ideas for your success...

ENTER

Table of Contents

Cover Page

The Power of Leverage: Home Equity Can Be the Ticket to an Investment Property

The House Team

Your best-performing asset probably isn't that star mutual fund in your portfolio. Most likely, it's the roof over your head.

Residential real estate has been on a prolonged and spectacular rise in almost every part of the country. Odds are that - wherever you are in your mortgage - you've seen a great increase in your home equity.

Rising home values have made real estate a great investment for Canadians. So good, in fact, that a record number of average Canadian homeowners have a plan to multiply that advantage: by purchasing investment property.

In most cases, these people don't have wads of cash on hand to plunk down for a second property. What they have is equity in their principal residence. That translates to assets that they can leverage to maximize their real estate investment potential.

Leveraging is a powerful financial strategy. The idea is this: you can access funds for a downpayment on an investment property by tapping into the home equity that's building in your principal residence. The investment property is managed to provide income to cover the mortgage payments and property expenses. Remember, too, that the interest on the mortgage is tax-deductible for an investment property: another important advantage in building your investment. Many investors keep the leverage strategy going: as one investment property begins to build equity in a rising real estate market, it can be leveraged to purchase another property.

There are many motivations for this kind of investing. In some cases, the investments provide some available income almost immediately. Others see the investment property as a kind of retirement plan: the rent will provide important income at a later date, or the property can be sold to provide a retirement nest egg without the burden of landlord responsibilities.

In university towns, you will often find investment properties that have been purchased by parents. At a time of rising housing costs for students, this has become a sensible strategy: the child has accommodation during their school years, and takes on the responsibility of landlord to other students who rent the extra space to cover the ontairo mortgage.

Investors who are skilled at home improvement will sometimes leverage their equity to purchase an investment property, improve it, and then sell for a profit - progressively building their net worth by capitalizing on both their skills and rising home values. But the most common reason for purchasing an investment property is simply to capitalize on the wealth-building power of residential real estate. Rising home values continue to give you a steady increase in net worth - whether or not you are pocketing profitable rents. You'll only want to ensure that the property will cash-flow to cover the mortgage and maintenance costs.

Independent mortgage brokers now have access to a range of mortgage options for investment properties, and can help you assess your situation. One of the most innovative lenders, GMAC, has a mortgage called iinvest, which makes it easier than ever for average Canadian homeowners to purchase investment properties. In most cases, you should anticipate tapping into your home equity for a 25% downpayment on an investment property. (GMAC's iInvest actually offers approvals up to 85% on mortgages up to $500,000 or $700,000).

How much of your home equity can you access? Let's say you have $80,000 remaining on your mortgage and your home is valued at $280,000. If a bank will loan 90% of the value, then you have access to $252,000. You still need the $80,000 for your existing mortgage, but that leaves you with a potential $172,000 in available funds. You will, of course, want to make only a minimum downpayment, as it makes good tax sense to hold your larger mortgage on your investment property.

Many wealthy Canadians have achieved their financial success by leveraging small assets to create progressively larger ones. It's a great way to fatten an investment portfolio, build net worth, or save for an earlier retirement. Best of all, it's a strategy that's within the grasp of most Canadian homeowners.

About the Author :
The House Team is commited to providing quality information to help people like you make informed decisions about their mortgage financing needs. The source for your Ontario Mortgage. Looking for a free mortgage calculator? Click Here Mortgage Calculator Ontario

Previous
Table of Contents
Next

The 5 Money Making Advantages Of Multi-Unit Investing

Real Estate Investment Club

Previous Table of Contents Next

Having rehabbed over 470 properties in the last seven years and collected over 600 apartment units I'm often asked, how can I become wealthier faster investing in real estate?

While most investors concentrate on some aspect of single family houses, I was always interested in multi-units (apartments) first, and then single family homes as a means of getting more multi-units .

From the very beginning of my investing in real estate, I liked the idea that a group of people (the tenants in a building) would get together and pool their money to pay down the mortgage on a property, and I liked the idea that they would also pool their money together to pay for all of the maintenance work for a building.

I especially liked the idea that they would give an owner so much money that the owner would have a bunch of money left over at the end of every month that could be used to either re-invest, save or to go out and have a good time with.

Essentially, I like the idea that other people were willing to help make me wealthy. I liked it even more when I started using management companies to manage my properties and no longer had to have contact with my tenants.

I soon came to realize that I could also wholesale, retail, pre-foreclosure, rehab, subject to and lease option apartment houses as well.

I also realized that there were certain advantages that investing in multi-units buildings had over single families.

The first was cash flow. Cash flow on a multi-family is always greater than that of a single family. Simply because you have more rents coming in.

The more units you have under one roof, the less risk you have. If you have a single family house and you lose your tenant, you've lost 100% of your income. In some instances, this could be your entire profit for the year. If you had a three family and lost a tenant, you still have two rent coming in to pay your expenses.

Economies of scale are in mulit-unit buildings. If you have six single family houses opposed to one six family, you have six roofs to be replaced or repaired, six lawns to be maintain, six tenants spread out through out your city or town.

In your six family you have one roof, one lawn and your tenants are centrally located. Economies of scale are in your favor.

There's a lot less competition than there are in single family houses. Why? Because no one is out there teaching how to do it and all the single family guru's make flipping single family houses sound as easy as chewing gum in the dark. The smart investors put multi-units in their portfolios along with single family houses.

Because of the bigger cash flows, you can afford to hire management companies to manage your tenants, thus eliminating that hassle while you go out and do what you do best (or should do best), find and finance them.

Your pay days are a lot bigger when you finally sell your property. This is because an apartment complex cost more than single family homes, because of this they obtain a greater dollar amount of appreciation. For example, a $100,000 single family house will in a market that appreciates 10% will be worth $110,000 while a three family house worth $300,000 in the same market (10% appreciation) will increase to $330,000. That's $20,000 more money in your pocket!
You've know a few people who have made a lot of money flipping single family houses, but if you think of the all the people you know who have become extremely wealthy through real estate, you'll realize that they did it through owning multi-units (apartments).

These are the five biggest advantages to investing in multi-units, there are many, many more. If you are interested in creating more wealth at a faster rate, adding multi-unit to your portfolio is the way to do it!

Article Source :

http://www.bestmanagementarticles.com
http://investment-management.bestmanagementarticles.com

About the Author :
Starting out as a struggling landscaper with no experience in construction, David Lindahl has earned well over a million dollars renovating more than 470 houses for resale. He also owns over 38 apartment buildings with over 628 units with a monthly cash flow equaling what many people make in a year!
Reprinted with permission from www.reiclub.com.

Previous
Table of Contents
Next

Bonds: When and When Not to Buy

Ronald Groenke

Previous Table of Contents Next

Bonds are issued with a fixed, stated interest rate which determines the semiannual interest payment to the bond holder. Those fixed interest payments, payable until the maturity date of the bonds, are constantly valued by the market relative to alternative investments to gain the same income stream.

Since the interest payments do not change, the weight of the valuation is reflected in the market value of the bond. If interest rates in general go up, an investor can have the same income stream with a smaller investment. Thus the value of the bonds goes down. Conversely, if interest rates in general go down, an investor would have to invest more to obtain the same income stream. In that case, the value of the bonds goes up.

So a bond's price will fluctuate with the financial market interest rates. Many factors affect the market interest rate, such as the world wide demand for capital and the willingness of major governments to inflate their money supply. Probably the primary factor is the action taken by the Federal Reserve as it sets the Federal Reserve Funds Rate. If the Fed Funds interest rate goes up, bond prices will go down. It is like a playground seesaw with bonds on one end and interest rates on the other. If interest rates go up the price goes down and vice versa.

We can use this information to determine the best time to buy bonds. Will the Federal Reserve continue raising interest rates or will they decrease interest rates? As of the beginning of the fourth quarter in 2006, the consensus seems to be that the Federal Reserve is done raising rates. If the economy slows down too much, the next action would be for the Federal Reserve to reduce rates which would cause bonds to gain in value. The time to buy bonds is when interest rates have peaked.

Longer term bonds usually have a higher interest rate than shorter term bonds due to the greater uncertainty associated with a longer time frame. If this is not true, you have what is called an “inverted yield curve,” which in the past has forecasted a recession. The near term negative aspect of a recession out weighs the risk of the longer time frame.

My appraisal of the bond market at this time leads me to believe that short and intermediate term bonds are attractive.

Never, NEVER, buy tax free municipal bonds in a retirement account. That would be like throwing out the baby with the bath water. The earnings in a retirement account do not incur current taxes. So you want the highest return compatible with your risk tolerance. Only hold tax free bonds in a taxable account. For retirement accounts that are tax deferred, higher yielding taxable bonds are the best choice.

Percentage of bonds holdings in any account should be based on the age of the account holder. The closer one is to retirement, the more bonds one should hold. In retirement a typical mix is 30% equities and 70% bonds.

If the return from bonds in retirement is not sufficient to maintain a steady income then one could augment the income stream with covered calls on the equity portion of the portfolio. Covered calls can return an additional 12 to 15 percent.

Article Source :
http://www.bestmanagementarticles.com
http://investment-management.bestmanagementarticles.com

About the Author :
You can learn more about covered calls from the Options Industry Council www.optionsindustrycouncil.com and bond investing from The Bond Market Association. www.investinginbonds.com For more information, here are a few sites where you can buy and sell bonds: www.fidelity.com www.Schwab.com www.scottrade.com.? Ronald Groenke is an author and expert on covered call options. A former stock novice, Ron has made a living exercising stock options for over a decade.

Previous
Table of Contents
Next

E-books on Investment Management

Books on Investment Management

Seminar Success Strategies - How to Profit From Your Investment

Lorraine Pirihi

Previous Table of Contents Next

Hi

I've recently returned from a 3 day seminar, full of renewed enthusiasm and information that, when actioned, will make a dramatic difference to all aspects of my business and my personal life.

There were also many other people there, who like myself attend seminars and conferences to gain more knowledge so they too can improve their lives.

However, it's not the knowledge that makes the difference, it's the application of that knowledge.

Are you one of those people who regularly attends events to learn more, get all hyped up and excited on the actual day, write a book full of notes and proclaim to everyone in earshot that "this is it! I have found the magic pill that will transform my work and my life".

What do you do after that? Do you return home still excited, promising yourself that you will implement what you've learned? Do you stay excited for another couple of days, 'get busy' and then do nothing? Or do you return home, excited, plan when you'll take action and actually do it?

Here are some useful tips you can use so that you do something with the knowledge. Because if you do nothing with what you learn, the time, money and energy that you have invested to attend have been a total waste.

TAKING ACTION

Read your notes immediately after the event or within 24 hours.

Summarise the ideas to take action on.

Number each idea with No. 1 next to the highest priority and continue until each idea has a number next to it.

Get your diary and plan time to action idea No. 1.

Do the same with the rest.

Then just do it!

PLANNING

The key to implementing this knowledge is all in the planning.

When working out when you will take action on each idea, be realistic with timeframes.

I find that the majority of people do not follow through because they underestimate the amount of time it takes to get things done and end up being overwhelmed.

They then put all their intentions into the "too hard, can't be bothered, I'm too busy" category and move on to another seminar for further motivation and newfound knowledge.

Unfortunately, the cycle continues and they become educated derelicts.

Attending the event is the easy part. Taking the action is much harder.

PLAN FOR TIME OUT

Always allow time afterward to assimilate the ideas and plan in your diary the actions you will take. It's the small steps that you take consistently which will make the difference.

Remember "inch by inch, it's a cinch, yard by yard is too hard" or as Neil Armstrong the astronaut said, "one small step for man, one great leap for mankind".

It's the one percent improvements which will make a huge impact overall in your business and your personal life.

Take action on what you learn because "to know and not to do, is not to know".

Have a great week!

Article Source :
http://www.bestmanagementarticles.com
http://investment-management.bestmanagementarticles.com

About the Author :
Lorraine Pirihi is Australia's Personal Productivity Specialist and Leading Life Coach. Her business The Office Organiser specialises in showing small business owners and managers, how to get organised at work so they can have a life! Lorraine is also a dynamic speaker and has produced many products including "How to Survive and Thrive at Work!"

Previous
Table of Contents
Next

Resell to Maximize your Return On Investment

Neil Anuskiewicz

Previous Table of Contents Next

The Pareto Principle (also known as the 80/20 rule) states that we get about 80% of results from 20% of our efforts; conversely, we get 20% of our results from the other 80% of our efforts. Of course, these numbers are not precise but merely a rule of thumb. The key is to do more of the 20% that gets results and less of the other 80% that does not get good results. Easier said than done.

How can we better apply the Pareto Principle in our business life? One obvious application is for us to focus our energy on what we do best, while simultaneously leveraging the efforts of other people and firms who are doing what they do best.

We already naturally do this sort of thing in our daily life to some extent. If we are an accountant, we generally do not design our own software. If we are a Web designer, we often get some help with the accounting.

How can this concept be extended beyond the simple division of labor, and help us maximize revenue and profits? The key is to continue to do what you do best, while simultaneously leveraging what other firms do best. If you are a Web designer then continue to focus on designing. If you want to expand into other product or service lines, do not try to re-invent the wheel. Instead, find a good firm to partner with, and resell their services under your brand. They do the work; you reap the profits.

For example, a Web designer might enter a relationship with a firm that developspermission-based email marketing services. In the interest of full disclosure, I should mention that I work for EZ Publishing, the creator of the StreamSend email marketing service. This means that I can engage in shameless promotion, while at the same time help you by illustrating the Pareto Principle using an example I know very well.

The key to all this is to find an extension of your business that is a natural fit. If you are a marketing consultant you do not want to extend your services to include pizza delivery. You would only expand your business in ways that make sense to you, and that enable you to build on what you already do well. Whatever you choose should also enable you to leverage your current client base. That is, it should be a service that your current clients are likely to want.

You can find out what your clients want by talking with them, and even conducting formal surveys.

We find that Web designers and marketing firms often find synergy in reselling permission-based email marketing services because it fits the criteria outlined above. They have a client base or whom they have worked, and for whom email marketing is an appealing marketing tool.

Web designers, for example, do a lot of project work which is great, though they often earn limited monthly recurring revenue. They resell email marketing services to take advantage of an opportunity to make recurring revenue.

Web design firms usually offer value-added services on top of the email marketing services, such as designing graphics and HTML email templates. Email marketing services typically serve as a foundation for these value-added services.

Firms that specialize in marketing services and consulting often resell the permission-based email marketing services along with marketing consulting, design, copywriting, and production. Often email marketing is just one component of an overall marketing plan - though the marketing firm often also sells email marketing services as a standalone product to earn recurring revenue.

The next step toward expanding your business in this way is to do some research on what your clients want. Then pick a service you want to sell and find a good partner in that sector. Try some experimentation, as not all reselling efforts will work well or fit with your business model. Do not be afraid to jettison reselling arrangements that do not work well after a reasonable time. Try something else.

Article Source :
http://www.bestmanagementarticles.com
http://investment-management.bestmanagementarticles.com

About the Author :
For more on the Pareto Principle (80-20 rule), I recommend Richard Koch's The 80/20 Principle: The Secret to Success by Achieving More with Less or his other books on this topic. He explains how the 80-20 rule works, and how you can use it to achieve more both in your business and personal life. It really does work in a lot of different areas business and in life. Neil Anuskiewicz is the Marketing Manager of EZ Publishing.

Previous
Table of Contents
Next

Are You a Technical Investor?

Real Estate Investment Club

Previous Table of Contents Next

If you are what I call a “technical” investor, you can feel good about yourself because you are among an elite group. What is a technical investor? A technical investor, or more specifically--a real estate technician, is an investor who has the knowledge and skills to understand the legal side of real estate documents and conveyancing. In fact, a real estate technician has the skill set of being able to handle a transaction starting with drafting his or her contracts to performing title searches, legal research, drafting deeds, and even handling their own closing of a deal.

Sounds a little intimidating doesn't it? Yes and no. Like any other skill you learn this in parts and not all at once. First you get comfortable with the legal words and phrases, then you learn about the content and structure of the documents. Next, you learn the application of these documents and when it is appropriate to use them. Then, you watch others use these documents (at your closings with lawyers and or title companies). You further educate yourself by asking lots and lots of questions to the folks using this information--soaking up and taking notes of what they are telling you).

Now you're getting closer to handling some of this stuff yourself without “training wheels” so to speak. You'll probably start out drafting some simple documents like assignment contracts. An assignment contract is a contract that conveys (sells/transfers) ownership in some contractual right like an agreement of sale, lease, note, etc. Keep in mind, virtually any contract can be sold unless assignment is forbidden within that contract--although there are a few exceptions too technical to explain here). Next, you'll move into some slightly more advanced documents like Options to Buy or Deeds.

Let's take just a quick minute for a mini-lesson on transfer documents. This is basic but worth covering. There are 4 primary transfer/conveying contracts in the world:

1. Bill of Sale - personal property is sold with a bill of sale

2. Assignment Contract - Contractual rights are transferred with this document

3. Deeds - Real estate is transferred with this document

4. Leases and Licenses - transfer temporary use of property or intellectual property.

People often look at drafting a deed as if it is some mystical document that none should ever dare draft unless they have spent thousands of hours in law school. Well, I'm going to break the news to you: a lawyer probably did not (almost never) draft your deed--his or her secretary or paralegal did. Better yet, the lawyer's secretary used legal software, which drafted the deed--they just filled in the blanks!

Okay, okay, I can hear folks saying it now “He is telling me not to use title companies or lawyers in my real estate deals.” If that's how you interpret what I'm explaining, you are wrong. I'm simply saying you can take a whole lot more control of your own deals, especially distressed deals, if you know the technical side of this business. Too many investors are way too ignorant of the legal and contractual end of this business.

Lawyers and title companies can be a great part of your team, but remember, they are extremely risk adverse by the very definition of the service they offer (insurance and advice). Many times, I don't know--is NO.

By learning to be a technical investor you have a savings in legal fees (by doing much of your own legal research and by having a knowledge of the law as a business tool), and you have the intellectual tools to do a deal all by yourself in those unique occasions when a deal has to be closed yesterday.

Back to our discussion on deeds. In short, a deed is an amazingly simple, yet, powerful document. It really isn't that difficult. You need a grantor/seller, grantee/buyer, subject property, legal description (obtained typically from prior deeds), consideration (something paid), and perhaps most important-- a granting clause (and don't forget a notarized signature of the seller).

Now for another mini-lesson. Legal words confuse you? While a legal dictionary is worth it's weight in gold, you can get by quite well with a good quality standard dictionary. Most legal words are explained in regular dictionaries. Just look down in the definition where it says Law: then it will give you the legal meaning. If you do not understand the words in the explanation then proceed to look those words up also. Like untying a knotted up rope you will eventually “translate” the legalese.

In closing allow me one case in point. Over the years I have closed several of my own deals right in the notary's office without lawyers or title companies.

These were low dollars down type deals where I was typically taking title "subject-to" existing liens. My risk was low and time was of the essence, so I did the deals with lighting speed in as little as one day!

This stuff is very powerful. Get educated. Do not hesitate to get legal counsel or advice from your title company or lawyer whenever you're in doubt or risking serious money. I can assure you this is worth learning if you want to become an elite investor.

Article Source :
http://www.bestmanagementarticles.com
http://investment-management.bestmanagementarticles.com

About the Author :
Bryan Wittenmyer has been investing in real estate for the past 15 years. In the past five years he has written extensively in the real estate field. His articles have appeared in Creative Real Estate Magazine and the Real Estate Entrepreneur. Bryan served on the board of directors of the Real Estate Investment Association of Berk's County for 3 years. Reprinted with permission from www.reiclub.com

Previous
Table of Contents
Next

Five Big Mistakes Newbies Make

Real Estate Investment Club

Previous Table of Contents Next

"Real estate investing fever" has hit like a plague. Zillions of "newbie" investors are jumping on the bandwagon trying to make a profit after losing big in the stock market. I meet them all the time, and many are making big mistakes!

Mistake #1: Stock Market Mentality

You'd think after losing $7 trillion in the stock market, people would have learned! Nope, they are making the same mistake, which is assuming that what happened yesterday will happen tommorrow. Nine of ten new investors I meet say they are interested in real estate because they saw someone else make money from the rapid appreciation of the market over the last few years.

But, buying real estate solely for short-term appreciation is often a big gamble! If you buy real estate to hold for fifteen years or more, the chances are that you will come out on top. If you buy a property and flip it in within a year, you'll probably do fine, too. And, despite the risk, many people can intelligently time the "boom" of a local market (or subdivision within a market) and make a profit. But, if you buy a rental property for full-market price with break even or negative cash flow, you'd better have a backup plan if the market doesn't keep going up. Investing is a lot like surfing; if you don't know how to ride the wave, you will drown!

So, should you refrain from investing if you think the market has peaked? Absolutely not! You can find bargain-priced properties in every market, even the hottest. You can find low-interest rate financing that will increase your cash flow, so if values drop, you still are covered. You can plan short-term (six to twelve months) because markets rise and fall slowly. And, if you keep a cash reserve for your business, you won't sweat when the market tanks. You know that in the long run, real estate markets virtually always come back.

Mistake #2: Investing Blind

You'd think after losing $7 trillion in the stock market people would have learned! Nope, they are making the same mistake--blindly buying real estate based on bogus advice or complete lack of education. Real estate is one of the few investments in which risk is directly proportional to knowledge. True, it has a higher learning curve than investing in the stock market, but there's no proof that having knowledge of the stock market reduces risk (just ask your mutual fund manager).

I read a comment on a real estate discussion group on the Internet. In response to an inquiry as to whether a particular seminar or training program was worth the money, someone answered, "Why waste your money on that stuff? Just use your money as a down payment and learn as you go." This is probably the worst advice you could ever give a beginner. Money for deals is easy to find if you can find good deals. But, you won't know what a good deal is without having first invested in your education! The more knowledge of investing techniques, financing, acquisition, negotiating and, of course, your local marketplace, the less risky your investments will be. A bargain real estate purchase will generally always be a safe investment; a bargain stock purchase isn't. After all, who says the company you bought into will be in business next year?

Mistake #3: No Cash Reserves

Ask anyone in real estate long term (or any other business, for that matter), and they will tell you the two most important words for survival are: cash flow. Heck, even K-Mart failed to learn that valuable lesson! In order to stay in real estate long term, you need cash reserves. Buying real estate nothing down is easy; handling negative cash flow, repairs, and other expenses in the meantime is the trick. In fact, if you can handle the bad times, you will always come out on top. Lack of cash reserves puts unnecessary pressure on you to do substandard repairs, accept less than qualified tenants, and give into tenants' demands for fear of vacancy. When you have a sufficient cash reserve, you act rationally.

*You hold out for a higher sales price.

*You hold out for a qualified tenant.

*You leave properties vacant rather than accepting unqualified tenants.

*You call a tenant's bluff when they threaten to leave.

*You take care of necessary repairs and improvements on your properties.

It's a whole different ball game than operating from a lack of cash. Like I said, buying properties with no money down isn't hard; it's handling the cash flow. In other words, you can buy real estate without money, you just can't survive in business without cash reserves. Consider accumulating cash reserves before investing in rental properties.

Mistake #4: Being Greedy

Many investors get started flipping properties to other investors, which is a good idea to generate cash reserves. However, you must be realistic about how much profit is in a deal. If there is a potential for a $20,000 profit in a rehab project, you can't expect to make $10,000 flipping that property to a rehabber. A rehabber has a huge risk embarking in such a project and wants a large enough profit to justify the risk.

For example, if a house needs $10,000 in repairs, and the rehabber investor wants to make at least a $20,000 profit. If you find a deal with $20,000 in profit potential, how could you expect to get $10,000 for flipping the property if the rehab investor is only going to make $10,000? You should be happy making $2,500 and moving on to the next deal. If you want to make more than $2,500 on such a deal, then you must find and negotiate a better bargain that has more profit potential.

Mistake #5: Treating Real Estate as Anything Other Than a Business

People are lured to real estate because of the quick buck it promises. Don't hold your breath--you won't get rich quick. An "overnight sensation" usually takes about five years. More than 90% of the people who take a real estate seminar quit after three months. Why the high fallout rate? Lack of action and unrealistic expectations. Investing should be treated with the seriousness of a career. It takes months, even years for a business to cultivate customers and have a life of its own. You need to treat real estate like any other business.

Give yourself at least six months to see if real estate works for you. It may even take a year before you buy your first property. Maybe in the second year you will buy three or four properties. If you work hard at it and keep your eyes and ears open, you may even find your first deal in 30 days. You will not make money by talking or thinking about it; you must go out and take action.

Article Source :
http://www.bestmanagementarticles.com
http://investment-management.bestmanagementarticles.com

About the Author :
William Bronchick, CEO of Legalwiz Publications, is a Nationally-known attorney, author, entrepreneur and speaker. Mr. Bronchick has been practicing law and real estate since 1990, having been involved in over 600 transactions. Reprinted with permission from www.reiclub.com

Previous
Table of Contents
Next

Partnering On Real Estate Deals For The Right Reasons

Real Estate Investment Club

Previous Table of Contents Next

My personal investment strategy has constantly changed over the years as I've discovered what works, what don't and how to "tighten-up" my deals to maximize cash flow. I've always felt that investing alone is better than splitting the pie and sharing my profits! However, I have had several excellent partnership ventures over the years. And I must tell you this, when they work, you can achieve your financial goals many times faster than doing deals alone. But remember, I said when they work - that's the tricky part.

Partnerships are like marriages - there are some good ones that last a lifetime and many that don't last till they're paid for! Like marriages, partnerships stand a much better chance of working and lasting if the partners are selected for the right reason. When I talk about partnership investing, I don't necessarily mean you should form a legal partnership. I'm talking co-ownership or two investors owning real estate together for the purpose of making money.

Why Would Anyone Want a Partnership?

There is only one good reason I know of to take on an investment partner. It's when you don't have enough financial horsepower to do the total deal by yourself. Most often, it's financial assistance you need. However there might be other legitimate reasons. Equity sharing and timeshare contracts are two examples of partnership investing. Both arrangements are specifically designed for investors who can't purchase the whole "enchilada" themselves, or at least they don't think they can!

Do Not Take on a Partner Because You want Companionship!

Always ask yourself these questions: Do I really need a partner or do I just think I need one? Is it wise for me to split my profits with someone else? The answers should be very clear before you look for a partner. Every so often I hear about a "lonely investor" who apparently doesn't have enough confidence to buy real estate by himself. Generally this type of person lacks courage. He wants a partner for moral support. That's not a good reason to form a partnership. It's like the guy who thinks he's better oft crashing in an airplane with 100 people aboard rather than crashing alone. Take my advice here, do not take on a partner because you want companionship. Partnerships are tough enough when you have a good reason.

Partnerships Must Be Based on Mutual Needs

Consider the want-to-be investor who knows just enough about real estate to be dangerous. He has more guts than it takes to fight a mountain lion, but not enough cash to use the pay toilet at the bus depot! Nine out of ten times, this joker will attempt to convince someone with money that by simply joining together, they'll both end up millionaires. Nearly always they both end up broke instead! Stay away from people who have million-dollar ideas, but no money!

My first thoughts when anyone approaches me with a partnership proposition are -

What's in the deal for me?

What's the risk to me and what assurances do I have that a partner will do what he says?

One question you should always ask yourself is -

What's the most I can lose if I do this deal?

Naturally, I'd be very concerned that my partner and I shared equal risk!

Partnerships Can Solve Your Money Problems

Developing partnerships to pool individual resources, knowledge and experience can provide an excellent vehicle for acquiring wealth at a much faster pace than would otherwise be possible. I've discovered that in most successful partnerships, the partners themselves will often have very little in common with each other except their desire to make money together. Sometimes an accountant will team up with a carpenter or handyman. A doctor might select a contractor, or a school teacher with extra hours and mechanical skills might work very well with a real estate broker.

Sometimes the best way to find investment partners with the particular qualifications you need is by advertising in the Help Wanted ads of a local newspaper. Many folks would like to create a profitable partnership, but don't have any idea where to start! The first thing you must determine is what can you provide to the partnership! Will it be investment capital, your time or the specialized skills you possess. Write it down on paper, then advertise for a partner. There are many people looking for what you have to offer, but if they don't know you exist you must speak up and let them know.

The Courting Period Requires Honesty

The biggest mistake for no money partners to make in trying to entice a person with money is to oversell and overstate the benefits the money partner is supposed to receive. If I were to show you all the proposals offered to me and added up all the profits I've been promised over the years, I'd need to rent the Bank of America headquarters building to store all my money. Fortunately or unfortunately, whichever way you view it, I didn't invest my money, so I'll never really know for sure. I can tell you this much however, a very high percentage of the deals went bust!

Jay's Rules for Finding a Money Partner

My "no-compromise" business rule for finding an investor with money when I need financial help is the same rule I use for landlording. I call it my 60/40 rule. It means I'm willing to give more than I take! I've always felt that broke investors should be willing to give up at least 60% of the partnership benefits in order to attract the money. This means if I'm the broke partner, I'll be content with taking 40% of the deal for myself.

Always ask yourself this question about the partnership. Who could most likely make it on their own - the partner with or without the money? I think it's clear - the party with the money will always have a much greater opportunity than the one who's broke.

Article Source :
http://www.bestmanagementarticles.com
http://investment-management.bestmanagementarticles.com

About the Author :

Jay P. DeCima, known to many as "Fixer Jay" is a seasoned real estate investor with more than 40 years of hands on experience; nearly half that time has been devoted to Jay's specialty - fixing-up rundown houses and adding value. Fifteen years ago, Jay Decima began teaching others about his money-making strategies at seminars and at his popular house fixer camps in Redding, California. Reprinted with permission from www.reiclub.com

Previous
Table of Contents
Next

What's Your Game Plan?

Real Estate Investment Club

Previous Table of Contents Next

I recently had the pleasure of attending a local real estate investors group meeting and listening to a tax accountant discuss his real estate investment strategies. In addition to sharing with the group different tax angles he made a most profound statement that he asked to all of us in the room. He asked us to answer this question; What is your “game plan” for the property?

If you're investing in Real Estate whether the contemplated investment property involved is a condo, a single family home, a multi family rental building, land, or a commercial use property, when you intend to purchase an investment piece of property, what do you intend to do with that property? How do you intend to profit? As he asked of us; what is your Game Plan for the investment property?

This got me thinking why should someone buy investment Real Estate? After some thought I realize that there are (3) three main reasons why one should buy investment properties.

1) INCOME

A property that you invest in can produce cash flow today and well into the future. With the right financing and debt service on the property you realize what is called a “cash on cash return”. Since income is derived from rents it is not consider ordinary income to you as far as Uncle Sam is concerned and the rental income is consider “passive income”. Passive Income can be readily sheltered from paying tax on it.

2) APPRECIATION

Real Estate is generally considered a hard asset and also an investment that acts as a hedge against inflation. When referring to land, Will Rogers once said “They ain't making any more of it…” Owning properties in desirable areas around the country where other people would like to locate creates more demand that is relative to the supply. Restrictive development rights, environmental issues, Urban Growth Boundaries, and designated open space areas further limit supply and cause Properties to increase in value.

These appreciated values create an equity bonanza for the investment property owner. When a property does appreciate significantly, one way you can raise cash is to borrow against the equity you have in that property. This “cash out” refinancing allows you to raise capital and still deduct the interest payments that are used to pay back the loan. However a word of caution, Real Estate does not always go up in value as it often runs in up and down cycles.

3) TAX BENEFITS

Investment Real Estate ownership has certain tax benefits associated with it that allow you to deduct your maintenance, operating expenses, taxes, and insurance, along with any overall losses which are called “passive losses” and use these loses to offset some of your other ordinary income.

The big tax benefit that is associated with owning investment real estate properties is also called the big “D” which stands for Depreciation. The government allows you to depreciate a little bit of the value of an investment property by a certain percentage each year. Currently you can depreciate over a 27.5-year time frame for residential properties and over 39 years on commercial type properties. Let's assume you purchased a rental home and with the financing you had on the property you could rent it out each month so that the rents coming in would cover all your expenses, taxes, and insurance. You would have what is called a “breakeven” cash flow situation.

Even though you did not lose any money from operating the property as a rental when you add in the depreciation of the property you would now have losses that can be used to offset against other income you earned. These depreciation amounts can generate significant losses for you to use against your other income. You may use up to $25,000.00 in net passive losses per year to offset other income that you earn.

If you are in a higher income tax bracket you can still get the benefit of carrying forward any unused net passive losses above and beyond your $25,000.00 in passive losses already used that can be applied against positive cash flow from other rental properties or any future capital gains when an investment property sells by using IRS form 8582.

Although this code applies to owning your personal residence and not an investment property IRS code # 121 says that you can qualify for up to a $250,000.00 per person home sale tax exemption, or up to a $500,000.00 tax exemption for a married couple filing jointly on any capital gain resulting from the sale of your home if you have owned and occupied your principal residence at least an “aggregate” two years out of the past five years before the sale.

This code is sometimes called the “nomad tax act of 1997” by tax professionals as it has provided incentive to many home owners to turn their personal residences into a rental investment property, then renting it out, and riding the wave of appreciation increases before selling their property years later and using the tax exemption on any capital gains.

Another tax benefit is the use of IRS code, 1031 & 1034 which involves exchanging of investment properties. Use of these provisions in the tax code allows one to defer taxes on sale of their rental properties.

Tax benefits are simply a form of incentives from our government designed to encourage individuals to provide continued investment into real estate properties, and to also provide rental housing.

When you look at the combination and interplay of Income, Appreciation, and Tax Benefits associated with investment real estate you can see why it can be a wonderful vehicle one can use to accumulate and build wealth. Here is a simplified system for you to decide how a prospective investment property fits your “game plan”. We start by creating (3) three designated categories called “A” type, “B” type, and “C” type properties. Let's discuss the characteristics of each of them:

A Type Properties

These are properties that usually well located and structurally sound. They are located in areas that are desirable or becoming desirable. You intend on owning them for a number of years. They will provide you with rental income and tax benefits although they may not provide much positive cash flow initially. These types of properties are what I call “Keeper's” and are owned for the increased future cash flow and appreciation they will bring over the long haul.

B Type Properties

These are properties that are sometimes real “down and dirty”. They have been neglected and have deferred maintenance & needed repairs associated with them. They may be a foreclosure property or some other sort of distress sale. Your time and money also known as “sweat equity” can substantially bring up the value of these properties. They are the types of properties I call “Fixer's”. Your find these types of properties, you fix them, and then you sell them to generate cash profits and cash flow today.

Occasionally a “B” type property you acquire can become an “A” type property through a change of mind. You can then refinance the property pulling out tax free cash that you can use to acquire additional properties or simply hold on to the property by renting it and creating positive rental cash flow.

Finding A & B type properties is no easy endeavor. You will constantly be on the look out for them. You will look at hundreds of properties in your marketplace and in all likelihood make offers on hundreds as well to find one suitable A type or B type property.

C Type Properties

The ultimate game plan in accumulating and building wealth is to obtain these types of properties. Over the years you have gotten rid of your sub performing properties or “dogs” by selling some of your other “A” & “B” type properties and now you have what are known as “C” type properties. These are properties that are free and clear of any debt. They will provide you with a pure cash flow and can be used as a retirement vehicle. They also provide security for you and your family as regardless of what goes on in the financial markets people always will need a place to live and have shelter.

Summary

So the next time you are looking at a potential investment property, consider where it might fit into the “A”, “B”, or ultimately “C” type categories and your overall investment goals. Asking yourself the question; “What's my game plan for the property?” is prudent before you get involved and can help you more clearly develop your strategy.

Article Source :
http://www.bestmanagementarticles.com
http://investment-management.bestmanagementarticles.com

About the Author :

Michael Morrongiello's expertise, candor, and ability to quickly size up and analyze financing options that surround existing and proposed transactions make his companies services invaluable to the Real Estate & Note community. You may contact Michael at 255 W. Napa St., Ste H, Sonoma, CA 95476 or by phone # 707-939-9450 or e-mail; MikeM@sunvestinc.com Reprinted with permission from www.reiclub.com

Previous
Table of Contents
Next

Advice For New Investors

Real Estate Investment Club

“Knowing what you know now, what would you do differently?”

This is a question that so many people have asked me, and it's a tough one. Based on my current position and the blessings I have experienced, I really would not have done anything differently. I'm very pleased with my current situation as an investor, and I fear that if I had done anything differently, then I wouldn't be where I am today. In my opinion, a more appropriate question is:

“Based on your experience, in which direction are you going from here and what advice do you have for a new investor?”

While my plan for the future is still in process, I have some advice to offer new investors.

Tip Number One: Quality Over Quantity

In the past, I set goals to complete a certain number of deals and as a result, found myself at times pursuing volume over quality. This sometimes put me into bad situations, costing me both time and money. For example, I might have paid too much to buy a home just so I could say I did a deal and hit my target. While I did experience many situations that other investors never encounter, this is not the way to do business.

Today, I realize that I didn't need to do as many deals as I've done. Now I pass over a ton of opportunities that I would have taken years ago. Rather, I sit back and cherry-pick, waiting for the “home runs” to come along.

That's not to say that beginning investors should wait for the big deals. Most don't have the resources to compete with the experienced investors, including myself, who don't need the smaller deals to survive but can afford to be patient. We can bide our time until the best deals present themselves and still have enough resources to take advantage of them when they do.

What I am saying is that beginning investors should do what they need to do to survive, keeping in mind that it is better to do one quality deal than a multitude of average deals. As a beginner, you must get into the game, but do it carefully with good deals. Then go from first to second to third to home, taking it one step at a time. Crawl before you walk and walk before you run. Otherwise, by rushing into things, you run the risk of making mistakes that will set you back months or even years.

Tip Number Two: Set Goals And Put Them On Paper

I did not have concrete goals when I began, so two years after getting started, I was in about the same place as when I started. I ran around in circles and covered a lot of ground, but didn't get too far from my starting point. Only then did I develop a plan (smart, huh? Only took a few dozen "seminars" and a few more whacks upside my head).

So I teach my students to put together a plan sooner rather than later, preferably before they even start investing. Anyone who drafts a realistic plan and sticks to it can achieve as much in one year as I did in three.

Not that creating a plan is easy, especially when you don't know what to expect. Accurate goal setting is actually very difficult, and not many people teach you what you need to set REAL goals. Most teach goals that get people excited, good in the sense that it usually prompts people to take action, but bad in that it develops unrealistic expectations and sets people up for disappointment.

To set realistic goals, speak with experienced investors in your chosen field (wholesaling, rehabbing, lease-options, "subject to") and get their honest opinions regarding profits per deal and the average time required to complete a deal. Then, based on this and your current resources of cash and credit, set your long-term cash, cash flow and equity goals for one year, three years and five years. Once you have these long-term goals, fill in your short-term goals of three, six and nine months by outlining the steps you need to take to accomplish your long-term goals. Unless you draft a plan similar to this and truly commit to it, you are going nowhere.

Tip Number Three: If Possible, Keep Your Best Deals

Looking back, I have owned a lot of homes that I wish I would have kept. I don't regret having sold them since every sale contributed to my success, but I did have some gems that have more than doubled in value since I sold them.

When I sold, I just didn't believe that the areas would take off like Realtors and others were telling me. So I cashed out and used the profits for other things. If I had held the 50 best deals that I have sold to others and done nothing else, my net worth would probably be three times higher than what it is today.

Not that I'm complaining. My net worth used to be negative, and today it is pretty respectable. I'm just advising you to hold onto your best deals if you can. Sometimes, though, it is necessary and understandable to sell a property for cash profits even though it would be nice to keep it. Use your best judgment.

Tip Number Four: Don't Limit Your Profits

When you purchase a great deal, don't feel obligated to pass all of the savings on to your buyer. I could have generated more profits than I did from many of the properties that I wholesaled. Often, when I purchased a SUPER deal, I passed along the SUPER savings to my buyer with the attitude that I should only make $2k-$4k per transaction.

Well, this was a mistake. My advice to you is to take what you can get. Don't inflate your prices above the market and gouge people. Give them a good value. However, don't think it's necessary to limit your profits just so a buyer can benefit. After all, this is business. Let the market set your price. There will be plenty of times when your profit isn't as large as you expected. Take advantage of the big hits when they come.

Tip Number Five: Separate Business And Charity

Sometimes, I used my business as a charity when I shouldn't have. My recommendation for you is never to do the same. Don't let someone live rent free or give someone else more for a service than what it makes good business sense to give.

I've learned that I need to run my business for a profit, and that I need to do all I can to keep it profitable. I've also learned that it's OK for me to be charitable with my profits, but that I can't be charitable with my business. Giving your business away before you make profits cuts your wellspring off at its source. It's not prudent, and your business will suffer greatly as a result if you choose to do so.

Tip Number Six: Hold On To The J.O.B. As Long As You Can

I know it's hard to hear this, especially for those of you disgusted with your current position, but I recommend that beginners with good jobs hold onto them for a while. They provide a safety net while you are learning and particularly allow you to establish yourself with banks and credit card companies. Convincing these organizations to work with you as a self-employed person is tough.

Tip Number Seven: Start As Early As You Can

I first became interested in investing at the age of 18, and I wish I had pursued it from that age. Instead, I waited 10 more years to get started. As of this writing, I've only been investing for 5 years and it's hard for me to imagine, based on my current position, where I would be if I had started when I was 18 years old. It's never too late, but you need to start NOW!

Tip Number Eight: Use Partners Wisely

Use a partner only when you need them. In other words, choose someone with time, money, knowledge or skills that you don't have. They should bring to the table something that you need. All too often, two people with a dream and nothing else decide to be partners. Not good. Partners need to complement each other, not have the same qualities.

Today, I teach others to use partners strictly on a deal-by-deal basis. The form of partnership I teach most often is one where one person puts up all of the money and the other is responsible for everything else.

In retrospect, I would not have taken on the one partner I had. In time, I didn't need a partner anymore, yet I still had one and felt as though I was giving half of everything away. He probably felt the same way.

Tip Number Nine: Dare To Dream

Finally, I'd like to stress that if you can dream it, you can do it through effort and perseverance. Having money, a decent job, and good credit make investing easier, but are not necessary.

When I began my career as a real estate investor, I had no money, no job and poor credit. In the past five years, through the grace of God, I have come a long way. So set your goals and start taking the steps necessary to achieve them. Reevaluate and adjust every so often, but don't quit and don't let anything stop you.

Article Source :
http://www.bestmanagementarticles.com
http://investment-management.bestmanagementarticles.com

About the Author :
Stephen Cook is an author and active investor in Baltimore, MD. He has bought and sold over 150 properties in the last two and a half years, including 27 in the first two months of 2001 alone. Steve pursues many avenues of investing and specializes in the wholesaling and rehabbing of properties for profit. Reprinted with permission from www.reiclub.com

Previous
Table of Contents
Next